



中地乳业
ZhongDi Dairy

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

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

Stock code: 1492



ANNUAL REPORT
2019



CORPORATE PROFILE

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



CONTENTS

02	Corporate Information
04	Annual Results Highlights
05	Chairman's Statement
08	Management Discussion and Analysis
22	Directors and Senior Management
30	Corporate Governance Report
45	Directors' Report
63	Independent Auditor's Report
68	Consolidated Statement of Profit or Loss and Other Comprehensive Income
69	Consolidated Statement of Financial Position
71	Consolidated Statement of Changes in Equity
72	Consolidated Statement of Cash Flows
74	Notes to Consolidated Financial Statements

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jianshe (Chairman and Chief Executive Officer)

Mr. Zhang Kaizhan

Non-Executive Directors

Mr. Liu Dai

Mr. Du Yuchen

Mr. Li Jian

Ms. Yu Tianhua

Independent Non-Executive Directors

Prof. Li Shengli

Dr. Zhang Shengli

Mr. Joseph Chow

SENIOR MANAGEMENT

Ms. He Shan

Ms. Zhang Xin

STOCK CODE

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

INVESTOR RELATIONS CONTACT

Ms. Zhang Xin

20/F, 238 Des Voeux Road Central,

Hong Kong

Email: ir@zhongdidairy.hk

Website: www.zhongdidairy.hk

PLACE OF BUSINESS IN HONG KONG

20/F, 238 Des Voeux Road Central,

Hong Kong

REGISTERED OFFICE

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

10th Floor

Block A, Times Fortune Compound

No. A6, Shuguang Xili

Chaoyang District

Beijing

the PRC

Corporate information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

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

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jianshe
Ms. Zhang Xin

AUDITORS

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

COMPANY SECRETARY

Ms. Zhang Xin

COMPANY'S WEBSITE

www.zhongdidairy.hk

ANNUAL RESULTS HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Results

	For the year ended 31 December									
	2019		2018		2017		2016		2015	
	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments	Results before biological fair value adjustments	Results after biological fair value adjustments
	RMB' 000	RMB' 000								
Revenue	1,499,381	1,499,381	1,424,986	1,424,986	1,134,282	1,134,282	961,934	961,934	483,058	483,058
Gross profit margin	37%	4%	35%	4%	35%	4%	34%	2%	39%	3%
Profit for the year attributable to owners of the parent	239,390	104,335	256,312	63,190	193,569	13,377	227,982	112,800	79,289	98,139
Basic and diluted earnings per share (RMB cents)	–	4.8	–	2.9	–	0.6	–	5.2	–	5.4

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Total assets	5,323,510	4,833,304	4,413,850	4,167,366	3,211,145
Total liabilities	3,059,174	2,731,341	2,375,077	2,141,970	1,300,020
Total equity	2,264,336	2,101,963	2,038,773	2,025,396	1,911,125
Of which: Total equity attributable to owners of the parent	2,206,298	2,101,963	2,038,773	2,025,396	1,911,125

CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board (the "Board") of Directors (the "Directors" and, each a "Director") of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group" or "ZhongDi"), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2019 (the "Reporting Period") to all shareholders of the Company (the "Shareholders").

Chairman's Statement

BUSINESS REVIEW

2019 was a fruitful year for the Group. The Group managed to perform well despite many uncertainties in the external environment. In 2019, thanks to the policies and measures introduced by governments at all levels to promote the development of China's dairy industry, the total domestic demand for dairy products continued to increase in concert with accelerating product upgrade, and the dairy farming business was generally improving. Based on the mission to "build tech-driven ecological dairy farms and create high-quality, healthy dairy products" and the vision to "become a leading provider of nutritious and healthy food", the Group seized the favorable market opportunity to confidently build capacity, continuously strengthen precise management of dairy farm operation, and improve the quality of raw milk products, in a great effort to boost its business performance.

In 2019, the Group recorded a total income of RMB1,499.4 million, representing an increase of 5.2% from RMB1,425.0 million in 2018; and realized a profit of RMB102.4 million, representing an increase of 62.0% from RMB63.2 million in 2018.

The Group has eight modern dairy farms in operation in seven provinces, municipalities and autonomous regions situated in China's prime zones of milk sources, and its dairy farm under construction in Yinan County, Shandong Province is also expected to be completed and put into production in 2020. As at 31 December 2019, the Group's existing farms had a total of 65,429 Holstein cows, a year-on-year increase of 1.0%. The total sales of raw milk in 2019 reached 373,713 tonnes, an increase of 5.5% as compared to 354,141 tonnes in 2018. In 2019, given the tailwinds of rising demand and unit prices and the Group's ongoing improvement in raw milk output and quality through precise management and quality and efficiency enhancement, dairy farming business generated

RMB1,498.7 million in revenue, an increase of 12.2% over 2018, and RMB550.1 million in gross profit, an increase of 17.0% over 2018, serving as the main source of the Group's revenue and profit. In 2019, the revenue generated from import trading business, which remains one of the important business lines of the Group, was RMB0.7 million, and the gross profit was RMB0.5 million, with gross profit margin of 73.5%. As compared to the gross profit margin of 25.1% for the year of 2018, the increase was attributable to higher gross profit margin of the import agency business which represented a majority of the import business of the Company in 2019.

PROSPECTS

Dairy industry is an iconic industry under agricultural modernization and concerns hundreds of millions of consumers. In 2020, with great downward pressure on China's economy, the dairy industry will still face headwinds such as rising production costs and environmental pressure and the pick-up in dairy imports. And the Coronavirus Disease 2019 (COVID-19) epidemic sweeping the country at the beginning of the year poses more severe challenges to the macro-economy and various industries. I believe that only by correctly understanding its social mission and responsibility, actively addressing the inevitable challenges, and constantly improving the ability to resist risks, can a company achieve stable development and grow stronger and healthier. In the future, the Group will seize the historic opportunities from the upgrade and transformation of the dairy industry to explore diversified industry development paths leveraging its expertise in dairy farm operation, despite the complex and changing external environment. By embracing the opportunities and challenges brought by the ongoing upgrade of the global dairy industry chain, supply chain and value chain in this way, we may achieve sustained growth in the coming year.

Chairman's Statement

SUSTAINABLE DEVELOPMENT

Sustainable development has always been the core value of ZhongDi Dairy's business operation. On the basis of active expanding its main business, the Group diligently honours its commitment to create long-term value for all stakeholders and give back to the society. Earnestly practicing what it advocates, the Group makes great efforts to recycle the resources of its ecological dairy farms, promote green development, employ local poor people and purchase feeds locally, thereby achieving win-win results in the community and fulfilling its commitment to giving back to society. In addition, the Group is convinced that the values of honesty, integrity and compliance are the keys to achieving outstanding performance and serve as a solid foundation for us to build a win-win relationship of mutual trust with stakeholders and the society.

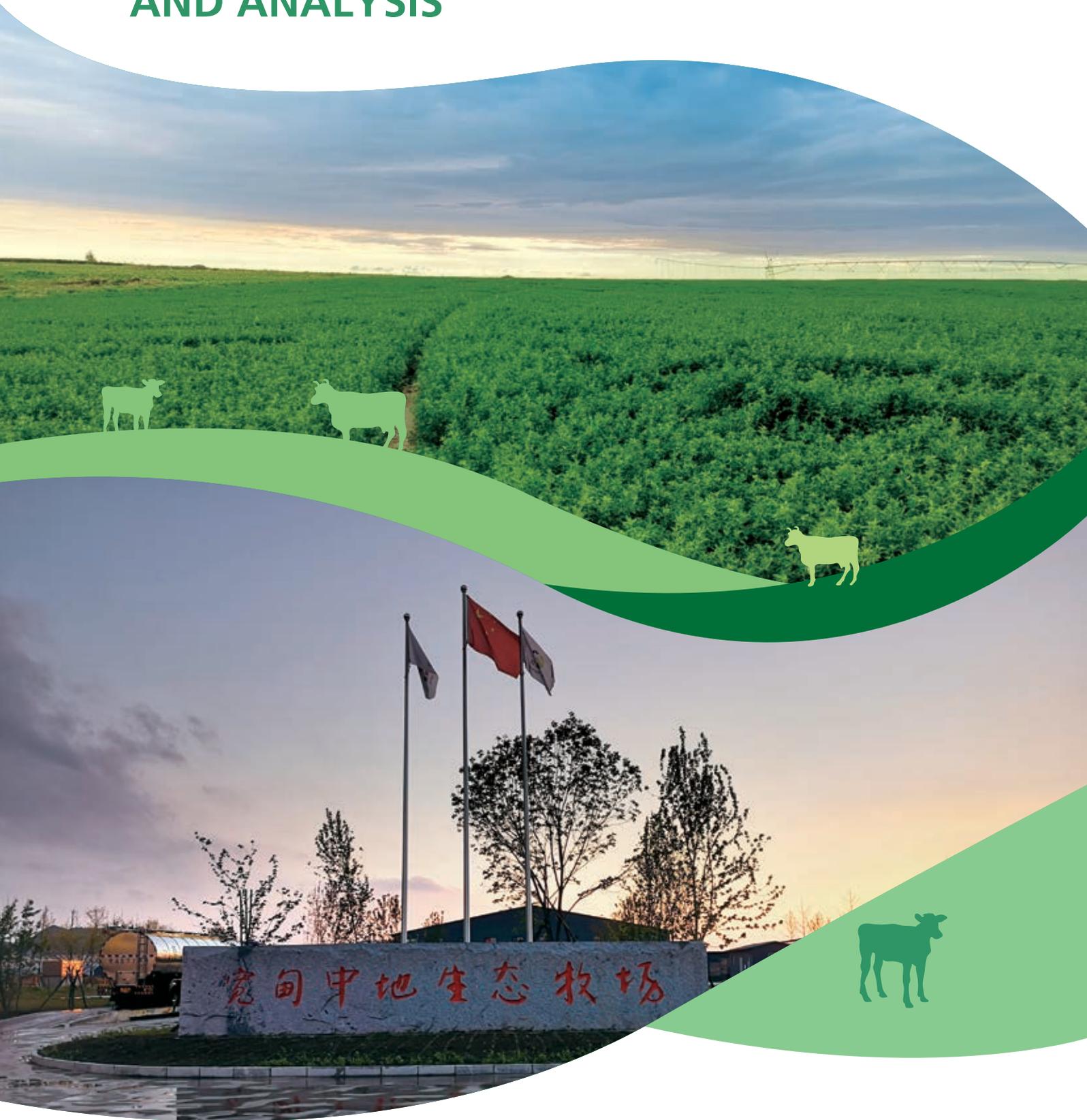
BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of the Group is committed to maintaining a high standard of corporate governance and firmly holds the belief that good governance is essential to the long-term success and sustainable development of the Company's business. Under the ever-changing business environment, the Board and its committees proactively lead our teams to maintain a sound corporate governance structure, implement development strategies, promote the sustainable and healthy development of the Company, and improve the Company's management and risk resistance capabilities.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to the management and all employees for their dedicated work and valuable contribution to the great performance of the Group in the past year. We also thank all stakeholders and Shareholders for their unwavering support for and trust in the Group. The Company will grasp the industry trends, develop its own business characteristics and competitive strengths, continuously improve its profitability and risk resistance ability, achieve all-round development and breakthroughs, so as to reward all Shareholders' trust in and support for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS



Management Discussion and Analysis

MARKET REVIEW

Global economic activities continued to weaken in 2019 following a sharp slowdown in 2018. Continuously escalating trade and geopolitical tensions have increased uncertainties in the global trade regime and international cooperation in the future, causing adverse impact on business confidence, investment decisions and global trade. Meanwhile, China's economic growth also slowed down rapidly in 2019, and quarterly GDP growth is now close to the lowest level in 30 years.

Despite the growing challenges in the economic landscape, volatility of global dairy prices was relatively low in 2019, international market prices of whole milk powder, skimmed milk powder and cheese remained strong, and the demand for dairy imports continued to grow, in particular, products such as milk powder and fresh milk sold to China grew faster than expected. At the same time, China's total consumption originating from the demand side continued to increase, stimulated all aspects of China's local dairy industry production through transmission along the industry chain, and promoted the recovery and structural growth in production of the whole industry chain, presenting a promising picture of sound development and prosperity.

According to the "Opinions on Promoting the Invigoration of the Dairy Industry and Ensuring the Quality and Safety of Dairy Products" (the "Opinions on the Invigoration of the Dairy Industry") issued by the General Office of the State Council of the PRC in June 2018, China's dairy industry will fully achieve invigoration and basically become a modern industry, and the overall standards of milk source base, product processing, dairy quality and industrial competitiveness will be among global leaders by 2025. With the continuous deepening of the dairy industry's supply-side reform, the national and local governments' relevant support policies relating to the invigoration of the dairy industry were gradually introduced and implemented during the year. Facilitated by dairy cows farming, brand building, promotion of infant formula, and with the whole industry chain being consumption-oriented, the overall trend of dairy cows farming in 2019 was positive, and the standards of domestic dairy cows farming continued to improve. Industrial quality improvement was mainly reflected in the following aspects: fresh milk production grew steadily; the number of dairy cows remained stable, the structure of our herd continuously improved, and the yield per dairy cow increased stably; the price of fresh milk rose orderly and smoothly, and the farming efficiency continued to pick up the best trends seen since 2016. Although this round of growth continued to stem from the expansion of the total consumption on the demand side, analysis of the particulars revealed some new phenomena and features.

First, there are new changes in the preferences of Chinese consumers. As millennials gradually enter the consumption market, consumers' choice of dairy products, consumption patterns and consumption scenarios become more diverse. Dairy consumption is no longer limited to the drinking of milk. The trend of domestic food and beverage becoming more western is increasingly obvious, dairy-containing food and beverages begin to affect Chinese people's diet habits and diet structures, the unconscious consumption of dairy products is growing continuously, and dairy products gradually become important ingredients and condiments for Chinese food and cooking.

Management Discussion and Analysis

Second, Chinese people's awareness of the nutritional and functional nature of dairy products has become widely popular. With economic development and increasingly higher living standards, people become more aware of the relationship between diet nutrition and health. From the growth and development of infants to the daily healthcare of adults to the elderly's pursuit of health and longevity, the development concept and actions for pursuing a healthy China effectively facilitate the rapid promotion of dairy food, and gradually change the dietary consumption habits of all ages.

The above growth and changes in demand for dairy products are inextricably linked to the recovery of consumers' confidence in China's local dairy industry. After the melamine incident of the dairy industry in 2008, the government, industry and enterprises have enabled the quality and safety standards of fresh milk produced by local dairy cow farms above a designated size to improve significantly through the synergy of various factors including policies, supervision, science and technology, talent, capital and market. Product supervision and sampling pass rate exceeds 99% and dairy ingredient indicators are also in line with leading international standards. It not only regains the consumers' trust in the quality of local dairy products, but also causes new changes in market consumption preferences and triggers the general recovery trend of rise in price of China's local fresh milk on the back of restoration of consumers' confidence.

