



YuanShengTai Dairy Farm Limited
原生态牧业有限公司

(Incorporated in Bermuda with limited liability)

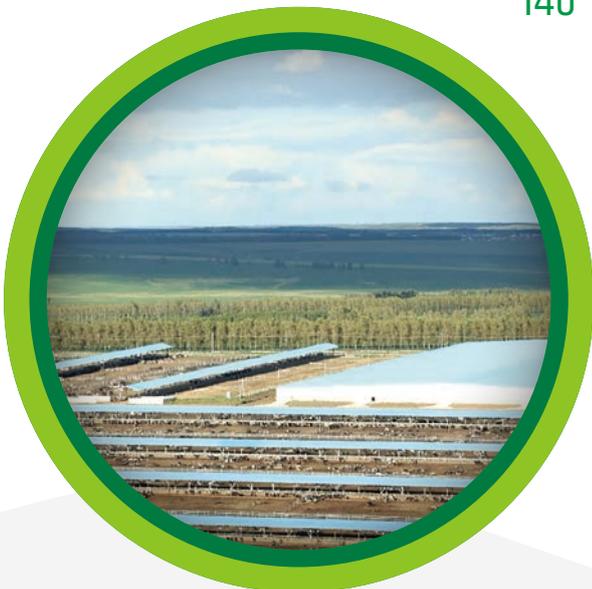
Stock Code: 1431



2018 Annual Report

Contents

2	Corporate Information
3	Chairman's Statement
5	Management Discussion and Analysis
13	Biographical Details of Directors and Senior Management
18	Corporate Governance Report
36	Environmental, Social and Governance Report
49	Directors' Report
64	Independent Auditor's Report
71	Consolidated Statement of Profit or Loss and Other Comprehensive Income
72	Consolidated Statement of Financial Position
73	Consolidated Statement of Changes in Equity
74	Consolidated Statement of Cash Flows
76	Notes to the Consolidated Financial Statements
140	Financial Summary



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Hongliang (趙洪亮) (*Chairman*)
Mr. Fu Wenguo (付文國) (*Chief Executive Officer*)
Mr. Chen Xiangqing (陳祥慶) (*Chief Financial Officer*)
Mr. Liu Gang (劉剛)

Non-executive Director

Mr. Lau Ho Fung (劉浩峰)

Independent Non-executive Directors

Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)

JOINT COMPANY SECRETARIES

Ms. Song Miao (宋淼)
Mr. Kwok Siu Man (郭兆文)

AUTHORISED REPRESENTATIVES

Mr. Chen Xiangqing (陳祥慶)
Mr. Liu Gang (劉剛)

AUDIT COMMITTEE

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
(*Chairman*)
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)

REMUNERATION COMMITTEE

Mr. Zhang Yuezhou (張月周) (*Chairman*)
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhao Hongliang (趙洪亮)

NOMINATION COMMITTEE

Mr. Zhu Zhanbo (朱戰波) (*Chairman*)
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhang Yuezhou (張月周)
Mr. Fu Wenguo (付文國)

INDEPENDENT AUDITOR

Ernst & Young

PRINCIPAL BANKERS

Agricultural Development Bank of China
Industrial and Commercial Bank of China
Agricultural Bank of China
China Construction Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, 148 Electric Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH 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 ADVISORS

As to Hong Kong Laws

Loeb & Loeb LLP

As to PRC Laws

Jingtian & Gongcheng
(北京市競天公誠律師事務所)

STOCK CODE

1431

BOARD LOTS

1,000 shares

COMPANY'S WEBSITES

www.ystdfarm.com
www.ystdairyfarm.com

Chairman's Statement

TO OUR SHAREHOLDERS,

I wish to present the annual results of YuanShengTai Dairy Farm Limited ("**YuanShengTai**" or the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**Year**") to our shareholders.

In 2018, the global macro economy grew at a steady rate of 3%, but the global economic downward risks are on the rise. Affected by external factors such as the Sino-US trade war, the downward pressure on China's economy has gradually emerged. The Chinese government adhered to its general work tone of making progress while maintaining stability, so that the country's economy achieved a sustained and healthy development and was sound as a whole. The overall macroeconomic situation was still sound and continued to seek breakthroughs. In 2018, the annual GDP of China reached RMB90,030.9 billion for the first time, representing an increase of 6.6% year-on-year, and China continued to be the largest contributor to the world's economic growth. Given the improvement in the overall economic situation, China's dairy industry is still moving forward. On the one hand, low-priced imported milk sources and rising agriculture costs had an impact on the domestic dairy industry. On the other hand, the State Council issued the "Opinions on Promoting the Revitalization of Dairy Industry to Guarantee the Quality and Safety of Dairy Products", which indicated the future direction of China's dairy industry, and had a positive impact on the overall development of the dairy industry.

As a leading dairy farming producer in the PRC, YuanShengTai is committed to producing the best quality raw milk in China. It continued to maintain a large-scale and intensive development strategy, optimized farm management, and continuously improved operational management so as to ensure production of high quality raw milk with high-quality dairy cows, advanced breeding techniques and feeding management and to satisfy China's demand for high-end raw milk.

Driven by the growth of consumer demand in third- and fourth-tier cities and rural areas, the sales volume of the dairy industry in 2018 is expected to reach RMB380 billion, reflecting the substantial achievements to be made in the structural reform of the supply side of China's dairy industry. This, in addition to gradual enhancement of consumers' confidence in domestic dairy products, contributes to a steady recovery of the domestic dairy market. In the future, the raw milk market is expected to continue to benefit from a steady growth of the domestic dairy industry, the increased concentration of the dairy product industry and a slowdown of imported dairy products, which will improve the business environment of the raw milk market.

In addition, in late 2018, the nine ministries in the PRC jointly issued "Several Opinions on Further Promoting the Revitalization of the Dairy Industry" (the "Opinions"), which put forward the goals of and measures for fully revitalizing the dairy industry, emphasized the structural adjustment and transformation and upgrading of the dairy industry, prelude a new era of full revitalization, and had positive impact on the industry. The Opinions mentioned that the industry will promote the construction of modern animal husbandry to ensure the production of high quality milk sources. The Group will closely follow the policy development direction of the state, grasp the policy dividends, and provide raw milk with the highest safety and nutritional standards in China. Since its establishment, the Group has built and maintained a long-term relationship with China's leading dairy manufacturers such as Feihe Dairy Group, Mengniu Group and Bright Dairy Group. The benefits of policies and expansion into the international market would continue to be constructive to the Group's business.

The Group's total sales of raw milk increased by 7.5% from 262,543 tons in 2017 to 282,261 tons in 2018. The Group's total revenue for 2018 amounted to RMB1,099.5 million, representing an increase of 8.4% (2017: RMB1,014.1 million) as compared with that of last year. Net loss increased by 719.3% to RMB556.3 million as compared with that of 2017. Gross profit decreased by 0.3% from RMB253.3 million in 2017 to RMB252.6 million in 2018.



Chairman's Statement

Looking forward, China's economic growth will shift from a high-speed growth phase to a high-quality development phase in 2019, and is expected to maintain a sound and positive development momentum. Expected introduction of various supporting policies will play a key role in the development of the industry. Players in the industry have been actively making structural adjustments, transformation and upgrading, and steadily marching toward the full revitalization of the dairy industry. Along with the increase in disposable income of Chinese residents, the accelerated development of urbanization and the upgrade in consumption, the dairy consumer base will expand, driving the demand for dairy products and per capita consumption in China. China's dairy industry has a broad market and great growth potential in the future.

On behalf of the board of directors, I would like to thank all our shareholders for their ever-persistent trust in and support of the Group. I also express my heart-felt gratitude to the board, the management team and our staff for their diligent efforts and valuable contribution in the past year. In the coming year, the Group will strive for steadfast progress and produce the best quality raw milk for consumers, so as to bring about greater returns for our shareholders.

Zhao Hongliang

Chairman

Hong Kong, 29 March 2019

Management Discussion and Analysis

MARKET REVIEW

In 2018, the per capita disposable income of Chinese residents increased by 6.5% year-on-year, the spending power of residents continued to rise. This, in addition to the rebound in the domestic consumer confidence index, has stimulated the growth of high-end consumption products and promoted consumers' demand for healthy high-end dairy products. As such, the rise in the prices of dairy products on the international market failed to hinder the market penetration of imported dairy products into the Chinese market, which will have a negative impact on the domestic dairy industry, and in turn will intensify competition of the domestic dairy industry.

Since the second half of 2018, due to the effect of the Sino-US trade war and the depreciation of the RMB against the United States dollars (the “USD”), the price of feeding materials for Chinese dairy cows has risen despite an international falling trend, pushing up the cost of dairy cow farming; such situation needs to be addressed urgently. Further, the purchase price of raw milk continued to be low, there by increasing the loss for dairy cow farmers. As a result, large-scale farms also began to control overcapacity by eliminating low-capacity dairy cows.

As a leading dairy farming company in the People's Republic of China (the “PRC”), the Group adhered to the large-scale and intensive development strategy and continued to enhance operation management during the Year. In respect of the quality control of dairy products, the Group adjusted the herd mix and improved the feeding formula to lower production cost, mitigate pressure on sales and to cope with the downturn of the raw milk industry. Meanwhile, in respect of business, the Group actively looked for opportunities of diversified business development by enriching the diversities of business so as to create additional income sources.

BUSINESS REVIEW

In terms of herd size and production volume, YuanShengTai is one of the leading dairy farming companies in the PRC. The total sales volume of raw milk of the Group increased from 262,543 tonnes in 2017 to 282,261 tonnes for the Year. The total revenue amounted to RMB1,099.5 million for the Year, representing an increase of 8.4% from 1,014.1 million in the same period of 2017. During the Year, the Group recorded a loss of RMB556.3 million (2017: approximately RMB67.9 million), representing a year-on-year increase in loss of 719.2%. The increase in loss was attributable to (i) impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm; (ii) an increase in loss on changes in fair value less costs to sell of biological assets; and (iii) the increase of equity-settled share option expenses which were included in administrative expenses; and (iv) a decrease in other income.

Since its establishment, the Group has built long-term and stable relationships with China's leading dairy manufacturers. In 2018, the three major customers of the Company were Feihe Dairy Group, Mengniu Group and Bright Dairy Group. During the Year, benefiting from the preferential policy and these all three major customers continued to expand into the international market, which were constructive to the Group's business. The revenue from these three major customers accounted for nearly 91.3% of the Group's revenue. In the future, the Group is expected to continue to supply raw milk products to the three major customers for a long time, to further strengthen the customer base and secure future demand for raw milk.

Management Discussion and Analysis

Construction of Farms

As of 31 December 2018, we had six farms in Heilongjiang Province and one farm in Jilin Province, respectively. Each farm had an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounted to approximately 5,909,000 square metres.