However, in an environment where the farming industry is positive generally, there are still some potential concerns. Compared with the developed countries of dairy industry, the disadvantages of China's dairy industry are obvious in the scale of operation, and the cost of land, breeding, energy are higher than that of foreign counterparts, and is therefore vulnerable to external impact brought by overseas cheap raw milk and milk powder for reconstitution. Prices and tariff fluctuations of import feed will also have a greater impact on the feed cost of dairy cows. In addition, according to data released at the China Dairy Industry's Top 20 (D20) Summit held in November 2019, domestic dairy production growth is slowing down, and liquid milk production, accounting for an important share of domestic dairy consumption, has declined for two consecutive years since 2017. This shows that market consumption with traditional liquid milk as the main component has gradually saturated. In this case, in order to maintain a reasonable price range of domestic fresh milk and preserve international competitiveness, the dairy industry needs to leverage its strengths and avoid its weaknesses giving full play to the production advantages of local fresh milk under fierce competition in the existing market, enhance product structure through upgrading product categories, and coordinate in developing chilled liquid milk featuring short shelf life and requiring high cold chain standards as well as dry dairy products such as cheese, so as to expand the room for future survival and development.

Management Discussion and Analysis

BUSINESS REVIEW

The Group mainly operates two major business lines, 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 premium dairy cows and breeding stock 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.

Dairy Farming Business

In 2019, the Group strengthened the Company's dairy farm management in all aspects, took the efficient breeding of dairy cows and provision of calibrated nutrition as the starting point, strived to enhance scientific feeding management, and improved the well-being of dairy cows, so as to increase dairy cows' production while promoting their health and longevity.

Good seed comes first for the development of the dairy industry. ZhongDi Dairy, as one of the first batch of nationwide core breeding farms for dairy cows, cooperates with renown foreign breeding companies and domestic breeding units to establish ZhongDi's dairy cow breeding index for selecting dairy cows and their breeding methods. Meanwhile, it also applies whole genome testing technology to select quality core herds of dairy cows, and adopts a number of technologies to rapidly improve and expand the breeding of high-yielding and quality dairy cow herds. The improvement of dairy cows' quality and the expansion of good breeds not only improve the operation efficiency of dairy farms and reduce operation costs, but also conserve natural and social resources to the fullest extent possible and achieve the sustainable development of the industry.

In terms of daily feeding and provision of calibrated nutrition, the Group and Dairy One Laboratory of the United States jointly established a feed material testing and analysis laboratory to share feed material database. The Group scientifically adjusts the dairy cows' nutrition through brand new nutrition concept and conducts overall control of dairy cows' nutrition through the cloud platform, striving to effectively enhance the conversion efficiency of dairy cows' feed, improving milk production and quality, and reducing greenhouse gas emissions.

In 2019, the average unit selling price of the Group's raw milk was approximately RMB4,010 per tonne, which was higher than the national average level. In 2019, the Group's sales of raw milk amounted to 373,713 tonnes while revenue generated from the dairy cow farming business, being the core business of the Group, amounted to RMB1,498.7 million, representing 99.9% of the Group's total revenue.

Management Discussion and Analysis

1. *Scale of dairy farms*

Focusing on the dairy industry's status of development and the market demand in various regions of China, the Group strategically situated the bases of its dairy farms in major provinces or regions across the golden milk source belt in Northern China. As at 31 December 2019, the Group operated the following eight modern dairy farms in seven provinces and autonomous regions: Beijing ZhongDi Farm, Inner Mongolia ZhongDi Dairy, Helan ZhongDi Farm, Ningxia ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm.

2. *Herd size*

	31 December 2019 Heads	31 December 2018 Heads
Milkable dairy cows	37,880	36,068
Heifers and calves	27,549	28,640
	65,429	64,708

As at 31 December 2019, the Group's herd size was 65,429 heads, which increased by 721 heads as compared with that of the previous year.

3. *Milk yield and sales*

In 2019, the average annual milk yield of each lactation cow of the Group amounted to 12.3 tonnes, which increased by 5.1% compared with that of the corresponding period of last year. Our raw milk sales volume amounted to 373,713 tonnes, representing a year-on-year increase of 5.5%.

Management Discussion and Analysis

4. Raw milk quality

The Group strives to produce premium raw milk. According to a range of key quality indicators, the Group's raw milk has stable premium quality and all the indicators outperform the standards in Europe, the US and Japan, which are the reasons why the Group is able to maintain a selling price higher than the market average level.

Standard	Protein content (Unit: %)	Fat content (Unit: %)	Aerobic plate count (Unit:/ml)	Somatic cell count (Unit:/ml)
The Company ¹	3.33	3.97	21,800	169,100
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 2019.
2. Please refer to the Council Directive 92/46/EEC adopted by the EU.
3. Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.
4. Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.

Import Trading Business

The Group's import trading business mainly involves the import of dairy cows, alfalfa hay and other animal husbandry-related products. The import trading business is divided into the import principal trading business and the import agency business. In 2019, revenue generated from the Group's import trading business amounted to RMB0.7 million, accounting for 0.1% of the Group's total revenue and representing a decrease of 99.3% as compared to the corresponding period of last year. In particular, revenue from the import principal trading business amounted to RMB0.1 million, accounting for 15.7% of the revenue from the import trading business. Revenue from the import agency business amounted to RMB0.6 million, accounting for 84.3% of the revenue from the import trading business.

Management Discussion and Analysis

PROSPECTS

The year 2019 saw growing downward pressure on China's economy amid headwinds such as Sino-US trade friction and weak demand in the real economy under a complex internal and external environment. In 2020, the risks and challenges facing the Chinese economy will further increase. In particular, the COVID-19 epidemic that has swept the country since the beginning of the Lunar New Year may have a significant negative impact on the overall economic situation. In this context, steady growth, especially maintaining a GDP growth of 6%, may become the focus of macroeconomic control policies.

The change in per capita consumption of dairy products is somewhat mild as they are semi-essential products under consumption upgrading. Once consumers develop the habit to eat dairy products, they are not likely to reduce consumption demand due to small fluctuations in the economy and their household income. Moreover, the changes in dairy consumption often spirals upward thanks to structural recovery opportunities and the outbreak of demand for certain product categories. As the growth of domestic liquid milk output in China is slowing down, the trend of industry development will be to adjust dairy consumption structure, vigorously develop low-temperature milk markets such as pasteurized milk, encourage and stimulate the consumption of dry dairy products such as cheese in the future. The orientation towards high-end, differentiated and personalized development of dairy products structure will further boost the demand for high-quality raw milk. However, as dairy farming's returns increase, dairy farming enterprises will become more motivated to add and breed more cows, leading to a growth in the herd size of sizable farms and the number of newly-built farms. As such, the stock of dairy cows is expected to gradually recover with growing supply of raw milk, so the market supply and demand will be more balanced and the room for milk prices to rise will be limited in the future.

In response to the COVID-19 outbreak in early 2020, the Group promptly introduced a series of countermeasures in the daily management of dairy farms, including requiring drivers of fresh milk-transport vehicles to wear masks and take their temperature when entering and leaving dairy farms, subjecting vehicles in and out of farms to disinfection, and adding disinfection procedures at entry and exit checkpoints. We also perform closed management of dairy farms, have all personnel, cattle, equipment and environment disinfected, and take protective measures for employees during the epidemic period to ensure the safety of personnel and the normal production and operation of dairy farms. In order to ensure the health and safety of raw milk products, we strictly implement the epidemic prevention measures and the hygiene requirements for dairy production stipulated by the state in all aspects of raw milk production. Nevertheless, as the prevention and control of the COVID-19 enter a critical stage, the intensifying control measures will indirectly have a negative impact on the day-to-day operation and management of dairy farming companies, the input of raw materials such as forage grass, and the transportation of raw milk. Meanwhile, given the nationwide restrictions on logistics and travel, the sales of dairy products will certainly be affected, leading to overstocking of products, which in turn will deal a blow to the dairy farming industry.

Management Discussion and Analysis

Opportunities are reserved for those who are well prepared. The development of China's dairy farming industry has gone through much hardship. After its painstaking early development, the Group has been well prepared for years for the opportunities from the transformation and upgrade of China's dairy industry. Upholding the mission to "build tech-driven ecological dairy farms and create high-quality and healthy dairy products" and the vision to "become a leading enterprise to provide nutritious and healthy food", the Group has always implemented a strict and comprehensive disease control system in the operation and management of dairy farms to protect the overall health of employees and cattle. During the Reporting Period, there was no outbreak of major diseases in our dairy farms. As of the date of this annual report, none of the Company's employees had been found to contract the coronavirus disease since its outbreak in Mainland China in early 2020. Looking forward, the Group will continue to strengthen the fine management of dairy farms, enhance the unit yield and milk quality of dairy cows by improving the quality of dairy cows, and constantly enhance its ability to resist market fluctuation risks and adapt to market changes. Furthermore, it will steadily promote dairy processing business and actively explore downstream industry to develop new business lines and profit growth drivers through industry chain expansion, so as to diversify its business revenue, optimise revenue structure and explore new development paths.

FINANCIAL OVERVIEW

Revenue

The table below sets forth the revenue of each business segment of the Group for the years ended 31 December 2019 and 2018, respectively:

	For the year ended 31 December					
	2019			2018		
	External Sales	Internal Sales	Total	External Sales	Internal Sales	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Dairy farming business	1,498,727	–	1,498,727	1,335,839	–	1,335,839
Import trading business	654	47,136	47,790	89,147	27,035	116,182
Total	1,499,381	47,136	1,546,517	1,424,986	27,035	1,452,021

The Group's revenue for the year ended 31 December 2019 amounted to RMB1,499.4 million as compared to RMB1,425.0 million for the year ended 31 December 2018, representing a year-on-year increase of 5.2%. The increase was mainly attributed to an increase in both the sales volume and selling price of raw milk.

Management Discussion and Analysis

Dairy Farming Business

The revenue from the Group's dairy farming business for the year ended 31 December 2019 amounted to RMB1,498.7 million as compared to RMB1,335.8 million for the year ended 31 December 2018, representing a year-on-year increase of 12.2%. The increase in revenue from the dairy farming business was attributed to an increase in both the selling price and sales volume of raw milk of the Group.

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

	For the year ended 31 December					
	2019			2018		
	Revenue RMB' 000	Sales Volume tonne	Unit Selling Price RMB/tonne	Revenue RMB' 000	Sales Volume tonne	Unit Selling Price RMB/tonne
Raw milk	1,498,727	373,713	4,010	1,335,839	354,141	3,772

In 2019, the sales volume of raw milk increased by 5.5% as compared to that of 2018; the unit selling price of raw milk increased by 6.3%.

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			
	2019		2018	
	Revenue RMB' 000	Percentage	Revenue RMB' 000	Percentage
Import principal trading business	103	15.7%	86,238	96.7%
Import agency business	551	84.3%	2,909	3.3%
Total	654	100.0%	89,147	100.0%

The revenue from the Group's import trading business for the year ended 31 December 2019 amounted to RMB0.7 million as compared to RMB89.1 million for the year ended 31 December 2018, representing a year-on-year decrease of 99.3%. The decrease was mainly attributed to a decline in the total import trade volume in 2019. Import agency represented a majority of import business while the proportion of import principal trading business decreased considerably, leading to a decline in revenue from principal trading business.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

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

	For the year ended 31 December			
	2019		2018	
	Gross Profit RMB' 000	Gross Profit Margin	Gross Profit RMB' 000	Gross Profit Margin
Dairy farming business	550,129	36.7%	470,114	35.2%
Import trading business	481	73.5%	22,340	25.1%
Total	550,610	36.7%	492,454	34.6%

Gross profit of the dairy farming business for the year ended 31 December 2019 was RMB550.1 million, representing an increase of 17.0% as compared to the corresponding period of the year ended 31 December 2018, which was mainly attributed to an increase in both the selling price and sales volume of raw milk. The gross profit of the Group's import trading business for the year ended 31 December 2019 was RMB0.5 million, representing a decrease of 97.8% as compared to the corresponding period of the year ended 31 December 2018, which was mainly attributed to the decline in import trading volume.

Gross profit margin of the Group's dairy farming business for the year ended 31 December 2019 was 36.7%, representing an increase of 1.5% as compared to the gross profit margin of 35.2% for the year ended 31 December 2018, which was mainly attributed to the increase in milk yield per milkable dairy cow in 2019. The gross profit margin of the import trading business for the year ended 31 December 2019 was 73.5% as compared to the gross profit margin of 25.1% for the year of 2018. The increase was attributable to higher gross profit margin of the import agency which represented a majority of the import business of the Company in 2019.

Management Discussion and Analysis

Cost of Sales

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

	For the year ended 31 December			
	2019		2018	
	RMB' 000	Percentage	RMB' 000	Percentage
Feed	725,760	76.5%	677,453	78.3%
Labour costs	54,651	5.8%	49,655	5.7%
Others	168,187	17.7%	138,617	16.0%
Total	948,598	100.0%	865,725	100.0%

During the year ended 31 December 2019, feed costs accounted for approximately 76.5% of the cost of sales of the dairy farming business (before fair value adjustments).

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

Net losses arising from changes in the fair value of biological assets less costs of sales for the year ended 31 December 2019 amounted to RMB135.1 million, representing a year-on-year decrease of RMB38.6 million as compared to net losses of RMB173.7 million for the year ended 31 December 2018, which was mainly attributed to the regular and systematic culling of lactating cows which were less economically efficient in terms of milk yields on feeding costs, as well as fluctuations in average selling price of raw milk resulting from market volatility.

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

The gains arising from initial recognition of agricultural products at fair value less costs of sales upon harvest of the Group increased by approximately 17.0% from RMB416.0 million for the year ended 31 December 2018 to RMB486.4 million for the year ended 31 December 2019, primarily reflecting an increase in the sales volume and unit price of the Group's raw milk.

Other Income

Other income includes government subsidies, bank interest income and others. The income from recognized government subsidies for the year ended 31 December 2019 amounted to RMB6.6 million as compared to RMB29.1 million for the year ended 31 December 2018, representing a year-on-year decrease of 77.3%. The recognized bank interest income for the year ended 31 December 2019 amounted to RMB7.1 million as compared to RMB4.6 million for the year ended 31 December 2018, representing a year-on-year increase of 54.3%.

Management Discussion and Analysis

Operating Expenses

	For the year ended 31 December		Rate of Change
	2019 RMB' 000	2018 RMB' 000	
Distribution costs	65,272	59,716	9.3%
Administration expenses	109,877	93,953	16.9%
Other expenses	1,006	1,110	-9.4%
Total	176,155	154,779	13.8%

Operating expenses increased by 13.8% from RMB154.8 million for the year ended 31 December 2018 to RMB176.2 million for the year ended 31 December 2019, which was mainly attributable to the expansion of the Group's scale and an increase in employees.