	Actual Designed Capacity <i>(Number of Cows/Head)</i>	Actual Inventory Number	Area <i>(m²)</i>
Gannan Farm	12,000	10,484	986,333
Kedong Heping Farm	6,000	6,310	384,000
Kedong Ruixinda Farm	18,000	11,343	784,000
Zhenlai Farm	15,000	13,487	1,066,667
Kedong Yongjin Farm	12,000	8,121	714,000
Baiquan Ruixincheng Farm	15,000	4,968	994,000
Keshan Farm	12,000	8,931	980,000
Total	90,000	63,644	5,909,000

Milk Yield

During the Year, the average annual milk yield per cow was 9.7 tons, representing a decrease of 1.5% as compared with 9.8 tons in 2017. In the future, the Group will improve its profitability by upgrading and optimizing the cattle mix and improving the feeding formula to achieve scientific and quality management.

Size of Our Herds

Driven by the advanced management model of our farms, the number of dairy cows of the Group's dairy farms increased from 61,207 heads as of 31 December 2017 to 63,644 heads as of 31 December 2018. Among them, the total number of our matured milkable cows increased from 28,244 heads as of 31 December 2017 to 32,425 heads as of 31 December 2018. The increase in number of our matured milkable cows contributed to the steady growth of quality raw milk of the Group.

	31 December 2018	31 December 2017
Number of matured milkable cows	32,425	28,244
Number of heifers and calves	31,219	32,963
Total number of dairy cows	63,644	61,207

Price of Raw Milk

Due to growth in the import of milk powder, the over-supply of raw milk in the upstream market and the impact of the global economic environment, the price of domestic raw milk remained at low levels despite recovery of domestic raw milk prices. During the Year, the Group's average selling price of raw milk was RMB3,896 per ton, slightly higher than last year.

OUTLOOK

The support of preferential policy is particularly critical to the development of the industry. In June 2018, the State Council of the PRC issued the "Opinions on Accelerating the Revitalization of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Products" (hereinafter referred to as the "**Opinions**"), and proposed that the self-satisfaction rate of domestic milk source should be kept at the upper-middle level by 2020. The "Opinions" emphasized the importance of high-quality milk sources, hoping to enhance the core competitiveness of China's dairy industry from the source to compete with foreign brands, and provided a clear direction for the development of China's dairy industry. According to "White Paper: Development of China's Dairy Market in 2019", the total sales of the dairy industry in 2018 amounted to approximately RMB370 billion, up by 3% YOY, indicating healthy and positive development of the overall industry. With the upgrading of consumption and the improvement of household spending power, the domestic dairy industry needs industrial optimization and upgrading urgently to respond to consumers' demand for high-quality milk sources.

While China has a large population, the per capita consumption of dairy products is only one-tenth of that of developed countries in Europe and America, reflecting potential for significant growth in consumption. In 2018, the dairy industry sought growth while maintaining stability, with significant progress made in product quality and safety. Consumers' confidence in domestic dairy products has gradually picked up, and the domestic dairy product market has been developing steadily. In the future, the Group will seize opportunities, take advantage of positive trend optimize industrial structure and enhance product competitiveness using scientific methods, so as to improve our profitability, maintain the Group's sound and positive development momentum, and continue to build on our brand as a high quality cow milk manufacturer in China.

Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng Farm**"), an indirect wholly-owned subsidiary of the Company, is operating a farm in Baiquan County, Qiqihar City, Heilongjiang Province for the production and sale of milk. As at 31 December 2018, Baiquan Ruixincheng Farm had 4,968 dairy cows.

On 25 February 2019, Baiquan Ruixincheng Farm received a notice from the Department of Ecology and Environment of HeiLongJiang Province dated 28 December 2018, which stated that Department of Ecology and Environment of HeiLongJiang Province withdrew the previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm (the "**Withdrawal Decision**"). Without the previous approval given by Department of Ecology and Environment of HeiLongJiang Province, Baiquan Ruixincheng Farm cannot continue the operation of the farm.

On 8 March 2019, Baiquan Ruixincheng Farm received a notice from Heilongjiang Shuangyang River Provincial Nature Reserve Management Office dated 5 March 2019 to request Baiquan Ruixincheng Farm to remove its farm from its current location by the end of June 2020.

Management Discussion and Analysis

Management considered these external sources of information as impairment indicator and recorded an impairment provision of RMB420,694,000 for immovable property, plant and equipment and prepayment for construction and equipment after netting off related government grants as at December 31, 2018. All movable inventories, dairy cows and property, plant and equipment will be transferred to the Group's other farms to continue its operation. In addition, management also accrued additional expenses of RMB15,548,000, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee.

Management has engaged professional advisers to advise on the possible actions to be taken and has appealed to Heilongjiang Province People's Government against the Withdrawal Decision. Depending on the outcome of this appeal, management may also commence administrative proceedings at the People's Court of the PRC in the future.

Our Revenue

During the Year, our total sales of milk produced increased by 8.4% from RMB1,014.1 million for the year ended 31 December 2017 to RMB1,099.5 million. The sales volume reached 282,261 tonnes in 2018, representing an increase of 19,718 tonnes or 7.5% as compared with 262,543 tonnes in 2017. The growth was primarily attributable to the increase in herd size. Our average selling price of raw milk was RMB3,896 per tonne for the Year compared with RMB3,863 per tonne in 2017.

Cost of Sales

Our cost of sales for the Year was RMB846.9 million. The table below summarizes the components of our cost of sales by nature:

	2018 RMB'000	2017 RMB'000
Cost of sales		
Feed	594,360	544,442
Salary, welfare and social insurance	51,811	48,973
Depreciation	66,778	71,875
Veterinary cost	42,541	35,245
Utility	40,672	25,102
Transportation expenses	22,841	–
Other costs	27,917	35,230
Cost of sales, total	846,920	760,867

Feed costs represent the feed consumed by our milkable cows. The feed costs for milkable cows were RMB594.4 million and RMB544.4 million for the years ended 31 December 2018 and 2017, respectively, representing 70.2% and 71.6% of the cost of sales for the respective financial years ended 31 December 2018 and 2017. The increase in our cost of sales was attributable to: i) reclassification of transportation expenses related to sale of raw milk from selling and distribution expenses to cost of sales upon adoption of IFRS 15 and ii) increase of feeding cost.

Gross Profit

Given the above factors, the gross profit decreased to RMB252.6 million for the Year (2017: RMB253.3 million), representing a decrease of 0.3% as compared to that for 2017. Our gross profit margin also decreased from 25.0% in 2017 to 23.0% in 2018.

Other Income

Other income for the Year amounted to RMB25.9 million (2017: RMB43.0 million), representing a decrease of 39.5%. The decrease in other income was mainly attributable to a decrease in interest income from bank deposits.

Selling and Distribution Expenses

All of our selling and distribution expenses were transportation expenses of our raw milk. Our selling and distribution costs were RMB22.8 million for the Year (2017: RMB19.9 million) and it has already been reclassified to cost of sales due to the Group's adoption of IFRS15.

Administrative Expenses

We incurred administrative expenses of RMB69.4 million for the Year (2017: RMB82.7 million) representing a decrease of approximately 16.1% as compared to 2017. The decrease was attributable to: i) decrease of impairment allowance; ii) decrease of exchange losses; iii) decrease of professional service fee; and iv) partially net-off of increase of equity-settled share option expenses.

Other Expenses

Other expenses for the Year amounted to RMB15.7 million (2017: RMB33.0 million). The decrease was primarily attributable to the decrease in the one-off transportation costs of cow dung and non-current assets disposal losses.

Changes in Fair Value Less Costs to Sell of Biological Assets

Changes in fair value less costs to sell of biological assets was a loss of RMB313.5 million for the Year as compared to a loss of RMB228.7 million for 2017. The increase in the loss was principally due to the decrease in the price of the average market price for a heifer of 14 months old, which is one of the key parameters for the computation of the fair value of biological assets.

Impairment Losses and Accrued Expenses Related to Removal of Baiquan Ruixincheng Farm

Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm amounted to RMB436 million for the Year, and there were no such losses or accrued expenses for the year ended 31 December 2017. Details are set out in note 6 to the consolidated financial statements.

Loss for the Year of the Group

Taking into account all of the above factors, the Group's net loss was RMB556.3 million for the Year. This represents an increase of 719.2% from a net loss of RMB67.9 million for the year ended 31 December 2017. Basic loss per share was approximately RMB11.86 cents for the Year (2017: RMB1.46 cents).

Management Discussion and Analysis

FINAL DIVIDEND

The Board has resolved not to recommend payment of a final dividend for the Year (2017: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group's net cash inflow from operating activities amounted to RMB287.6 million, as compared to RMB431.4 million in 2017.

The Group had no bank borrowing during the Year (2017: Nil).

CAPITAL STRUCTURE

As at 31 December 2018, the Company's issued share capital was HK\$46,904,964 divided into 4,690,496,400 shares of HK\$0.01 each (2017: HK\$46,904,964 divided into 4,690,496,400 shares).

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the Year, the principal capital expenditures of the Group were related to construction of new farms and major maintenance and acquisition of additional equipment and cows for its existing dairy farms.

As part of the future strategy of the Group, the Group's planned capital expenditures for its business operations will primarily be related to the construction and commencement of operations of its new dairy farms. The Group anticipates that its capital expenditures will be financed by cash generated from its operations, debt financing or bank loans, the net proceeds from the placing of new shares of the Company (the "**Shares**") under the general mandate from shareholders of the Company (the "**Shareholders**") and the unutilised net proceeds from the issue of new shares under the global offering as set out in the prospectus of the Company dated 14 November 2013 (the "**Prospectus**").

Save as disclosed above and in the Prospectus, there were no significant investments held as at 31 December 2018 nor were there other plans for material investments on capital assets as at the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO") AND PLACING OF NEW SHARES

The issued Shares were initially listed on the main board of the Stock Exchange on 26 November 2013. Gross proceeds raised from the IPO in such connection amounted to approximately HK\$3,298 million, and the net proceeds (after deduction of listing expenses and underwriting commissions, and excluding offer proceeds which were payable to selling shareholders (i.e. not receivable by the Company) amounted to approximately HK\$2,564 million. Up to 31 December 2018, approximately HK\$2,216.2 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the Prospectus, of which as to HK\$1,923.0 million on construction of new farms, as to HK\$256.4 million on working capital and general corporate purpose, and as to HK\$36.8 million on developing upstream operations purpose. The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The Company issued 781,749,400 new Shares at a price of HK\$0.5 per Share pursuant to a placing of Shares completed on 13 January 2017 (the “**Placing**”). The net proceeds from the Placing (after deducting the placing commission payable to the placing agent and other expenses incurred in the Placing) were approximately HK\$384.6 million, which were intended to be used for importing heifers and calves from Australia and New Zealand and general working capital. As at 31 December 2018, about HK\$98.7 million of such net proceeds were used on importing heifers from New Zealand. The entire amount of the remaining net proceeds, being approximately HK\$285.9 million, remained unutilised and is expected to be used as intended.