Finance Costs

Finance costs increased by 40.3% from RMB114.5 million for the year ended 31 December 2018 to RMB160.7 million for the year ended 31 December 2019, which was mainly attributable to finance scale expansion.

Capital Expenditure

Capital expenditure of the Group for the year ended 31 December 2019 amounted to RMB608.2 million as compared to RMB627.7 million for the year ended 31 December 2018, representing a year-on-year decrease of 3.1%. During the Reporting Period, the capital expenditure of the Group mainly consisted of the addition of non-current assets including property, plant and equipment and the addition of non-current biological assets.

Liquidity and Sources of Funds

The working capital of the Group mainly derived from cash inflow generated from daily operating activities and borrowings from financial institutions. As at 31 December 2019, the gearing ratio of the Group was approximately 57.5% (as at 31 December 2018: 56.5%). The gearing ratio was calculated by dividing total liabilities by total assets. The bank balances and cash balance were RMB390.8 million (as at 31 December 2018: RMB615.1 million).

Management Discussion and Analysis

Indebtedness

Borrowings of the Group were denominated in RMB and USD. As at 31 December 2019, the balance of short-term borrowings including long-term borrowings due within one year was RMB1,146.4 million. As at 31 December 2019, the balance of long-term borrowings and long-term payables after deducting the portion due within one year was RMB1,088.0 million, of which borrowings with fixed interest rates amounted to approximately RMB1,241.5 million.

Contingent Liabilities

As at 31 December 2019, there were no material contingent liabilities (as at 31 December 2018: Nil).

Foreign Exchange Risk

As at 31 December 2019, save for the pledged bank deposits and cash and bank balances of RMB185.7 million which were USD-denominated assets and RMB0.5 million which were HKD-denominated assets, the other assets and liabilities of the Group were settled in RMB. For the year ended 31 December 2019, the Group did not use any financial instruments such as forward foreign exchange settlement contracts to hedge such risk.

Significant Investments, Acquisitions and Disposals of Assets

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

Pledge of Assets

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

Use of Proceeds from Global Offering

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

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

Management Discussion and Analysis

Human Resources

The Group had 1,426 full-time employees in Mainland China and Hong Kong as at 31 December 2019 (as at 31 December 2018: 1,256). During the Reporting Period, total staff costs (excluding the fees of independent non-executive Directors) of the Group were approximately RMB141.5 million (for the corresponding period in 2018: approximately RMB120.2 million).

Upholding the Company's development strategy and annual key targets, the Group adopts an oriented remuneration system focusing on position, performance and capability of employees. In particular, the Group conducts performance appraisal with consideration of responsibilities and performance of employees, and determines the remuneration with reference to their experience, market pay rates and the salary levels prevailing in the industry. With this value-oriented approach, the Group strives to build a remuneration system that matches its human resource management, which can facilitate the compensation distribution in a scientific and rational manner and promote the continuous development of the Company.

Focusing on key aspects such as safety production, business skills, and corporate culture, the Group continues to carry out education and training programs for talents at all levels comprehensively. Through the safety education training and employee exchange programs, employees' professional and technical skills, comprehensive capabilities and their awareness of occupational health and safety risks are enhanced. The Group spare no effort to ensure that the training plans are carried out effectively with pragmatic outcomes, laying a solid foundation for enriching the talent pool of the Company.

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

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

DIRECTORS AND SENIOR MANAGEMENT



Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Jianshe (張建設), aged 59, Chairman, executive Director and Chief Executive Officer. He is also the Chairman of the Nomination Committee of our Company. Mr. Zhang Jianshe was appointed as an executive Director in April 2014 and is primarily responsible for the overall management of our Company's strategic planning and supervision of its implementation. He joined our Group in October 2002. He has subsequently assumed various roles in our subsidiaries. He took up the position as a deputy manager of Kuandian ZhongDi Farming Co., Ltd. ("**ZhongDi Kuandian**") from October 2002 to February 2003. Mr. Zhang Jianshe is currently a director of all our subsidiaries and the chairman of ZhongDi Dairy Corporation (中地乳業集團有限公司). Mr. Zhang Jianshe is a director of YeGu Investment Company Limited ("**YeGu Investment**") and Green Farmlands Group, controlling shareholders of our Company.

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

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

Mr. Zhang Kaizhan (張開展), aged 55, was appointed as an executive Director in July 2014 and is primarily responsible for assisting the Chairman in the overall management of strategic planning of our Company and overseeing human resources related matters and operation of the import trading business of our Company. He joined our Group in May 2006 and currently the chairman of Beijing Sinofarm Stud Livestock Co., Ltd. ("**Sinofarm Stud Livestock**") and the vice chairman of ZhongDi Dairy Corporation (中地乳業集團有限公司). Mr. Zhang Kaizhan is the sole director of SiYuan Investment Company Limited ("**SiYuan Investment**"), a controlling shareholder of our Company.

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

Directors and Senior Management

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

NON-EXECUTIVE DIRECTORS

Mr. Liu Dai (劉岱), aged 67, was appointed as a non-executive Director in July 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He has assumed various roles in our subsidiaries since joining our Group in January 2003, including being the executive director and director of Shangdu ZhongDi Farming Co., Ltd. ("**ZhongDi Shangdu**") from January 2003 to November 2005 and from November 2005 to November 2007, respectively; the manager of Beijing ZhongDi Livestock Technology Co., Ltd. from December 2003 to September 2012; the executive director and manager of Sinofarm Stud Livestock from June 2004 to August 2007, and its director from April 2010 to August 2014; and the director of ZhongDi Kuandian from September 2005 to November 2007. Mr. Liu Dai is the sole director of Tai Shing Company Limited ("**Tai Shing**"), a controlling shareholder of our Company.

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

Mr. Du Yuchen (杜雨辰), aged 43, was appointed as a non-executive Director in March 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. He is also a member of the Remuneration Committee of our Company.

Directors and Senior Management

Prior to joining our Group, Mr. Du Yuchen was engaged with Beijing Capital Assets Management Co., Ltd. (北京首創資產管理有限公司), an asset management company, from April 2001 to November 2008, working at various times as a project manager, deputy general manager and general manager of the investment management department. He was a director of Nanchang Rotary Cultivator Co., Ltd. (南昌旋耕機有限公司), a company principally engaged in the manufacturing of rotary cultivators and combined cultivators, from March 2007 to November 2016. From July 2015 to November 2018, he was the legal representative and chairman of the board of Beijing Longtou Agriculture Commune Co., Ltd. (北京龍頭農業互助公社股份有限公司), an entity engaged in investment activities. He was also the legal representative and chairman of the board of Beijing Nong Jin Fu Investment Center (Limited Partnership) (北京農金服投資中心(有限合夥)) from September 2014 to January 2019. Mr. Du Yuchen has been engaged with Beijing Agricultural Investment Co., Ltd. (北京市農業投資有限公司), a company principally engaged in the investment activities in the agricultural industry, since December 2008, working at various times as the head of fund preparatory committee, supervisor and deputy general manager. He has been the executive vice president, general manager and appointed representative of executive affairs partner of Beijing Agriculture Investment Fund (Limited Partnership) (北京農業產業投資基金(有限合夥)) since September 2009. Mr. Du Yuchen has also assumed various positions in several entities principally engaged in investment activities, including the legal representative and chairman of the board of Zhuhai Agriculture Industrial Investment Fund Management Corporation (珠海農業產業投資基金管理公司) since January 2014. Mr. Du Yuchen is a director of Hubei Yinfeng Cotton Co., Ltd. (湖北銀豐棉花股份有限公司), a company listed on Small and Medium Enterprise Share Transfer System (commonly known as New Over the Counter Market (新三板)) (stock code: 831029) from February 2015 and the legal representative and executive director of Beijing Liuhe Fund Management Co., Ltd. (北京六合基金管理有限公司) from May 2015.

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

Mr. Li Jian (李儉), aged 57, joined our Group as a non-executive Director in September 2014 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company.

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

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

Directors and Senior Management

Ms. Yu Tianhua (于天華), aged 43, was appointed as a non-executive Director in February 2015 and is primarily responsible for providing strategic advice on corporate development and making recommendations on major operational and managerial decisions of our Company. She is also a member of the Audit Committee of our Company.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Li Shengli (李勝利), aged 54, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee of our Company. Prof. Li Shengli joined our Group in September 2012 and had since then served as an independent director of Sinofarm Stud Livestock until August 2014.

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

Prof. Li Shengli graduated from Shihezi Agricultural College (石河子農學院) (currently known as Shihezi University (石河子大學)) located in Xinjiang Uyghur Autonomous Region with a bachelor's degree in animal husbandry and veterinary science in July 1987 and China Agricultural University located in Beijing with a doctorate's degree in animal nutrition science in July 1996. Over the years, Prof. Li Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the Second Prize and the Third Prize of the Beijing Municipal Science and Technology Award (北京市科學技術獎) in 2000 and 2011, respectively. He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎二等獎) in 2012 and 2014, the First Prize of Science and Technology Progress Award awarded by the Ministry of Education of the PRC (教育部科技進步獎) in 2013 and the First Prize of China Agricultural Science and Technology Progress Award (中華農業科技進步一等獎) awarded by the MOA in 2013. Prof. Li Shengli has assumed various positions in many intra-industry associations, such as an executive member of Dairy Association of China (中國奶業協會) since January 2004, the executive member of the Cattle Division of China Animal Agriculture Association (中國畜牧業協會牛業分會) since July 2007, an executive member of China Society of Forestry, Animal Husbandry and Fishery Economics (中國林牧漁業經濟學會) since October 2005, the president of the Cattle Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會養牛學分會) since January 2009, and the vice president of Dairy Association of China since April 2019.

Prof. Li Shengli was an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司), a company listed on China Venture Exchange (stock code: 300106), from July 2009 to November 2018. He has been an independent non-executive director of China Modern Dairy Holdings Ltd., a company listed on the Stock Exchange (stock code: 1117), since October 2010.

Directors and Senior Management

Dr. Zhang Shengli (張勝利), aged 56, was appointed as an independent non-executive Director in July 2019 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also a member of the Remuneration Committee and the Nomination Committee of our Company.

Prior to joining our Group, Dr. Zhang Shengli had been a teacher in the Veterinary Medicine School of Heilongjiang Bayi Agricultural University (黑龍江八一農墾大學) from August 1983 to August 1994. He had also been a promotional researcher and an officer of Beijing Dairy Cattle Center (北京奶牛中心) from July 1997 to October 2010. His major direction of research is molecular genetics and breeding of dairy cows and he has engaged in genetic improvements for dairy cows and breeding technology for many years. Dr. Zhang Shengli has been engaged with the College of Animal Science and Technology in China Agricultural University (中國農業大學) since November 2010 and is currently a professor and a doctor tutor of College of Animal Science and Technology (動物科學技術學院).

Dr. Zhang Shengli graduated from Heilongjiang Bayi Agricultural University located in Heilongjiang Province with a bachelor's degree in veterinary medicine and animal husbandry in July 1983 and Beijing Agricultural University (北京農業大學) (currently known as China Agricultural University) located in Beijing with a master's degree in genetics and breeding in July 1989 and China Agricultural University with a doctorate's degree in animal genetics and breeding in July 1997. Over the years, Dr. Zhang Shengli has received various awards and accolades acknowledging his accomplishments. For example, he was awarded the First Prize in 2005 and 2015 respectively and the Second Prize in 2010 of the Beijing Municipal Science and Technology Awards (北京市科學技術獎). He was also awarded the Second Prize of National Science and Technology Progress Award (國家科學技術進步獎二等獎) in 2016. Dr. Zhang Shengli has assumed various positions in many intra-industry associations, such as the secretary-general of the Animal Genetics and Breeding Division of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會動物遺傳育種學分會), the member of National Commission for the Livestock and Poultry Genetic Resources (國家畜禽遺傳資源委員會) and the director of the Cattle Committee (牛專業委員會) since August 2013, and the director of the Breeding Committee of Dairy Association of China (中國奶業協會) since January 2015.

Mr. Joseph Chow, aged 56, was appointed as an independent non-executive Director in July 2014 and is primarily responsible for providing independent advice on the operation and management of our Company. He is also the Chairman of the Audit Committee and a member of the Nomination Committee of our Company.

Directors and Senior Management

Prior to joining our Group, Mr. Joseph Chow has accumulated ample experience and knowledge in formulating and monitoring investment strategies through his roles as chief financial officer of various companies and his senior managerial roles in various financial institutions' investment related functions. Mr. Chow has served as an independent director of China Biologic Products, Inc., a company listed on NASDAQ (stock code: CBPO) since December 2014 and has been appointed as the Chairman of the Board since February 2019 and CEO since May 2019. From January 2016 to February 2018, he was an independent non-executive director of CAR Inc., a car rental service provider company listed on the Stock Exchange (stock code: 0699). He was also a director of China Lodging Group Limited, a multi-brand hotel company listed on NASDAQ (stock code: HTHT), from 2010 to March 2016, a chief financial officer of Synutra International, Inc, an infant milk formula company listed on NASDAQ (stock code: SYUT) from 2009 to October 2015. He was an independent non-executive director of Intime Retail (Group) Company Limited, a company listed on the Stock Exchange (stock code: 1833), from February 2007, the chairman of the audit committee from June 2009, and ceased as the independent non-executive director and the chairman of the audit committee with effect from June 2017 since the listing of the shares of which on the Stock Exchange was withdrawn on May 2017.

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

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

Directors and Senior Management

SENIOR MANAGEMENT

Ms. He Shan (何珊), aged 38, was appointed as the chief financial officer of our Company in November 2015 and is primarily responsible for overseeing the overall financial and accounting related matters of our Group. Ms. He Shan joined our Group in January 2010 as the chief accountant responsible for accounting and audit, preparation of financial statements, tax filings and assisting in the preparation of loan facilities. She once worked as the deputy manager of the financial department of Sinofarm Stud Livestock from March 2010 and the manager of the financial department from July 2013 responsible for financial audit, bank financing, financial analysis, budgeting, communication with external accountants and preparation of financial statements. Ms. He Shan also worked as the manager of the finance management center of Sinofarm Stud Livestock responsible for overall management of daily financials, budgeting, financial personnel, debt financing of Sinofarm Stud Livestock and its subsidiaries. Prior to joining our Group, Ms. He Shan was engaged with SinoFarm Genetics & Seeds from August 2005 to December 2009, working at various times as a staff of the import and export department, staff of the trade management department and treasurer and accountant of the financial department. Ms. He Shan graduated from Central University of Finance and Economics (中央財經大學) with a bachelor's degree in finance in July 2004. Ms. He Shan was awarded the certificate of accounting professional by Beijing Finance Bureau (北京市財政局) in June 2008.

Ms. Zhang Xin (張昕), aged 45, is our company secretary. She joined our Group in June 2017, was appointed as the joint company secretary on 28 July 2017, and was appointed as our company secretary on 27 October 2017. Ms. Zhang Xin is a member of both the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants. Ms. Zhang obtained her Master degree in Business Administration and Bachelor's degree in Economics from Renmin University of China and has over 20 years' experience in accounting, corporate finance and investment.

CORPORATE GOVERNANCE REPORT



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance within the Group, and the Board believes that proper corporate governance practices is essential for ensuring the operation and performance of the Group, enhancing corporation value, boosting investors' confidence, and protecting Shareholders' rights and interests. We value employees, code of discipline, corporation policies and regulations and consider them as the basis of our governance practices. We attach great importance to compliance with laws, rules and regulations of Hong Kong and the PRC, and pay special attention to ensure that our employees can work in a healthy and safe environment. The Board is of the view that effective corporate governance makes an important contribution to corporate success and the increase of shareholder value.

The Company adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules and had applied the principles in the CG Code throughout the year ended 31 December 2019.

The Directors consider that, throughout the year ended 31 December 2019, the Company had complied with all code provisions as set out in the CG Code, except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, details of which are set out in the section headed "Chairman and Chief Executive Officer".

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with the Company's Securities Dealings Code throughout the year ended 31 December 2019.

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

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises nine members as follows:

Executive Directors:

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

Mr. Zhang Kaizhan

Non-executive Directors:

Mr. Liu Dai

Mr. Du Yuchen (*Member of the Remuneration Committee*)

Mr. Li Jian

Ms. Yu Tianhua (*Member of the Audit Committee*)

Independent Non-executive Directors:

Prof. Li Shengli (*Chairman of the Remuneration Committee and Member of the Audit Committee*)

Dr. Zhang Shengli (*Member of the Remuneration Committee and the Nomination Committee*)

Mr. Joseph Chow (*Chairman of the Audit Committee and Member of the Nomination Committee*)

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 22 to 29 of this annual report. None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

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

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

Corporate Governance Report

Independent Non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

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

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

According to the current corporate governance practices of the Company, any new Director(s) appointed to fill (a) casual vacancy(ies) shall submit himself/herself for re-election by the Shareholders at the first general meeting after the appointment. Thereafter, they are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Members of the Board should strive to achieve good results and long-term sustainable development for the Company, and bear individual and joint responsibilities to the Shareholders.

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

All Directors, including non-executive Directors and independent non-executive Directors, have the skills required by the laws and bring a wide spectrum of valuable business experience and knowledge to the Board, enabling them to diligently perform their responsibilities as Directors.

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

Corporate Governance Report

All Directors have full and timely access to all the information of the Company as well as the services and advices from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company. In 2019, no director requested to seek independent professional advice.

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

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

The Company has received confirmation letters from all Directors confirming that they had given sufficient time and attention to the affairs of the Company during the year ended 31 December 2019. Directors also disclosed to the Company the number and nature of offices they held in public companies or organisations and other significant commitments, as well as the names of relevant public companies and indications of time involvement in them.

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

Change in Members of the Board

The Company announced the following change in members of the Board during the Reporting Period.

Dr. Zan Linsen resigned as an independent non-executive Director and a member of the Nomination Committee and the Remuneration Committee of the Company on 5 July 2019. On the same day, Dr. Zhang Shengli was appointed as an independent non-executive Director and a member of the Nomination Committee and the Remuneration Committee of the Company.

Board Diversity Policy

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

Corporate Governance Report

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

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

Continuous Professional Development of Directors

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

When a new director was originally appointed, he or she had received the orientation courses and briefings on their duties and responsibilities for corporate governance and compliance with regulatory requirements prepared and provided by our external legal counsel, in order to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Corporate Governance Report

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. The following table sets out the details of all Directors attending continuous professional development training sessions for the year ended 31 December 2019:

Name of Director	Training type
Zhang Jianshe	A, B
Zhang Kaizhan	A, B
Liu Dai	A, B
Du Yuchen	A, B
Li Jian	A, B
Yu Tianhua	A, B
Li Shengli	A, B
Zhang Shengli (<i>appointed on 5 July 2019</i>)	A, B
Zan Linsen (<i>resigned on 5 July 2019</i>)	A, B
JOSEPH CHOW	A, B

- A : attending training sessions, including but not limited to, seminars, briefings, conferences, forums and colloquia
 B : reading newspapers, journals and updates relating to the economy, general business, corporate governance and Directors' duties and responsibilities

BOARD COMMITTEES

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

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

Corporate Governance Report

Audit Committee

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

- reviewing the financial information and reporting process of the Company and reviewing the significant judgments for financial statements;
- reviewing the internal control and risk management systems and the effectiveness of the internal audit function of the Company;
- reviewing and monitoring the audit plan, relationship with and the appointment of external auditor;
- reviewing continuing connected transactions; and
- reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year of 2019, the Audit Committee held two meetings. The main tasks carried out during the year included, but not limited to, the following:

- reviewing the accounting standards adopted by the Group, practices and other financial reporting matters;
- reviewing the draft of annual and interim results announcements and draft of annual and interim reports of the Company to ensure the integrity, accuracy and fairness of the Company's financial statements;
- reviewing the results of external audits and discussing any significant findings and audit matters with the external auditors;
- reviewing the internal audit plans and internal audit reports;
- work scope of external auditors and engagement of non-audit services;
- and connected transactions.

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

Corporate Governance Report

Remuneration Committee

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

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

- reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and the senior management;
- reviewing and making recommendations to the Board on the remuneration policy and structure for all Directors and the senior management;
- establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and
- approving the terms of executive Directors' service contracts.

The Remuneration Committee held two meetings this year and the works of the year were summarized as follows:

- conducting an annual review on the remuneration packages of all Directors and the senior management and making recommendations to the Board; and
- making recommendations to the Board on the remuneration packages of the new independent non-executive Director.

Details of remuneration paid to members of the senior management by band are set out in the section headed "REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT" in the Directors' Report of this annual report.

Nomination Committee

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

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

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

Corporate Governance Report

- formulating and reviewing the nomination policy for directorship, and determining procedures and criteria for directorship nomination;
- identifying individuals qualified to become Directors, selecting and making recommendations to the Board on the selection of individuals nominated for directorships. Criteria for selecting Directors include, but not limited to, taking into account the contributions the respective nominee can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- making recommendations to the Board on the appointment and succession planning of Directors; and
- assessing the independence of independent non-executive Directors.

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

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

During the year ended 31 December 2019, the Nomination Committee held two meetings, works of which included:

- reviewing the diversity policy of Board members (as defined above);
- making recommendations to the Board on the retirement and re-election of Directors;
- making recommendations to the Board on the appointment of one independent non-executive Director;
- making recommendations to the Board on the appointment and change of members of the Board committees;
- conducting an annual review on the independence of independent non-executive Directors; and
- reviewing the structure, size and composition of the Board.

Corporate Governance Report

Corporate Governance Functions

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

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

ATTENDANCE RECORD OF DIRECTORS

The Board meets regularly and as required from time to time to approve interim and annual results announcements and financial reports, discuss overall strategies and monitor the Company's financial and operating performance. The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

Name of Director	Board		Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting	Extraordinary General Meeting
	Attendance in Person/Number of Meetings	Attendance by Alternate/ Number of Meetings	Attendance in Person/ Number of Meetings	Attendance in Person / Number of Meetings			
Executive Director:							
Mr. Zhang Jianshe	5/5	N/A	N/A	N/A	2/2	1/1	N/A
Mr. Zhang Kaizhan	5/5	N/A	N/A	N/A	N/A	1/1	N/A
Non-executive Director:							
Mr. Liu Dai	4/5	N/A	N/A	N/A	N/A	-/1	N/A
Mr. Du Yuchen	5/5	N/A	N/A	2/2	N/A	1/1	N/A
Mr. Li Jian	4/5	N/A	N/A	N/A	N/A	1/1	N/A
Ms. Yu Tianhua	4/5	N/A	2/2	N/A	N/A	1/1	N/A
Independent Non-executive Director:							
Prof. Li Shengli	4/5	1/5	1/2	1/2	N/A	1/1	N/A
Dr. Zhang Shengli (appointed on 5 July 2019)	3/3	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Zan Linsen (resigned on 5 July 2019)	3/3	N/A	N/A	2/2	2/2	1/1	N/A
Mr. Joseph Chow	5/5	N/A	2/2	N/A	2/2	1/1	N/A

Corporate Governance Report

Apart from regular Board's meetings, the Chairman of the Board also held a meeting with the independent non-executive Directors without the presence of other Directors in accordance with the revised code provisions of the CG Code effective from 1 January 2019.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is fully responsible for assessing and determining the continued effectiveness of the Company's risk management and internal control system and assumes overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the rights and interests of the Company's Shareholders. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee monitors the Company's financial reporting system, risk management and internal control system to ensure that the management has fulfilled its responsibilities to establish an effective system, reviews and monitors the effectiveness of internal audits and reports to the Board on the audits.

The management executes, maintains and continuously monitors the Company's risk management and internal control system, and provides the Board with a confirmation letter on the effectiveness of the risk management and internal control systems on an annual basis.

All departments conduct regular internal control assessments from the perspectives of strategic planning, investment audits, and financial management to identify and assess the financial and other risks in different areas of the Group, and confirm that they have complied with control policies properly through annual self-evaluation.

The Internal Audit Department is responsible for the internal audits and conducting an independent assessment on whether the risk management and internal control systems are appropriate and effective, as well as independent oversight of the risk management and internal controls of the various divisions and subsidiaries. The Internal Audit Department reported the audit results and the rectification plans to the Audit Committee and the Board twice during the reporting period.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019. Although no material weaknesses in control or significant concerns were identified during the year, the Company will continue to review the risk management and internal control systems on a regular basis to ensure their ongoing effectiveness.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems of the Company, including the financial, operational and listing compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources to ensure that the resources allocated for accounting, internal audit and financial reporting meet the Company's needs and are sufficient.

Corporate Governance Report

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019 and understand the importance of the integrity of financial information. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 63 to 67 of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to RMB2,400,000 and RMB0, respectively.

COMPANY SECRETARY

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

During the year ended 31 December 2019, the company secretary had duly complied with the relevant training requirements as set out in Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

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

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

Convening an Extraordinary General Meeting

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Corporate Governance Report

Contact Details

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

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

Fax: +852-23418988

Email: ir@zhongdidairy.hk

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

During the Reporting Period, the Company had not made any changes to its articles of association. An up-to-date version of the Company's articles of association is available on the Company's website and HKEx's website.

DIRECTORS' REPORT



Directors' Report

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

PRINCIPAL OPERATIONS

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

GROUP RESULTS

The results of the Group for the Reporting Period and the financial position of the Company and the Group as at 31 December 2019 are set out on pages 68 to 160 of the consolidated financial statements.

ISSUED SHARES

As at 31 December 2019, the Company had an aggregate of 2,174,078,000 shares in issue.

BUSINESS REVIEW

The business review of the Group for the Reporting Period and the discussion on and the analysis of the important factors relating to the performance and results and financial position of the Group are set out in the Chairman's Statement on pages 5 to 7 of this annual report and the Management Discussion and Analysis on pages 8 to 21 of this annual report. The discussion on the future business development of the Group is set out in the section headed "PROSPECTS" in the Chairman's Statement and the section headed "PROSPECTS" in the Management Discussion and Analysis of this annual report. The explanations of the relationship of the Company with its employees, customers, suppliers and parties who have a significant influence on the Group are set out in the section headed "HUMAN RESOURCES" in the Management Discussion and Analysis and the section headed "MAJOR CUSTOMERS AND SUPPLIERS" in the Directors' Report of this annual report, respectively.

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

Directors' Report

MAJOR RISKS AND UNCERTAINTIES

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

1. *Product Safety and Quality Risk*

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

2. *Disease Risk*

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

Up to the date of this Directors' Report, no employee has yet been found infected during the outbreak of COVID-19 epidemic in mainland China in early 2020.

3. *Customer Reliance Risk*

We rely heavily on a limited number of customers for sales of our raw milk and our business, results of operations and financial condition could be materially and adversely affected in the event of breach or early termination of our raw milk purchase and sale agreements. As such, we rely heavily on limited customers for sales of our raw milk. In the future, we will review the content of the relevant agreements from time to time according to the market and the business situation of the Company, and decide the target and quantity of raw milk sales.

4. *Foreign Competition Risk*

Thanks to the volume of milk powder, fresh milk and related product imported into China still continues to grow in 2019, the market price of domestic raw milk has been subject to the competitive pressure from that of similar products from abroad. If the competition from foreign dairy brands and foreign milk powder imports continue to intensify, the raw milk price may be subjected to downward pressure, and our business, financial position and results of operations may be materially and adversely impacted.

Directors' Report

5. Feed Price Risk

Our dairy farming operations require a substantial amount of feeds. Our feed costs represented approximately 76.5% of the cost of sales for raw milk before the fair value adjustments of biological assets. Therefore, fluctuations in feed prices or import custom tariffs and disruptions of our feed supply could materially and adversely affect our business and results of operations.

6. Industry Risk

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

7. Other Risks

- 1) During the transition period in which we expand our operating dairy farms, or in the event of any failure in our quality control system, we may not be able to guarantee the production volume and quality of our raw milk, which could materially and adversely affect our business;
- 2) The market prices of raw milk are driven by external supply and demand factors. In the event that the applicable price is lower than our expected level, our business, results of operations and financial position could be materially and adversely affected;
- 3) Our results of operations are subject to fair value adjustments in relation to biological assets and agricultural produce at the point of harvest, which can be volatile and are subject to a number of assumptions;
- 4) Disruptions of operations at our facilities could materially and adversely affect our business;
- 5) Natural disasters, acts of war and other factors beyond control may materially and adversely affect our business, results of operations and financial position;
- 6) We may not have full control over third-party contractors or service providers;
- 7) We may face challenges and incur additional costs if we expand into the downstream dairy products market in the future; and
- 8) Other risks relating to the industry and conducting business in the PRC.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

We take responsibility for the impact of business operation on the environment. It's our belief that effective environmental management is critical to the success of our business and the achievement of long-term sustainability goals. We conduct business in an industry that is subject to stringent PRC environmental laws and regulations. Before any new dairy farm could be constructed, an environmental impact assessment must be carried out. Upon completion of the construction, the environmental protection authorities will conduct inspections of the environmental facilities of the newly constructed dairy farm. Our dairy farming business produces manure and other environmental waste, is subject to restrictions relating to the prevention and control of pollution. We are required to adopt measures to effectively control and properly dispose of the waste materials strictly in accordance with applicable laws and regulations. During the Reporting Period, we comprehensively advance the improvement of Environmental Management System, strictly complied with and conformed to all material aspects of environmental protection laws and regulations promulgated by the PRC government. Through process optimization and technical renovation, we enhance the efficiency of natural resources, minimize the emission of waste and greenhouse gases so as to promote sustainable development, and we have not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially and adversely affected our production.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

To the best knowledge of the Board, for the year ended 31 December 2019, the Group has not been involved in any litigation or arbitration of material importance and there is no legal proceeding or claim of material importance pending or threatened by or against the Group.