Such remaining net proceeds were kept in banks and approved financial institutions in Hong Kong, Macau and the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ETC.

During the Year, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

PLEDGE OF ASSETS

As at 31 December 2018, no assets of the Group were pledged as security for bank borrowings.

FOREIGN EXCHANGE EXPOSURE

Certain assets of the Group are denominated in foreign currencies such as the USD and Hong Kong dollars. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients. To manage liquidity risk, the Board closely monitors the Group’s liquidity position to ensure that the liquidity structure of the Group’s assets, liabilities and commitments can meet its funding requirements.

CAPITAL COMMITMENT AND CONTINGENCIES

Capital commitment of the Group as at 31 December 2018 and 2017 were RMB41.4 million and RMB93.6 million, respectively, which were for construction of our new farms and renewal of existing facilities.

The Group did not have any significant contingent liabilities as at 31 December 2018 (2017: Nil).

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 1,506 employees (2017: 1,378 employees), of whom one was located in Hong Kong and all the others were located in the PRC.

The salaries of the Group's employees largely depend on their type and level of work as well as length of service with the Group. They receive social welfare benefits and other benefits including social insurance. As required by the PRC regulations on social insurance, the Group participates in the social insurance schemes operated by the relevant local government authorities, which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, the Group has opened its housing funds accounts and started contributions to housing funds since April 2013.

The Directors and senior management of the Company receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to its operations. The Company regularly reviews and determines the remuneration and compensation packages of the Directors and senior management.

Further, the remuneration committee of the Company reviews and recommends to the Board for consideration and approval of the remuneration and compensation packages of the Directors and senior management by reference to their time commitment and responsibilities, the salaries paid by comparable companies and the performance of the Group.

A share option scheme was adopted by the Company on 7 November 2013 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group.

The Group also provides and arranges on the job training for the employees.

EVENT AFTER REPORTING YEAR

Save as disclosed elsewhere in this report, the Group did not have any material subsequent event after the Year and up to the date of this report.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS (THE “EDs”)

Mr. Zhao Hongliang (趙洪亮)

Mr. Zhao, aged 52, is an ED and the chairman of the Group. He is primarily responsible for the overall strategic development of the Group. He is also a member of the remuneration committee of the board of directors of the Company (the “**Board**” and the “**Remuneration Committee**”, respectively). Mr. Zhao completed his high school education in the People’s Republic of China (the “**PRC**”) in July 1983.

Mr. Zhao is the founder of the Group. He has past experience in raising dairy cows and cattle management in Heilongjiang Province, the PRC. In 1995, he started to invest in various sectors in the PRC including real properties, trading of construction materials and mining. Simultaneously, he had been all along paying close attention to the dairy farming industry in the PRC. In 2008, he was awarded as one of the “Outstanding Private Entrepreneurs”* (優秀民營企業家), and in the following year, he was awarded as one of “Top Ten Outstanding Young Entrepreneurs of the Farming District of Heilongjiang” (黑龍江墾區十大傑出青年企業家). Mr. Zhao has accumulated substantial experience in making investments in the PRC and has maintained a sound financial capability.

In 2008, Mr. Zhao invested in the dairy farming industry in the PRC and as a result, the Company’s first operating entity, namely Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd.* (黑龍江克東瑞信達原生態牧業股份有限公司) (“**YST Heilongjiang**”), was established in September 2008.

Mr. Zhao is a director and the sole shareholder of a controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) of the Company. Mr. Zhao is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Royal Dairy Farm Limited (“**Royal Dairy Farm**”) and Natural Dairy Farm Limited (“**Natural Dairy Farm**”).

Mr. Fu Wenguo (付文國)

Mr. Fu, aged 51, is an ED, the chief executive officer and the general manager of the Group. Mr. Fu is a director of each of the following subsidiaries of our Company: YST Heilongjiang, Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), Kedong Yongjin YuanShengTai Dairy Farm Limited (克東勇進原生態牧業有限公司) Royal Dairy Farm and Natural Dairy Farm. He is primarily responsible for overseeing the overall operations of the Group. He is also a member of the nomination committee of the Board (the “**Nomination Committee**”). Mr. Fu graduated from the Shanghai Light Industry Institute* (上海輕工業專科學校) (now known as The Shanghai Institute Technology* (上海應用技術學院)) in 1989.

Mr. Fu joined the Group in December 2011 and was then in charge of overseeing the overall operations of the Group. Since January 2012, Mr. Fu has been assuming the office of general manager of the Group. He is also a member of the senior management of the Group. Mr. Fu has over 24 years of experience in the dairy farming industry.

Biographical Details of Directors and Senior Management

Mr. Chen Xiangqing (陳祥慶)

Mr. Chen, aged 46, was appointed as an ED and the chief financial officer of the Group on 10 September 2015. Mr. Chen was employed by Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司) from April 2003 to June 2012, and had assumed various offices including the accounts manager, finance manager and internal control manager, respectively.

Mr. Chen graduated from Heilongjiang Bayi Agricultural University (黑龍江八一農墾大學) in July 1996, majoring in agricultural economy management. He is a holder of the certificate of accounting professional in the PRC. He has been accredited as a certified internal auditor by The Institute of Internal Auditors since November 2010.