Directors' Report

DIVIDEND POLICY

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

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

Based on the funding requirement of the Group's business expansion, the Board did not recommend the payment of any final dividend for the year ended 31 December 2019.

SHARE CAPITAL

As of 31 December 2019, the issued share capital of the Company was US\$21,740.78, divided into 2,174,078,000 shares of US\$0.00001 each. Details of the movements in the share capital of the Company during the Reporting Period are set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2019, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

Directors' Report

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to the Shareholders, comprising retained profits, if any, and share premium, amounted to approximately RMB922.7 million (31 December 2018: RMB936.4 million).

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the largest customer and supplier of the Group accounted for approximately 90.9% and approximately 11.1% of the Group's total revenue and total purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for approximately 99.2% and approximately 22.4% of the Group's total revenue and total purchases, respectively. None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the issued shares) had a material interest in our five largest suppliers or customers. For further details, please refer to the section headed "3. Customer Reliance Risk" of this annual report.

DIRECTORS

The members of the Board of the Company during the Reporting Period and up to the date of this annual report were:

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

Prof. Li Shengli
Dr. Zhang Shengli
Mr. Joseph Chow

Directors' Report

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

Pursuant to Article 16.2 of Articles of Association of the Company, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Dr. Zhang Shengli was appointed as the Independent Non-executive Director on 5th July 2019. He will retire at the forthcoming annual general meeting, and being eligible, will offer himself for re-election as a Director thereat.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this Directors' Report and set out in note 28 to the consolidated financial statements, no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during the Reporting Period or at the end of the Reporting Period.

Save as disclosed in the section headed "Connected Transactions" of this Directors' Report and set out in note 28 to the consolidated financial statements, during the Reporting Period, no contract of significance had been entered into between the Company or any of its subsidiaries, and the controlling Shareholders or any of its subsidiaries, nor had any contract of significance been entered into for the provision of service by the controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

Directors' Report

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

DIRECTORS' INTERESTS IN SUBSCRIPTION OF SHARES OR DEBENTURES

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

During the years of 2018 and 2019, no remuneration was paid by the Group to any directors, and the chief executive as an inducement to join or upon joining the Group or as compensation for loss of office and no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

	2019 (Person)	2018 (Person)
RM0.8 million and below	1	—
RM0.8 million to RMB1 million	1	1
RMB1 million to RMB1.2 million	1	2
Total	3	3

SERVICE CONTRACTS OF DIRECTORS

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

Directors' Report

PERMITTED INDEMNITY PROVISIONS

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

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

SHARE OPTION SCHEME

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

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

- a) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of our Group; and
- b) any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers of any members of the Group.

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

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

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

Directors' Report

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

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

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

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

For the year ended 31 December 2019, no share options were granted by the Company or remained outstanding under the Share Option Scheme and no relevant expenses were recognised for 2019.

Directors' Report

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

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

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

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2019
Mr. Zhang Jianshe ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Mr. Zhang Kaizhan ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%
Mr. Liu Dai ⁽¹⁾	Interest of controlled corporation/Interest of concert parties	875,068,000(L)	40.25%

Notes:

- (1) As at 31 December 2019, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment which directly held 350,778,000 shares and indirectly held, through its shareholding in Green Farmlands Group, 315,790,000 shares. Accordingly, under the SFO, Mr. Zhang Jianshe was deemed to be interested in the 666,568,000 shares held directly and indirectly by YeGu Investment. In addition, as at 31 December 2019, Mr. Zhang Kaizhan and Mr. Liu Dai, through their respective holding companies (namely SiYuan Investment Company Limited ("SiYuan Investment") and Tai Shing Company Limited ("Tai Shing")), indirectly held 61,460,000 shares and 147,040,000 shares, respectively.

Directors' Report

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

As such, as at 31 December 2019, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai would, through their respective holding companies, together hold 875,068,000 shares, representing approximately 40.25% of the issued share capital of the Company as at 31 December 2019. Under the SFO, because of the Concert Parties Arrangement, Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai were each deemed to be interested in 40.25% of the issued share capital of the Company as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, so far as was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

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

As at 31 December 2019, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the shares and underlying shares were as follows:

Directors' Report

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

Name of Substantial Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Total Issued Share Capital of the Company as at 31 December 2019
Li Jingtao ⁽¹⁾	Interest of spouse	875,068,000(L)	40.25%
YeGu Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Zhang Fanghong ⁽²⁾	Interest of spouse	875,068,000(L)	40.25%
SiYuan Investment	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Yang Shulan ⁽³⁾	Interest of spouse	875,068,000(L)	40.25%
Tai Shing	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
Green Farmlands Group	Beneficial owner/Interest of concert parties	875,068,000(L)	40.25%
New Energy Investment GP Ltd ⁽⁴⁾	Beneficial owner	315,790,000(L)	14.53%
New Energy Investment Limited Partnership ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	14.53%
VTD705HL Hong Kong Ltd. ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	14.53%
PACIFIC EMINENT LIMITED	Interest of controlled corporation	315,790,000(L)	14.53%
Agriculture Investment Company Limited ⁽⁵⁾	Interest of controlled corporation	172,500,000(L)	7.93%
("Agriculture Investment")			
Shanghai Jingmu Investment Center (" Shanghai Jingmu ") ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
Goldstone Agri-Investment Funds Management Center (Limited Partnership) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
Beijing Agriculture Investment Fund (Limited Partnership) (" Agriculture Investment Fund ") ⁽⁵⁾	Beneficial owner	277,760,000(L)	12.78%
Beijing Jianye Fengde Investment Consulting Co., Ltd. ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	12.78%
CITIC Capital Holdings Limited ⁽⁶⁾	Interest of controlled corporation	174,100,000(L)	8.01%

Directors' Report

Notes:

- (1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the shares in which Mr. Zhang Jianshe is interested under the SFO.
- (2) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the shares in which Mr. Zhang Kaizhan is interested under the SFO.
- (3) Ms. Yang Shulan is the spouse of Mr. Liu Dai and is therefore deemed to be interested in the shares in which Mr. Liu Dai is interested under the SFO.
- (4) PACIFIC EMINENT LIMITED is wholly owned by VTD705HL Hong Kong Ltd. and VTD705HL Hong Kong Ltd. is wholly owned by New Energy Investment Limited Partnership. New Energy Investment Limited Partnership is wholly owned by New Energy Investment GP Ltd. Each of New Energy Investment Limited Partnership and New Energy Investment GP Ltd. is deemed to be interested in the same number of shares in which PACIFIC EMINENT LIMITED is interested under the SFO.
- (5) Shanghai Jingmu is the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and is therefore deemed to be interested in the same number of shares held by them (being 277,760,000 shares in total). Agriculture Investment Fund is the limited partner of Shanghai Jingmu holding approximately 99.85% of its registered capital, while Goldstone Agri-Investment Funds Management Center (Limited Partnership) is the general partner of Shanghai Jingmu holding approximately 0.15% of its registered capital. Accordingly, each of Agriculture Investment Fund and Goldstone Agri-Investment Funds Management Center (Limited Partnership) is deemed to be interested in the 277,760,000 shares held by Agriculture Investment and Jingmu Investment Company Limited under the SFO. Furthermore, Beijing Jianye Fengde Investment Consulting Co., Ltd., the general partner of Goldstone Agri-Investment Funds Management Center (Limited Partnership), is also deemed to be interested in the 277,760,000 shares referenced above under the SFO.
- (6) CITIC Capital Holdings Limited held 174,100,000 shares through a number of wholly-owned subsidiaries.

Save as disclosed above, as at 31 December 2019, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

The details of the related party transactions conducted by the Group in the usual course of business during the Reporting Period are set out in note 28 to the consolidated financial statements.

Directors' Report

CONNECTED PERSONS

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

(I) Property lease agreement with ZhongDi Dairy Corporation

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

Pursuant to the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Dairy, annual rental for relevant leased premises was RMB2,514,148.47, including management fees, air-conditioning and heat charges, which was payable quarterly and determined with reference to a daily rental of RMB8.10/m².

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

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

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

(II) Property lease agreement with ZhongDi Farm Technology Corporation

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

Pursuant to the property lease agreement entered into between SinoFarm Genetics & Seeds and ZhongDi Farm, annual rental for relevant leased premises was RMB4,084,936.92, including management fees, air-conditioning and heat charges, which was payable quarterly and determined with reference to a daily rental of RMB8.10/m².

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

Directors' Report

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

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

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

Save for the aforesaid, none of the related party transactions as set out in note 28 to the consolidated financial statements are connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

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

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

- entered into in the ordinary and usual course of the Group's business;
- entered into on normal commercial terms or terms no less favourable to the Group than terms available from/to independent third parties; and
- entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders of the Company as a whole.

Directors' Report

Report from the auditors on the continuing connected transactions

For the purposes of Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to report on the above continuing connected transactions that are subject to annual review for the year ended 31 December 2019 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing the findings and conclusions in respect of the above continuing connected transactions, in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

As at the date of this annual report, except for the COVID-19 disclosed in the section captioned as "Prospects" in Chairman's Statement, Management Discussion and Analysis, and note 32 to the consolidated financial statements, there are no significant events after the Reporting Period which are required to be disclosed.

DONATIONS

During the Reporting Period, the Group made charitable and other donations amounting to RMB290,404 (31 December 2018: RMB141,004).

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Ernst & Young, the auditors of the Company. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

On behalf of the Board

Zhang Jianshe

Chairman

27 March 2020

Independent Auditor's Report



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

To the shareholders of China ZhongDi Dairy Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhongDi Dairy Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 160, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

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

Key audit matter

How our audit addressed the key audit matter

Valuation of biological assets

Biological assets of the Group, which represented dairy cows, amounted to RMB1,693,560,000 as at 31 December 2019 and were measured at fair value less costs to sell assessed by an external valuer engaged by the management. Dairy cows include cows held for sale, milkable cows and heifers and calves, which are for the purpose of selling and producing raw milk respectively. Management's assessment on the fair value less costs to sell of biological assets is important to our audit since (i) the carrying values of biological assets accounted for approximately 32% of the total assets of the Group; and (ii) significant estimates were involved in the assessment.

The accounting policies, significant estimation and fair value disclosures of biological assets are included in note 2.5 Summary of significant accounting policies, note 3 Significant accounting judgements and estimates and note 16 Biological assets to the consolidated financial statements.

We assessed the objectivity, independence and competence of the external valuer, and benchmarked the parameters used in the valuation model to the external data. We involved our internal valuation specialists to assist in evaluating the valuation technique and the underlying assumptions of the estimated local selling price of 14 months old heifers, local market price of heifers held for sale and discount rates. We also evaluated other key assumptions, such as feed costs per kilogram of raw milk, the daily milk yield at each lactation cycle, and local future market prices for raw milk. In addition, we reviewed the adequacy and appropriateness of the disclosures relating to the fair value measurement of biological assets.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019			2018		
		Results before biological fair value adjustments RMB' 000	Biological fair value adjustments RMB' 000	Total RMB' 000	Results before biological fair value adjustments RMB' 000	Biological fair value adjustments RMB' 000	Total RMB' 000
REVENUE	5	1,499,381	—	1,499,381	1,424,986	—	1,424,986
Cost of sales	6	(948,771)	(486,353)	(1,435,124)	(932,532)	(435,400)	(1,367,932)
Gross profit		550,610	(486,353)	64,257	492,454	(435,400)	57,054
Losses arising from changes in fair value less costs to sell of biological assets		—	(135,055)	(135,055)	—	(173,691)	(173,691)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		—	486,353	486,353	—	415,969	415,969
Other income	5	15,424	—	15,424	34,661	—	34,661
Other gains and losses	5	8,179	—	8,179	(1,495)	—	(1,495)
Distribution costs		(65,272)	—	(65,272)	(59,716)	—	(59,716)
Administrative expenses		(109,877)	—	(109,877)	(93,953)	—	(93,953)
Other expenses	7	(1,006)	—	(1,006)	(1,110)	—	(1,110)
Finance costs	8	(160,748)	—	(160,748)	(114,543)	—	(114,543)
Share of profits and losses of an associate		118	—	118	14	—	14
PROFIT BEFORE TAX	6	237,428	(135,055)	102,373	256,312	(193,122)	63,190
Income tax expenses	11	—	—	—	—	—	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		237,428	(135,055)	102,373	256,312	(193,122)	63,190
Attributable to:							
Owners of the parent		239,390	(135,055)	104,335	256,312	(193,122)	63,190
Non-controlling interests		(1,962)	—	(1,962)	—	—	—
		237,428	(135,055)	102,373	256,312	(193,122)	63,190
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:							
– Basic and diluted (RMB cents)	13			4.8			2.9

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB' 000	2018 RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,905,714	1,814,500
Prepayments		71,564	108,937
Right-of-use assets	15(b)	545,638	—
Pledged deposits		32,590	31,160
Prepaid land lease payments	15(a)	—	116,765
Biological assets	16	1,693,560	1,613,910
Investments in an associate		10,401	10,283
Total non-current assets		4,259,467	3,695,555
CURRENT ASSETS			
Inventories	17	465,326	332,752
Trade and other receivables	18	184,100	177,149
Prepaid land lease payments	15(a)	—	4,127
Biological assets	16	—	780
Pledged bank deposits	19	23,852	7,859
Cash and bank balances	19	390,765	615,082
Total current assets		1,064,043	1,137,749
CURRENT LIABILITIES			
Trade and other payables	20	783,997	496,965
Contract liabilities	21	6,405	25,425
Interest-bearing bank and other borrowings	22	1,146,449	1,015,545
Total current liabilities		1,936,851	1,537,935
NET CURRENT LIABILITIES			
		(872,808)	(400,186)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		3,386,659	3,295,369
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	1,087,959	1,166,210
Deferred income	23	34,364	27,196
Total non-current liabilities		1,122,323	1,193,406
Net assets		2,264,336	2,101,963

continued/...

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB' 000	2018 RMB' 000
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	135	135
Share premium and reserves	25	2,206,163	2,101,828
		2,206,298	2,101,963
Non-controlling interests		58,038	—
Total equity		2,264,336	2,101,963

Zhang Jianshe

Director

Zhang Kaizhan

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory		Retained profits	Total equity		
				surplus reserve	reserve				
RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
At 1 January 2018	135	1,019,152*	398,541*	53,640*	567,305*	2,038,773	—	2,038,773	
Profit and total comprehensive income for the year	—	—	—	—	63,190	63,190	—	63,190	
Transfer from retained profits	—	—	—	27,275	(27,275)	—	—	—	
At 31 December 2018 and at 1 January 2019	135	1,019,152*	398,541*	80,915*	603,220*	2,101,963	—	2,101,963	
Non-controlling interests	—	—	—	—	—	—	60,000	60,000	
Profit and total comprehensive income for the year	—	—	—	—	104,335	104,335	(1,962)	102,373	
Transfer from retained profits	—	—	—	27,042	(27,042)	—	—	—	
At 31 December 2019	135	1,019,152*	398,541*	107,957*	680,513*	2,206,298	58,038	2,264,336	

* These reserve accounts comprise the consolidated reserves of RMB2,206,163,000 (2018: RMB2,101,828,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB' 000	2018 RMB' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		102,373	63,190
Adjustments for:			
Losses arising from changes in fair value less costs to sell of biological assets		136,513	192,639
Share of profits and losses of associates		(118)	(14)
Depreciation of items of property, plant and equipment	6	64,157	55,205
Depreciation of right-of-use assets/recognition of prepaid land lease payments	6	58,082	14,752
Government grants for assets	5	(3,132)	(6,980)
Finance costs	8	160,748	114,543
Interest income	5	(7,113)	(4,551)
(Gain)/loss on disposal of items of property, plant and equipment	5	(2,770)	11,007
Foreign exchange differences, net	5	(4,315)	(9,292)
		504,425	430,499
(Increase)/decrease in inventories		(132,574)	29,702
Increase in trade and other receivables		(10,996)	(22,026)
Decrease in cows held for sale		780	–
Increase in trade and other payables and contract liabilities		258,331	32,486
Cash generated from operations		619,966	470,661
Interest received		5,867	4,528
Net cash flows from operating activities		625,833	475,189

continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	2019 RMB' 000	2018 RMB' 000
Net cash flows from operating activities	625,833	475,189
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(184,859)	(360,600)
Additions to biological assets	(388,016)	(360,079)
Additions to prepaid land lease payments	–	(85,881)
Proceeds from disposal of items of property, plant and equipment	16,298	4,249
Proceeds from disposal of biological assets	234,297	203,802
Placement of pledged bank deposits	(48,251)	(38,175)
Withdrawals of pledged bank deposits	32,258	38,868
Disposal of a subsidiary	–	(42)
Receipt of government grants for assets	10,300	2,800
Net cash flows used in investing activities	(327,973)	(595,058)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings raised	886,910	1,927,693
Repayment of borrowings	(1,277,527)	(1,467,180)
Principal portion of lease payments	(72,141)	–
Interest and guarantee fees paid	(123,735)	(106,362)
Pledged deposits placed for other borrowings	–	(20,000)
Capital injection by a non-controlling shareholder	60,000	–
Net cash flows (used in)/from financing activities	(526,493)	334,151
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(228,633)	214,282
Cash and cash equivalents at beginning of year	456,542	240,568
Effect of foreign exchange rate changes, net	1,706	1,692
CASH AND CASH EQUIVALENTS AT END OF YEAR	229,615	456,542
Represented by cash and bank balances:		
Cash and bank balances as stated in the consolidated statement of financial position	390,765	615,082
Less: Time deposits with original maturity of more than three months	(161,150)	(158,540)
	229,615	456,542

Notes to Consolidated Financial Statements

31 December 2019

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 and animal husbandry-related products in the mainland of the People's Republic of China (the "PRC").

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Paid-in capital	Percentage of equity attributable to the Company		Principal Activities
			Direct	Indirect	
中地牧業科技集團有限公司 ZhongDi Farm Technology Corporation# ("ZhongDi Farm")	Beijing, PRC	RMB 904,709,000	—	100	Import goods and technology
北京中地種畜有限公司 Beijing Sinofarm Stud Livestock Co., Ltd.# ("Sinofarm Stud Livestock")	Beijing, PRC	RMB 904,709,000	—	100	Import and sales of cows
賀蘭中地生態牧場有限公司 Helan ZhongDi Farming Co., Ltd.# ("Helan ZhongDi")	Ningxia, PRC	RMB 800,000,000	—	100	Dairy farming operation
廊坊中地生態牧場有限公司 Langfang ZhongDi Farming Co., Ltd.# ("Langfang ZhongDi")	Hebei, PRC	RMB 400,000,000	—	100	Dairy farming operation
北京中地畜牧科技有限公司 Beijing ZhongDi Livestock Technology Co., Ltd.# ("Beijing ZhongDi")	Beijing, PRC	RMB 31,000,000	—	100	Dairy farming operation
內蒙古中地乳業有限公司 Inner Mongolia ZhongDi Dairy Co., Ltd.# ("Inner Mongolia ZhongDi")	Inner Mongolia, PRC	RMB 800,000,000	—	100	Dairy farming operation
天鎮中地生態牧場有限公司 Tianzhen ZhongDi Farming Co., Ltd.# ("Tianzhen ZhongDi")	Shanxi, PRC	RMB 400,000,000	—	100	Dairy farming operation
天津中地畜牧科技有限公司 Tianjin ZhongDi Livestock Co., Ltd.# ("Tianjin ZhongDi")	Tianjin, PRC	RMB 300,000,000	—	100	Dairy farming operation
沂南中地牧業有限公司 Yinan Zhongdi Farm Co., Ltd.# ("Yinan ZhongDi")	Shandong, PRC	RMB 300,000,000	—	80	Dairy farming operation

Notes to Consolidated Financial Statements

31 December 2019

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries (continued)

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

Notes:

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

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

2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB872,808,000 as at 31 December 2019. In view of the net current liability position, the board of directors (the "Directors") has 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 new borrowings raised subsequent to 31 December 2019, the unutilised banking facilities available as at the date of this report and cash flow projections for the year ending 31 December 2020, 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.

Notes to Consolidated Financial Statements

31 December 2019

2.2 BASIS OF PREPARATION *(continued)*

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 2019. 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.

Notes to Consolidated Financial Statements

31 December 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Notes to Consolidated Financial Statements

31 December 2019

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

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of office buildings and plots of land. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets of RMB120,892,000 that were reclassified from prepaid land lease payments.

Notes to Consolidated Financial Statements

31 December 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019
- Relying on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review
- Excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application when applying IFRS 16

Financial impacts at 1 January 2019

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB' 000
Assets	
Increase in right-of-use assets	498,665
Decrease in prepaid land lease payments	(120,892)
Increase in total assets	377,773
Liabilities	
Increase in lease liabilities	377,773
Total liabilities	377,773

Notes to Consolidated Financial Statements

31 December 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impacts at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB' 000
Operating lease commitments as at 31 December 2018	515,096
Weighted average incremental borrowing rate as at 1 January 2019	7.60%
Discounted operating lease commitments at 1 January 2019	377,773
Lease liabilities as at 1 January 2019	377,773

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment of the associate. The Group assessed its business model for its long-term interests in associate upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales, and concluded that the interpretation did not have any impact on the financial position or performance of the Group.

Notes to Consolidated Financial Statements

31 December 2019

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	<i>Definition of a Business¹</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material¹</i>
Amendments to IAS 1	<i>Classification of liabilities as Current or Non-current³</i>

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Consolidated Financial Statements

31 December 2019

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

(continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

The amendments to IAS 1 clarify the meaning of a right to defer settlement and that a right to defer must exist at the end of the reporting period. The amendments also clarify that the classification is unaffected by the likelihood that an entity will exercise its deferral right and only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022 and must be applied retrospectively. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures (continued)

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

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

Business combinations and goodwill

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

or

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

Property, plant and equipment and depreciation

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Biological assets

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

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

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

Agricultural produce

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

Non-current assets and disposal groups held for sale

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Research and development costs

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

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

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

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

	Useful lives
Lease parcels	1-50 years
Office buildings	3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable before 1 January 2019) (continued)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through other comprehensive income (debt instruments)

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

Financial assets designated at fair value through other comprehensive income (equity instruments)

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

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

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

Government grants

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

Grants relating to biological assets

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

Other grants

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of goods

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

Rendering of services

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Other income

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

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

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

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

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

Other employee benefits

Pension scheme

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

Borrowing costs

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

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

Foreign currencies

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of deferred tax liability for withholding taxes

As 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding tax of the Group's subsidiaries established in Mainland China. The detail information is disclosed in note 11.

Estimation uncertainty

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

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

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables.

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

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

Valuation of biological assets

The Group's biological assets are valued at fair value less costs to sell at the end of each reporting period. The determination of the fair value involves the use of assumptions and estimates. Any changes in the estimates may affect the fair value of the Group's biological assets significantly. The independent qualified professional valuer and the management of the Group review the assumptions and estimates periodically to identify any significant change in fair value of the Group's biological assets. The carrying amount of the Group's biological assets as at 31 December 2019 was RMB1,693,560,000 (2018: RMB1,614,690,000). Further details are given in note 16 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Notes to Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

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

Year ended 31 December 2019	Dairy farming business RMB' 000	Import trading business RMB' 000	Total RMB' 000
Segment revenue (note 5)			
Sales to external customers	1,498,727	654	1,499,381
Intersegment sales	—	47,136	47,136
	1,498,727	47,790	1,546,517
<i>Reconciliation:</i>			
Elimination of intersegment sales	—	(47,136)	(47,136)
Revenue	1,498,727	654	1,499,381
Segment results	245,641	9,612	255,253
<i>Reconciliation:</i>			
Fair value adjustments of biological assets			56,804
Elimination of intersegment results			(8,540)
Finance costs (other than interest on lease liabilities)			(160,748)
Corporate and other unallocated expenses			(40,396)
Profit before tax			102,373
Segment assets	5,183,178	307,889	5,491,067
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(460,806)	(103,423)	(564,229)
	4,722,372	204,466	4,926,838
Fair value adjustments of biological assets			300,672
Corporate and other unallocated assets			96,000
Total assets			5,323,510

Notes to Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	Dairy farming business RMB' 000	Import trading business RMB' 000	Total RMB' 000
Segment liabilities	873,726	506,559	1,380,285
<i>Reconciliation:</i>			
Elimination of intersegment payables	(103,423)	(460,806)	(564,229)
	770,303	45,753	816,056
Borrowings			2,234,408
Corporate and other unallocated liabilities			8,710
Total liabilities			3,059,174
Other segment information			
Amounts included in the measure of segment profit or segment assets:			
Loss on disposal of items of property, plant and equipment	522	(3,292)	(2,770)
Depreciation	120,012	2,695	122,706
Other unallocated depreciation			231
			122,937
Depreciation of right-of-use assets	45,738	51	45,789
Other unallocated depreciation of right-of-use assets			12,293
			58,082
Bank interest income	1,747	5,171	6,918
Other unallocated bank interest income			195
			7,113
Capital expenditure*	607,630	569	608,199

Notes to Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

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

Notes to Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

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

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

Notes to Consolidated Financial Statements

31 December 2019

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

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

Information about major customers

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

	2019 RMB' 000	2018 RMB' 000
Revenue from the dairy farming business		
Customer A	1,363,135	668,827
Customer B	—	584,219
	1,363,135	1,253,046

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB' 000	2018 RMB' 000
Revenue from contracts with customers		
Sale of goods		
– Raw milk	1,498,727	1,335,839
– Cows held for sale	—	86,238
Rendering of agency services		
– Import agency services	654	2,909
	1,499,381	1,424,986

Notes to Consolidated Financial Statements

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Dairy farming business RMB' 000	Import trading business RMB' 000	Total RMB' 000
Type of goods and services			
Sale of goods	1,498,727	103	1,498,830
Rendering of agency services	—	551	551
Total revenue from contracts with customers	1,498,727	654	1,499,381
Geographical markets			
Mainland China	1,498,727	654	1,499,381
Total revenue from contracts with customers	1,498,727	654	1,499,381
Timing of revenue recognition			
Goods transferred at a point in time	1,498,727	654	1,499,381
Total revenue from contracts with customers	1,498,727	654	1,499,381

For the year ended 31 December 2018

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

Notes to Consolidated Financial Statements

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

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

For the year ended 31 December 2019

Segments	Dairy farming business RMB' 000	Import trading business RMB' 000	Total RMB' 000
Revenue from contracts with customers			
External customers	1,498,727	654	1,499,381
Intersegment sales	—	47,136	47,136
	1,498,727	47,790	1,546,517
Intersegment adjustments and eliminations	—	(47,136)	(47,136)
Total revenue from contracts with customers	1,498,727	654	1,499,381

For the year ended 31 December 2018

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

Notes to Consolidated Financial Statements

31 December 2019

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

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information *(continued)*

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

	2019 RMB' 000	2018 RMB' 000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	25,353	21

(b) Performance obligations

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

Sale of goods

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

Rendering of agency services

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

Notes to Consolidated Financial Statements

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

	Notes	2019 RMB' 000	2018 RMB' 000
Other income			
Government grants related to			
– Other assets	i	3,132	6,980
– Income	ii	3,460	22,070
		6,592	29,050
Interest income		7,113	4,551
Others		1,719	1,060
		15,424	34,661
Other gain/(loss)			
– Gain/(loss) on disposal of items of property, plant and equipment		2,770	(11,007)
– Exchange gain, net		4,315	9,292
– Others		1,094	220
		8,179	(1,495)

Notes:

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

Notes to Consolidated Financial Statements

31 December 2019

6. PROFIT BEFORE TAX

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

	2019 RMB' 000	2018 RMB' 000
Cost of sales		
Feeds and other related costs for raw milk production	948,598	865,725
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	486,353	415,969
Cost of sales of raw milk	1,434,951	1,281,694
Purchase, feeds and other related costs for cows held for sale	173	66,807
Gains arising from changes in fair value less costs to sell of biological assets	—	19,431
Cost of sales of cows held for sale	173	86,238
	1,435,124	1,367,932
Staff costs (including the directors' emoluments)		
Salaries, bonuses and allowances	129,179	109,075
Contributions to a retirement benefit scheme	13,158	11,932
Total employee benefits	142,337	121,007
Less: Capitalised in biological assets	(32,866)	(31,478)
Employee benefits charged in profit	109,471	89,529
Depreciation and recognition of lease expenses		
Depreciation of items of property, plant and equipment	122,937	107,996
Less: Capitalised in biological assets	(58,780)	(52,791)
Depreciation charged to profit	64,157	55,205
Depreciation of right-of-use assets (2018: recognition of prepaid land lease payments)	58,082	57,596
Less: Capitalised in inventories	(38,399)	(42,844)
Prepaid land lease payments charged to profit	19,683	14,752
Office rental expenses	—	3,489
Lease payments not included in the measurement of lease liabilities	305	—
Other items		
Auditors' remuneration	2,400	2,350

Notes to Consolidated Financial Statements

31 December 2019

7. OTHER EXPENSES

	2019 RMB' 000	2018 RMB' 000
Bank transaction fees	996	602
Others	10	508
	1,006	1,110

8. FINANCE COSTS

	2019 RMB' 000	2018 RMB' 000
Interest on borrowings	129,783	119,716
Interest on lease liabilities	32,362	—
Less: Interest capitalised	(1,397)	(5,173)
	160,748	114,543

Borrowing costs capitalised during the year arose from the special borrowing and are calculated by applying the capitalisation rate of 5.49% per annum during the year ended 31 December 2019 (2018: 5.39%) to expenditures on construction in progress.