Mr. Chen joined the Group in December 2012 as the head of finance department of the Group, in which he was responsible for over seeing the financial and auditing matters of the Group. Mr. Chen is a director of each of the following subsidiaries of our Company: Royal Dairy Farm and Natural Dairy Farm. Mr. Chen has more than 15 years' working experience in the domestic raw milk industry of the PRC.

Mr. Liu Gang (劉剛)

Mr. Liu, aged 45, was appointed as an ED on 25 June 2018. Mr. Liu joined the Group in January 2012 and was appointed as one of the Company's joint company secretaries (the "**Joint Company Secretaries**") and authorized representatives of the Company in 7 November 2013 and subsequently appointed as the Company's sole company secretary (the "**Company Secretary**") on 5 April 2017. Following his appointment as an ED on 25 June 2018, he resigned as the Company Secretary on the same date. Mr. Liu is a director of each of the following subsidiaries of our Company: Royal Dairy Farm and Natural Dairy Farm. Prior to joining our Group, Mr. Liu had accumulated about 8 years of experience in the investment sector. Mr. Liu was awarded a bachelor's degree in automation, majoring in measuring and control technology and instrumentations, by the Yanshan University* (燕山大學) in the PRC in July 1999.

NON-EXECUTIVE DIRECTOR (THE "NED")

Mr. Lau Ho Fung (劉浩峰)

Mr. Lau, aged 37, was appointed as a NED on 30 April 2013. Mr. Lau is a director of Royal Dairy Farm and Natural Dairy Farm. Mr. Lau is a Vice President – Private Equities of VMS Investment Group where he is mainly engaged in deal screening, due diligence and execution of private equities transactions in the greater China region. He has been a Chartered Financial Analyst charter-holder since 2009 and received a bachelor's degree in information system and software engineering from the University of Hong Kong in 2005. Mr. Lau has around ten years of experience in the private equities and asset management industries. Prior to joining VMS Investment Group, he worked as a research analyst trainee at Phoenix Capital Asia Limited during October 2005 and October 2006 and received training on a broad range of fundamental analysis. From November 2006 to May 2010, Mr. Lau worked at Tempus Investment Group where he joined as an assistant analyst and was later promoted to a research analyst. During that period, Mr. Lau's responsibilities included conducting industry and company analyses in Hong Kong and China markets and recommending investments.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (THE “INEDs”)

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)

Mr. Meng, aged 41, was appointed as an INED on 28 September 2018. He is the chairman of the audit committee of the Board (the “**Audit Committee**”) and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Meng was awarded a bachelor’s degree in Economics, majoring business administration, and a bachelor’s degree in Accounting by the Beijing Technology and Business University* (北京工商大學) in June 2001 and May 2001, respectively.

Mr. Meng has served as an independent director of each of China Customer Relations Centers Inc. (stock symbol: CCRC) and TDH HOLDINGS, INC. (stock symbol: PETZ), both companies being listed on Nasdaq, since September 2014 and February 2019, respectively. Since 2013, Mr. Meng has been the managing director of Beijing Songlin Xinya Financial Consultants, Ltd. From 2007 through 2013, Mr. Meng served as chief representative of Sherb Consulting LLC Beijing Representative Office, and managing director of Sherb & Co, LLP. From 2003 through 2006, Mr. Meng worked as an audit manager for Grant Thornton Beijing. Mr. Meng is a member of The Chinese Institute of Certified Public Accountants (CICPA) and holds a C.P.A. Permit from the State of Delaware in the United States of America, and a Certified Internal Auditor (CIA) of The Institute of Internal Auditors.

Mr. Zhang Yuezhou (張月周)

Mr. Zhang, aged 55, was appointed as an INED on 7 November 2013. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Currently, Mr. Zhang is engaged in the provision of dairy farm management consultancy services in the PRC. He was awarded a bachelor’s degree in animal husbandry in July 1987 and a master’s degree in agricultural extension in 2006 by the Nanjing Agricultural University (南京農業大學). Mr. Zhang obtained the qualification of an animal husbandry expert in the PRC in May 1995. Mr. Zhang has over 20 years of experience in the dairy products industry and since March 2010, he has been the general manager of Shanghai Yuanfan Farming Technology Co. Ltd.* (上海源凡牧業科技有限公司), responsible for overseeing its overall operations.

Mr. Zhu Zhanbo (朱戰波)

Mr. Zhu, aged 49, was appointed as an INED with effect from 7 November 2013. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Mr. Zhu has 20 years’ experience in teaching and scientific research. He graduated from the Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學) in veterinary science in July 1993, and obtained a master’s degree from the Department of Animal Science and Technology of the same university in July 2004. He further obtained a doctorate from the Jilin University (吉林大學) in July 2012.

By profession, he is a university professor. Mr. Zhu started his full-time work in July 1993. Since then, he has served as a working staff at Heilongjiang Bayi Agricultural University* (黑龍江八一農墾大學).

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

In addition to Mr. Zhao Hongliang, Mr. Fu Wenguo, Mr. Chen Xiangqing and Mr. Liu Gang, all being EDs, the following individuals are also members of the senior management of the Group:

Mr. Wang Yongxin (王永信)

Mr. Wang, aged 41, is the deputy general manager of the Group. Currently, he is primarily responsible for the health care of cattle of the Company's farms and production and operations management of the Group. He graduated from the Southwest Agricultural University* (西南農業大學) in veterinarian science in 2001. He also obtained a certificate of middle-level veterinary in 2006.