Notes to Consolidated Financial Statements

31 December 2019

9. DIRECTORS' REMUNERATION

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

	2019 RMB' 000	2018 RMB' 000
Fees	1,506	1,455
Other emoluments:		
Salaries, allowances and benefits in kind	3,203	3,108
Performance related bonus	468	387
Pension scheme contributions	83	64
	5,260	5,014

(a) Independent non-executive directors

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

	2019 RMB' 000	2018 RMB' 000
Prof. Li Shenli	266	257
Dr. Zan Linsen	133	257
Dr. Zhang Shenli	133	—
Mr. Joseph Chow	266	257
	798	771

Notes to Consolidated Financial Statements

31 December 2019

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees RMB' 000	Salaries, allowances and benefits in kind RMB' 000	Performance related bonus RMB' 000	Pension scheme contributions RMB' 000	Total remuneration RMB' 000
2019					
Executive directors:					
Mr. Zhang Jianshe	—	1,686	279	16	1,981
Mr. Zhang Kaizhan	—	1,517	189	67	1,773
	—	3,203	468	83	3,754
Non-executive directors:					
Mr. Liu Dai	177	—	—	—	177
Mr. Du Yuchen	177	—	—	—	177
Mr. Li Jian	177	—	—	—	177
Ms. Yu Tianhua	177	—	—	—	177
	708	—	—	—	708
	708	3,203	468	83	4,462
2018					
Executive directors:					
Mr. Zhang Jianshe	—	1,650	207	23	1,880
Mr. Zhang Kaizhan	—	1,458	180	41	1,679
	—	3,108	387	64	3,559
Non-executive directors:					
Mr. Liu Dai	171	—	—	—	171
Mr. Du Yuchen	171	—	—	—	171
Mr. Li Jian	171	—	—	—	171
Ms. Yu Tianhua	171	—	—	—	171
	684	—	—	—	684
	684	3,108	387	64	4,243

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

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

Notes to Consolidated Financial Statements

31 December 2019

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are not a director of the Company are as follows:

	2019 RMB' 000	2018 RMB' 000
Salaries, allowances and benefits in kind	2,401	3,221
Performance related bonus	261	249
Pension scheme contributions	111	110
	2,773	3,580

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

	Number of employees	
	2019	2018
Nil to HK\$1,000,000	1	—
HK\$1,000,001 to HK\$1,500,000	2	3
	3	3

Notes to Consolidated Financial Statements

31 December 2019

11. INCOME TAX

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

	2019		2018	
	RMB' 000	%	RMB' 000	%
Profit before tax	102,373		63,190	
Tax at corporate income tax rate of 25%	25,593	25	15,798	25
Effect of items that are not deductible in determining taxable profit	34,137	33	48,960	78
Effect of losses incurred for agricultural business	10,319	10	9,650	15
Tax losses not recognised	11,737	12	10,322	16
Effect of tax exemption granted to agricultural operations	(81,786)	(80)	(84,730)	(134)
Income tax expenses	—	—	—	—

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

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

11. INCOME TAX (continued)

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

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB773,784,000 at 31 December 2019 (2018: RMB683,962,000).

12. DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31 December 2019 (2018: Nil).

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

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	104,335	63,190
	Number of shares 2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year	2,174,078,000	2,174,078,000

Notes to Consolidated Financial Statements

31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB' 000	Motor vehicles RMB' 000	Plant and equipment RMB' 000	Construction in progress RMB' 000	Total RMB' 000
31 December 2019					
At 31 December 2018 and at 1 January 2019					
Cost	1,809,406	35,804	323,399	7,812	2,176,421
Accumulated depreciation	(240,198)	(11,240)	(110,483)	—	(361,921)
Net carrying amount	1,569,208	24,564	212,916	7,812	1,814,500
At 1 January 2019, net of accumulated depreciation	1,569,208	24,564	212,916	7,812	1,814,500
Additions	5,150	1,547	39,324	180,851	226,872
Transfers	101,385	80	650	(102,115)	—
Disposals	(11,822)	(628)	(271)	—	(12,721)
Depreciation provided during the year	(85,976)	(1,732)	(35,229)	—	(122,937)
At 31 December 2019, net of accumulated depreciation	1,577,945	23,831	217,390	86,548	1,905,714
At 31 December 2019					
Cost	1,894,829	36,716	362,043	86,548	2,380,136
Accumulated depreciation	(316,884)	(12,885)	(144,653)	—	(474,422)
Net carrying amount	1,577,945	23,831	217,390	86,548	1,905,714

Notes to Consolidated Financial Statements

31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2019, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB287,684,000 (2018: RMB318,533,000) were pledged to secure interest-bearing bank and other borrowings to the Group (note 22).

Notes to Consolidated Financial Statements

31 December 2019

15. LEASES

The Group as a lessee

The Group has lease contracts for land parcels and office buildings used in its operations. Lease of land parcels generally have lease terms of 1 to 50 years. Leases of office buildings generally have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB' 000
Carrying amount at 1 January 2018	91,387
Additions	87,101
Recognised during the year	(57,596)
Carrying amount at 31 December 2018	120,892
– Land use rights	98,519
– Land parcels	22,373
Current portion	(4,127)
Non-current portion	116,765

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land use rights RMB' 000	Land parcels RMB' 000	Office buildings RMB' 000	Total RMB' 000
As at 1 January 2019	98,519	383,927	16,219	498,665
Additions	—	105,351	—	105,351
Depreciation charge	(2,846)	(48,216)	(7,020)	(58,082)
Termination	—	(222)	(74)	(296)
As at 31 December 2019	95,673	440,840	9,125	545,638

Notes to Consolidated Financial Statements

31 December 2019

15. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 Lease liabilities RMB' 000
Carrying amount at 1 January	377,773
New leases	105,351
Accretion of interest recognised during the year	32,362
Payments	(72,141)
Termination	(74)
Carrying amount at 31 December	443,271
Analysed into:	
Current portion	67,320
Non- current portion	375,951
	443,271

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB' 000
Interest on lease liabilities	32,362
Depreciation charge of right-of-use assets	19,683
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	274
Expense relating to leases of low-value assets (included in administrative expenses)	31
Total amount recognised in profit or loss	52,350

At 31 December 2019, certain of the Group's land use rights (2018: prepaid land lease payments) with an aggregate carrying amount of nil (2018: RMB7,260,000) have been pledged as security for interest-bearing bank and other borrowings of the Group (note 22).

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS

A – Nature of activities

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

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

	2019	2018
	Heads	Heads
Cows held for sale	—	71
Milkable cows	37,880	36,068
Heifers and calves	27,549	28,640
	65,429	64,779

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

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

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

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS *(continued)*

A – Nature of activities *(continued)*

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

- i. Regulatory and environmental risks

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

- ii. Climate, disease and other natural risks

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

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

	2019	2018
	Tonnes	Tonnes
Raw milk	373,713	354,141

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS (continued)

C – Value of biological assets

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

	Heifers and calves RMB' 000	Milkable cows RMB' 000	Cows held for sale RMB' 000	Total RMB' 000
At 1 January 2019	468,620	1,145,290	780	1,614,690
Feeding cost	446,795	—	13	446,808
Transfer	(364,954)	364,954	—	—
Decrease due to disposal/death	(93,799)	(136,833)	—	(230,632)
(Losses)/gains arising from changes in fair value less costs to sell of biological assets	(16,632)	(119,881)	1,458	(135,055)
Transfer out upon selling	—	—	(2,251)	(2,251)
At 31 December 2019	440,030	1,253,530	—	1,693,560
Represented by:				
Current portion	—	—	—	—
Non-current portion	440,030	1,253,530	—	1,693,560
Total	440,030	1,253,530	—	1,693,560

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS (continued)

C – Value of biological assets (continued)

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

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 that the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in section E of this note.

As at 31 December 2019, the Group pledged certain dairy cows to secure certain bank and other borrowings of the Group (note 22).

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

	2019 RMB' 000	2018 RMB' 000
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	486,353	415,969

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS (continued)

D – Fair value hierarchy

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

Recurring fair value measurement for:	As at 31 December 2019			Total RMB' 000
	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	
Cows held for sale	—	—	—	—
Heifers and calves	—	—	440,030	440,030
Milkable cows	—	—	1,253,530	1,253,530
Total biological assets	—	—	1,693,560	1,693,560

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

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS (continued)

E – Valuation techniques used in fair value measurements

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

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	<p>The fair value of 14 months old heifers is determined by reference to the local market selling price.</p> <p>The fair values of heifers and calves at the age group of less than 14 months old are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months old plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at the age group of older than 14 months old are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.</p>	<p>Average local market selling prices of the heifers of 14 months old were estimated at RMB18,500 per head at 31 December 2019 (2018: RMB18,500 per head).</p> <p>Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old were RMB15,442 at 31 December 2019 (2018: RMB14,503). Average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old were RMB11,764 at 31 December 2019 (2018: RMB12,170).</p>	<p>An increase in the estimated local market selling price used would result in an increase in the fair value measurement of the heifers and calves, and vice versa.</p> <p>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser would result in an increase in the fair value measurement of the heifers and calves older than 14 months old and a decrease in the fair value measurement of the heifers and calves younger than 14 months old, and vice versa.</p>

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS (continued)

E – Valuation techniques used in fair value measurements (continued)

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is a method of estimating the economic benefits of such milkable cows over multiple time periods by identifying the cash flows associated with such milkable cows and deducting a periodic charge reflecting a fair return for such milkable cows.	<p>The estimated feed costs per kilogram of raw milk used in the valuation process were RMB2.11 for the year ended 31 December 2019 (2018: RMB2.04), based on the historical average feed costs per kilogram of raw milk after taking inflation into consideration.</p> <p>A milkable cow could have as many as six lactation cycles. The estimated average daily milk yield at each lactation cycle ranged from 28.20kg to 29.80kg for the year ended 31 December 2019 (2018: from 26.80kg to 28.40kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>The estimated local future market price for raw milk was RMB4,190 per tonne at 31 December 2019 (2018: RMB3,940).</p> <p>The discount rate for estimated future cash flows used was 14.0% at 31 December 2019 (2018: 14.0%).</p>	<p>An increase in the estimated feed costs per kilogram of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk used would result in an increase in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p>

Notes to Consolidated Financial Statements

31 December 2019

16. BIOLOGICAL ASSETS (continued)

E – Valuation techniques used in fair value measurements (continued)

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

17. INVENTORIES

	2019 RMB' 000	2018 RMB' 000
Feeds	436,982	316,057
Others	28,344	16,695
	465,326	332,752

Notes to Consolidated Financial Statements

31 December 2019

18. TRADE AND OTHER RECEIVABLES

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

	2019 RMB' 000	2018 RMB' 000
Trade receivables:		
– 0 to 30 days	153,161	124,094
– 31 to 90 days	3,957	854
– 91 to 181 days	—	—
	157,118	124,948
Other receivables:		
– Advances to suppliers	16,684	41,624
– Others	10,298	10,577
	26,982	52,201
	184,100	177,149

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses on trade receivables. The provision rates are based on ageing groups for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. No impairment has been provided for the Group's trade and other receivables as at 31 December 2019 and 2018.

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

As at 31 December 2019, the Group had entered into several factoring agreements with certain financial institutions. Since the Group had retained the substantial risks and rewards relating to those factored trade receivables, it continued to recognise the full carrying amounts of trade receivables and accounted for the proceeds as bank and other borrowings as disclosed in note 22. Trade receivables under such factoring agreements amounted to RMB11,451,000 as at 31 December 2019 (31 December 2018:RMB12,419,000).

Notes to Consolidated Financial Statements

31 December 2019

19. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	2019 RMB' 000	2018 RMB' 000
Cash and cash equivalents	229,615	456,542
Time deposits with original maturity of more than three months	161,150	158,540
Cash and bank balances	390,765	615,082
Pledged bank deposits	23,852	7,859
	414,617	622,941

Pledged bank deposits of the Group represent deposits pledged for letters of credit and bills payable. The Group's pledged bank deposits carried interest at a prevailing interest rate of 0.30% (2018: 0.35%) per annum at 31 December 2019.

Cash and bank balances of the Group comprise cash, short-term bank deposits with an original maturity of three months or less and time deposits with original maturity of more than three months. The Group's bank balances carried interest at prevailing interest rates ranging from 0.01% to 2.8% (2018: 0.01% to 2.6%) per annum at 31 December 2019.

Pledged bank deposits and cash and bank balances were denominated in RMB, United States dollars ("USD") and Hong Kong dollars ("HKD") as at 31 December 2019. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

	2019 RMB' 000	2018 RMB' 000
RMB	228,383	431,384
USD	185,749	191,183
HKD	485	374
	414,617	622,941

Notes to Consolidated Financial Statements

31 December 2019

20. TRADE AND OTHER PAYABLES

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

	2019 RMB' 000	2018 RMB' 000
Trade and bills payables:		
– 0 to 90 days	462,460	306,939
– 91 to 180 days	208,357	77,116
– Over 181 days	34,190	43,890
	705,007	427,945
Payable for acquisition of items of property, plant and equipment and office rental	15,439	9,974
Accrued staff costs	19,700	15,513
Land lease payables	—	4,543
Interest payables	14,819	10,604
Deposits	18,334	12,356
Others	10,698	16,030
	78,990	69,020
	783,997	496,965

21. CONTRACT LIABILITIES

	31 December 2019 RMB' 000	31 December 2018 RMB' 000
Short-term advances received from customers:		
Sale of goods	6,405	25,425
Total contract liabilities	6,405	25,425

Contract liabilities include short-term advances received to deliver goods and render agency services. The decrease in contract liabilities in 2019 was mainly due to the decrease in short-term advances received from customers in relation to the provision of sale of goods at the end of the year.