Mr. Wang joined the Group in December 2009 and was then in charge of the supervision and overall management of the Company's Kedong YST Farm. Mr. Wang has over 12 years of experience in the dairy farming industry. During his employment with the Group, Mr. Wang has assumed the following offices and has been in charge of the functions mentioned below:

Period of Time	Office	Principal functions
December 2009 to March 2012	Head of farm	Supervision and overall management of Kedong YST Farm
From March 2012 onwards	Deputy general manager	Monitoring the health of cattle and production and operations management of the operating subsidiaries of the Company

BIOGRAPHICAL DETAILS OF COMPANY SECRETARY

Ms. Song Miao (宋淼)

Ms. Song was appointed as one of the Joint Company Secretaries on 25 June 2018. She joined the Group in 2011 and is currently the Director of Investor Relations primarily responsible for financial reporting and investor relations of the Group and has been involved in, among others, financial reporting matters and the preparation of the Company's regulatory announcements, interim/annual reports and circulars. Prior to joining our Group, Ms. Song had 3 years of experience in investment and listing advisory services. She received her bachelor of engineering degree from Harbin University of Science and Technology in the PRC in July 1998 and a master of business administration degree from Renmin University in the PRC in July 2005.

Mr. Kwok Siu Man (郭兆文)

Mr. Kwok acted as one of the Joint Company Secretaries for the period from 7 November 2013 to 4 April 2017 and was re-appointed as one of the Joint Company Secretaries on 25 June 2018. He has over 30 years of legal, corporate secretarial and management experience. He is an executive director and the Head of Corporate Secretarial of Boardroom Corporate Services (HK) Limited and a director of Boardroom Share Registrars (HK) Limited. From January 2011 to March 2013, Mr. Kwok was the group company secretary of the Lai Sun group comprising, amongst others, Lai Sun Garment (International) Limited (stock code: 191), Lai Sun Development Company Limited (stock code: 488), eSun Holdings Limited (stock code: 571), Lai Fung Holdings Limited (stock code: 1125) and Media Asia Group Holdings Limited (stock code: 8075), and the company secretary of Crocodile Garments Limited (stock code: 122) concurrently. All these companies are listed on the Main Board and GEM of the Stock Exchange, respectively. Mr. Kwok was also an independent non-executive director of Grand Ocean Advanced Resources Company Limited (stock code: 65), a company listed on the Main Board of the Stock Exchange, from February 2015 to February 2016. Since 30 June 2017, he has been an independent non-executive director of Tak Lee Machinery Holdings Limited (stock code: 8142), a company listed on GEM of the Stock Exchange and is currently an executive committee member of Federation of Share Registrars Limited.

Mr. Kwok obtained a professional diploma in company secretaryship and administration and a bachelor's degree of arts from the Hong Kong Polytechnic University in November 1983 and November 1994, respectively and a post-graduate diploma in laws from the Manchester Metropolitan University in the UK in 1998. He passed the Common Professional Examinations in England and Wales in July 1998. Mr. Kwok was admitted as a fellow member of each of the Institute of Chartered Secretaries and Administrators in the UK (the "ICSA"), the Hong Kong Institute of Chartered Secretaries (the "HKICS") and the Institute of Financial Accountants in the UK in 1990, 1994 and 1996, respectively. He has also been a fellow member of the Association of Hong Kong Accountants, The Hong Kong Institute of Directors and the Institute of Public Accountants in Australia since June 2014, July 2014 and April 2015, respectively. He was admitted as a Chartered Governance Professional of both the ICSA and HKICS in September 2018. Mr. Kwok was the longest-serving elected council member and a chief examiner of the HKICS. Further, he was named in the "International WHO'S WHO of Professionals" in 1999.

Mr. Kwok is not an individual employee of the Company, but acts as an external service provider. The Company has nominated Ms. Song as its contact point for Mr. Kwok in respect of the company secretarial matters.

* Denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to the Company's shareholders (the "**Shareholders**") and protecting and enhancing shareholder value through good corporate governance.

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "**Directors**" and the "**Board**", respectively) and its management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the businesses of the Company and its subsidiaries (the "**Group**") in a transparent and responsible manner and following good corporate governance practices serve the long-term interests of the Group and those of the Shareholders. The Board considers that the Company complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Rules**", respectively) during the year ended 31 December 2018 (the "**Year**").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct for dealing in securities of the Company by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code during the Year.

BOARD OF DIRECTORS

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to formulating the Group's business plans and strategies, reviewing the Company's financial results and performance and approving its interim and annual results; approving the appointment, removal or reappointment of the Board members upon the recommendation of the nomination committee of the Board (the "**Nomination Committee**"); approving the remuneration package of the Directors and senior management of the Company upon the recommendation of the remuneration committee established by the Board (the "**Remuneration Committee**"), deciding all significant financial (including major capital expenditure) and operational issues, developing, monitoring and reviewing the Group's corporate governance, risk management and internal control, and all other functions reserved to the Board under the Company's bye-laws (the "**Bye-Laws**"). The Board may from time to time delegate certain functions to the senior management of the Group if and when considered appropriate. The senior management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang (*Chairman*)
Mr. Fu Wenguo (*Chief Executive Officer*)
Mr. Chen Xiangqing (*Chief Financial Officer*)
Mr. Liu Gang (*appointed with effect from 25 June 2018*)
Mr. Wang Shaogang (*Vice-chairman*) (*resigned with effect from 25 June 2018*)

Non-executive Director

Mr. Lau Ho Fung

Independent non-executive Directors (the “INEDs”)

Mr. Zhang Yuezhou
Mr. Zhu Zhanbo
Mr. Meng Jingzong (alias Owens Meng) (*appointed with effect from 28 September 2018*)
Mr. Wu Chi Keung (*resigned with effect from 28 September 2018*)

The biographical details of each of the current Directors are set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report. There was no financial, business, family or other material relationship among the Directors.