Notes to Consolidated Financial Statements

31 December 2019

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2019		2018	
		Maturity	RMB' 000	Maturity	RMB' 000
Current					
Unsecured bank borrowings		2020	303,220	2019	450,600
Unsecured lease liabilities		2020	67,320		—
Guaranteed and unsecured bank borrowings	(i) (a)	2020	450,000	2019	290,000
Secured bank borrowings	(i) (b)	2020	65,000	2019	50,000
Secured other borrowings	(i) (c)	2020	50,161	2019	95,215
Guaranteed and secured bank borrowings	(i) (d)	2020	28,372	2019	28,372
Guaranteed and secured other borrowings	(i) (e)	2020	182,376	2019	101,358
			1,146,449		1,015,545
Non-current					
Unsecured bank borrowings		2021	30,000	2020-2021	217,000
Unsecured lease liabilities		2021-2065	375,951		—
Secured other borrowings	(i) (c)	2021-2023	47,776	2020	99,560
Guaranteed and secured bank borrowings	(i) (d)	2021-2025	143,056	2020-2025	171,628
Guaranteed and secured other borrowings	(i) (e)	2021-2023	491,176	2020-2023	678,022
			1,087,959		1,166,210
			2,234,408		2,181,755
Analysed into:					
Bank and other borrowings repayable:					
Within one year			1,146,449		1,015,545
In the second year			305,753		389,193
In the third to fifth years, inclusive			596,198		747,358
Over five years			186,008		29,659
			2,234,408		2,181,755
Bank and other borrowings comprise:					
Fixed-rate bank and other borrowings			1,241,491		1,093,755
Variable-rate bank and other borrowings			992,917		1,088,000
			2,234,408		2,181,755

Notes to Consolidated Financial Statements

31 December 2019

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

Notes:

- (i) (a) As at 31 December 2019, Mr. Zhang Jianshe guaranteed bank borrowings of RMB450,000,000 (2018: RMB290,000,000), among which bank borrowings of RMB275,000,000 (2018: RMB290,000,000) were also guaranteed by Mrs. Li Jingtao.
- (b) As at 31 December 2019, nil (2018: RMB15,000,000) bank borrowings were secured by prepaid land lease payments (2018: RMB7,260,000), and bank borrowings of RMB65,000,000 (2018: RMB35,000,000) were secured by dairy cows of RMB73,500,000 (2018: RMB73,500,000).
- (c) As at 31 December 2019, other borrowings of RMB97,937,000 (2018: RMB194,775,000) were secured by dairy cows of RMB426,736,000 (2018: RMB409,337,000) and the Group's deposits amounting to approximately RMB9,000,000 (2018: RMB9,000,000), with present value of RMB8,997,000 (2018: RMB8,585,000).
- (d) As at 31 December 2019, bank borrowings of RMB171,428,000 (2018: RMB200,000,000) were guaranteed by Mr. Zhang Jianshe, Mrs. Li Jingtao and China United SME Guarantee Corporation Company, an independent third party, and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB147,997,000 (2018: RMB174,367,000).
- (e) As at 31 December 2019, other borrowings of RMB495,008,000 (2018: RMB500,000,000) were secured by trade receivables of RMB11,451,000 (2018: RMB12,419,000) and dairy cows of RMB322,760,000 (2018: RMB310,342,000) under factoring agreements and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2019, other borrowings of RMB137,046,000 (2018: RMB198,748,000) were secured by dairy cows with a carrying amount of RMB229,756,000 (2018: RMB221,524,000) and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 31 December 2019, other borrowings of RMB41,497,000 (2018: RMB80,632,000) were secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB139,687,000 (2018: RMB144,166,000), prepayment for non-current assets of the Group of RMB2,603,000 (2018: RMB2,603,000) and the Group's deposits amounting to approximately RMB25,400,000 (2018: RMB25,400,000) with present value of RMB23,593,000 (2018: RMB22,575,000), and guaranteed by Mr. Zhang Jianshe.

- (ii) As at 31 December 2019, the contracted interest rates of the above bank and other borrowings ranged from 4.60% to 6.84%. (2018: 3.45% to 6.84%)
- (iii) The Group's bank and other borrowings were denominated in the following currencies:

	2019 RMB' 000	2018 RMB' 000
USD	–	69,540
RMB	2,234,408	2,112,215
	2,234,408	2,181,755

Notes to Consolidated Financial Statements

31 December 2019

23. DEFERRED INCOME

	2019 RMB' 000	2018 RMB' 000
Balance at beginning of the year:	27,196	31,376
– Additions	10,300	2,800
– Released to income	(3,132)	(6,980)
Balance at end of the year	34,364	27,196

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

24. SHARE CAPITAL

Shares

	2019 RMB' 000	2018 RMB' 000
Authorised:		
5,000,000,000 ordinary shares of USD0.00001 each	306	306
Issued and fully paid:		
2,174,078,000 (2018: 2,174,078,000) ordinary shares of USD0.00001 each	135	135

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

	Number of shares in issue	Share capital RMB' 000
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	2,174,078,000	135

Notes to Consolidated Financial Statements

31 December 2019

24. SHARE CAPITAL (continued)

Share option scheme

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

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

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

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

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

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

No share options were granted under the Scheme during the year ended 31 December 2019(2018: Nil).

Notes to Consolidated Financial Statements

31 December 2019

25. RESERVES

(i) *Movements in components of equity*

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

(ii) *Capital reserve*

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

(iii) *Statutory surplus reserve*

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

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) *Changes in liabilities arising from financing activities*

	Bank and other borrowings RMB' 000	Lease liabilities RMB' 000
At 31 December 2018	2,181,755	—
Effect of adoption of IFRS 16	—	377,773
At 1 January 2019	2,181,755	377,773
Changes from financing cash flows	(390,618)	(72,141)
Termination	—	(74)
New leases	—	105,351
Interest expense	—	32,362
At 31 December 2019	1,791,137	443,271

Notes to Consolidated Financial Statements

31 December 2019

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Changes in liabilities arising from financing activities (continued)

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

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB' 000
Within operating activities	305
Within investing activities	—
Within financing activities	72,141
Non-cash termination	74
	72,520

27. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB' 000	2018 RMB' 000
Contracted but not provided for:		
Plant and machinery	203,092	206,480

As at 31 December 2019, the Group had no commitments to make future capital payments to a related party (2018: Nil) in respect of construction services rendered by the related party.

Notes to Consolidated Financial Statements

31 December 2019

27. COMMITMENTS *(continued)*

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office and farm land under operating lease arrangements. Leases for office and farm land were negotiated for terms ranging from 1 to 50 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB' 000
Within one year	60,973
In second to fifth years, inclusive	223,873
Over five years	230,250
	515,096

28. RELATED PARTY TRANSACTIONS

(a) On 21 June 2018, SinoFarm Genetics & Seeds (Group) Co., Ltd. ("SinoFarm Genetics & Seeds") entered into two property lease agreements (the "Agreements") with the Group in respect of the leasing of office rooms from 22 June 2018 to 21 June 2021. In accordance with the Agreements, the rental amounts (including management fees, air-conditioning and heat charges) payable to SinoFarm Genetics & Seeds by the Group for the financial years ending 31 December 2018, 2019, 2020 and 2021 will be RMB3,489,379.40, RMB6,599,085.40, RMB6,599,085.40 and RMB3,109,706.00 respectively. Details of the transactions were disclosed in the Company's announcement dated 21 June 2018.

As at 31 December 2019, the Group recognized right-of-use assets and lease liabilities in relating to the above related party transactions with an amount of RMB7,931,000 and RMB7,799,000, respectively.

(b) During the year ended 31 December 2019, the Group purchased goods with an amount of RMB111,000 (2018: RMB88,000) from SinoFarm Genetics & Seeds.

Notes to Consolidated Financial Statements

31 December 2019

28. RELATED PARTY TRANSACTIONS (continued)

(c) Guarantees provided by related parties

	Note	2019 RMB' 000	2018 RMB' 000
Mr. Zhang Jianshe	(i)	1,294,982	1,078,482

Note:

- (i) As at 31 December 2019, bank and other borrowings of RMB1,790,482,000 (31 December 2018: RMB1,269,380,000) were guaranteed by Mr. Zhang Jianshe and secured by certain property, plant and equipment, dairy cows, and trade receivables under factoring agreements of the Group as stated in note 22.

Within the above bank and other borrowings of RMB1,790,482,000, Mrs. Li Jingtao, the spouse of Mr. Zhang Jianshe, also provided guarantee to bank and other borrowings of RMB1,573,490,000 (31 December 2018: RMB988,748,000).

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

(d) Operating lease commitments

At 31 December 2018, the Group had commitments to make future minimum lease payments to ZhongDi Seeds and Ulanqab ZhongDi in respect of offices and land use rights rented under non-cancellable operating leases which fall due as follows:

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

Notes to Consolidated Financial Statements

31 December 2019

28. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation to key management personnel

	2019 RMB' 000	2018 RMB' 000
Salaries, bonuses and other benefits	6,332	6,965
Retirement benefit scheme contributions	195	174
	6,527	7,139

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

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets	2019 RMB' 000	2018 RMB' 000
Financial assets at amortised cost:		
Pledged deposits	32,590	31,160
Trade receivables	157,118	124,948
Financial assets included in other receivables and other assets	10,298	10,577
Pledged bank deposits	23,852	7,859
Cash and bank balances	390,765	615,082
	614,623	789,626
Financial liabilities	2019 RMB' 000	2018 RMB' 000
Financial liabilities at amortised cost:		
Trade and bills payables	705,007	427,945
Financial liabilities included in other payables and interest payables	58,910	52,595
Interest-bearing bank and other borrowings	2,234,408	2,181,755
	2,998,325	2,662,295

Notes to Consolidated Financial Statements

31 December 2019

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2019	2018	2019	2018
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Financial liabilities				
Interest-bearing bank and other borrowings (other than lease liabilities)	1,791,137	2,181,755	2,006,751	2,251,250

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

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

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

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

The Group did not have any financial assets or liabilities measured at fair value for the year ended 31 December 2019 (2018: Nil).

Fair value hierarchy

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

Liabilities for which fair values are disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	2019	2018
	RMB' 000	RMB' 000
Interest-bearing bank and other borrowings (other than lease liabilities)	2,006,751	2,251,250

Notes to Consolidated Financial Statements

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB' 000	Increase/ (decrease) in equity RMB' 000
2019			
RMB	50	(5,399)	(5,399)
RMB	(50)	5,399	5,399
2018			
RMB	50	(2,465)	(2,465)
RMB	(50)	2,465	2,465

Notes to Consolidated Financial Statements

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

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

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit after tax RMB' 000	Increase/ (decrease) in equity RMB' 000
2019			
If RMB strengthens against USD	5	(9,328)	(9,328)
If RMB weakens against USD	(5)	9,328	9,328
If RMB strengthens against HKD	5	(29)	(29)
If RMB weakens against HKD	(5)	29	29
2018			
If RMB strengthens against USD	5	(6,034)	(6,034)
If RMB weakens against USD	(5)	6,034	6,034
If RMB strengthens against HKD	5	(23)	(23)
If RMB weakens against HKD	(5)	23	23

Notes to Consolidated Financial Statements

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-months ECLs		Life-time ECLs		Total RMB' 000
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
Trade receivables	—	—	—	157,118	157,118
Financial assets included in prepayments, other receivables and other assets					
– Normal	10,298	—	—	—	10,298
Pledged deposits					
– Not yet past due	32,590	—	—	—	32,590
Pledged bank deposits					
– Not yet past due	23,852	—	—	—	23,852
Cash and cash equivalents					
– Not yet past due	390,765	—	—	—	390,765
	457,505	—	—	157,118	614,623

Notes to Consolidated Financial Statements

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

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

As at 31 December 2019, 98.22% (2018: 99.74%) of the Group's trade receivables were from the sales of raw milk. The Group only transacted with a limited number of customers for sales of raw milk. Therefore, there is concentration of credit risk arising from the Group's trade receivables from raw milk customers. The management of the Group considers that the risk is low because the Group only transacts with creditworthy customers and there is no history of default of these customers.

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

Notes to Consolidated Financial Statements

31 December 2019

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	On demand RMB' 000	Less than 1 year RMB' 000	1 to 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
2019					
Trade and bills payables and financial liabilities included in other payables	—	763,917	—	—	763,917
Lease liabilities	—	71,198	247,814	518,513	837,525
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	1,070,690	1,047,473	—	2,118,163
	—	1,905,805	1,295,287	518,513	3,719,605
2018					
Trade and bills payables and financial liabilities included in other payables	—	480,540	—	—	480,540
Interest-bearing bank and other borrowings	—	1,053,551	1,416,966	40,161	2,510,678
	—	1,534,091	1,416,966	40,161	2,991,218

Notes to Consolidated Financial Statements

31 December 2019

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

Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year ended 31 December 2019.

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

	2019 RMB' 000	2018 RMB' 000
Total liabilities	3,059,174	2,731,341
Total assets	5,323,510	4,833,304
Gearing ratio	57.5%	56.5%

32. EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus disease (COVID-19) in early 2020, a series of emergency public health measures, such as travel and other work-related restrictions, have been, and continued to be, implemented by the governmental authorities across the PRC and other countries and regions. It has, to some extent, affected the operations of the Group such as the transportation of the feed supply and raw milk, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. However, the overall financial effect of the above can not be reliably estimated as of the date of these financial statements. The Group will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Group.

Notes to Consolidated Financial Statements

31 December 2019

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 RMB' 000	2018 RMB' 000
NON-CURRENT ASSETS		
Property, plant and equipment	70	70
Right-of-use assets	1,194	—
Investment in a subsidiary	914,440	914,440
Total non-current assets	915,704	914,510
CURRENT ASSETS		
Other receivables and other assets	242	1,547
Cash and bank balances	12,791	24,794
Total current assets	13,033	26,341
CURRENT LIABILITIES		
Other payables	4,037	3,665
Amounts due to subsidiaries	608	608
Lease liabilities	1,212	—
Total current liabilities	5,857	4,273
NET CURRENT ASSETS	7,176	22,068
TOTAL ASSETS LESS CURRENT LIABILITIES	922,880	936,578
NON CURRENT LIABILITIES		
Lease liabilities	44	—
Net assets	922,836	936,578
EQUITY		
Share capital	135	135
Share premium and reserves (note)	922,701	936,443
	922,836	936,578

Notes to Consolidated Financial Statements

31 December 2019

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's share premium and reserves is as follows:

	Share premium RMB' 000	Capital reserve RMB' 000	Accumulated losses RMB' 000	Total RMB' 000
Balance at 1 January 2018	1,019,152	(69)	(71,649)	947,434
Loss and total comprehensive loss for the year	–	–	(10,991)	(10,991)
Balance at 31 December 2018	1,019,152	(69)	(82,640)	936,443
Balance at 1 January 2019	1,019,152	(69)	(82,640)	936,443
Loss and total comprehensive loss for the year	–	–	(13,742)	(13,742)
Balance at 31 December 2019	1,019,152	(69)	(96,382)	922,701

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.