The four Executive Directors are responsible for the leadership and control of the Company and overseeing the Group’s businesses, strategic decisions and performances and are collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Non-Executive Director participate in Board meetings to bring in an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts and scrutinize the Company’s performance in achieving agreed corporate goals and objectives.

The three INEDs are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as providing a balance in the Board in order to effectively exercise independent judgment on the corporate actions of the Company so as to protect Shareholders’ interests and the overall interests of the Group.

Throughout the Year, the Company had three INEDs and at all times met the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members and at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

Each of the INEDs has made an annual written confirmation of independence by reference to Rule 3.13 of the Listing Rules and the Board is satisfied that all the INEDs were independent and met the independence guide lines set out in the above Rule 3.13.

Corporate Governance Report

Directors' Induction and Continuing Professional Development

Each newly appointed Director received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure a proper understanding of the Company's operations and business and full awareness of the Director's responsibilities under the statutes and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

The Company has from time to time provided briefings to all Directors to develop and refresh the Directors' duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors have been required to provide the Company with their training records.

During the Year, all Directors attended briefings by certain professional advisers and/or participated in continuous professional development courses organized by professional bodies/firms on corporate governance or updates on laws, rules and regulations relating to the roles, functions and duties of a Director to develop and refresh their knowledge and skills.

The individual record of each Director who received training for the Year is summarised as follows:

Directors	Type of CPD
Executive Directors	
Mr. Zhao Hongliang	B
Mr. Fu Wenguo	B
Mr. Chen Xiangqing	B
Mr. Liu Gang (<i>appointed with effect from 25 June 2018</i>)	B
Mr. Wang Shaogang (<i>resigned with effect from 25 June 2018</i>)	B
Non-executive Director	
Mr. Lau Ho Fung	B
INEDs	
Mr. Zhang Yuezhou	B
Mr. Zhu Zhanbo	B
Mr. Meng Jingzong (<i>alias Owens Meng</i>) (<i>appointed with effect from 28 September 2018</i>)	B
Mr. Wu Chi Keung (<i>resigned with effect from 28 September 2018</i>)	A & B

Notes:

- A: attending seminars/forums/workshops/conferences relevant to the Group's business or directors' duties
- B: reading seminars materials and studying regulatory updates on laws, rules and regulations relating to directors' roles and functions

Meetings of Board and Board Committees and Directors' Attendance Records

The Board is scheduled to meet four times a year at approximately quarterly intervals with notice given to the Board members at least 14 days in advance. For additional Board meetings which require discussion and resolution of significant issues arising during the operation of the Company, notice is given in a reasonable time in advance. Before each Board meeting, a draft agenda is sent out to all Directors at least three days or such other period as agreed in advance in order to allow the Directors to include any other matters in the agenda that is required for discussion and resolution in the meeting. To enable the Directors to make informed decisions, Board papers together with all appropriate and relevant information in relation to the matters of the meeting are sent to all Directors three days or such other period as agreed before each Board meeting. The company secretary of the Company (the “**Company Secretary**”) is responsible for keeping all Board meetings minutes. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version thereof is open for the Directors' inspection. According to the Listing Rules, any Directors and their close associates (as defined under the Listing Rules) with a material interest in the transactions to be discussed in the Board meetings will abstain from voting on the resolutions approving such transactions and will not be counted in the quorum for the meetings.

Directors' Competing Business

Each of Mr. Zhao Hongliang, (being the chairman of the Board (the “**Chairman**”) and an executive Director), Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the “**Controlling Shareholders**”) executed a deed of non-compete and other undertakings (the “**Non-compete Undertakings**”) in favour of the Company (for itself and for the benefit of its subsidiaries) on 7 November 2013, pursuant to which each of the Controlling Shareholders has undertaken not to engage in, or be interested in any business which, directly or indirectly, competes or may compete with the Group's business. In order to properly manage any potential or actual conflict of interests between the Company and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertakings, the Company has adopted the following measures:

- (a) all INEDs will review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-compete Undertakings by the Controlling Shareholders;
- (b) the Company will disclose any decisions on matters reviewed by the INEDs relating to the compliance with and enforcement of the Non-compete Undertakings by the Controlling Shareholders either through the annual report or by way of announcement;
- (c) the Company will disclose in the corporate governance report of its annual report on how the terms of the Non-compete Undertakings have been complied with and enforced; and
- (d) in the event that any of the Directors and/or the irrelative associates has a material interest in any matter to be deliberated by the Board in relation to the compliance with and enforcement of the Non-compete Undertakings, he may not vote on the resolutions of the Board approving the matter and will not be counted in the quorum for the voting pursuant to the applicable provisions of the Bye-laws.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

Corporate Governance Report

During the Year, five Board meetings and one annual general meeting (the “**AGM**”) were held. Details of the attendance of the Directors are as follows:

Directors	Attendance of Board meetings	AGM
Executive Directors		
Mr. Zhao Hongliang	5/5	1/1
Mr. Wang Shaogang (<i>resigned with effect from 25 June 2018</i>) ^(Note 3)	2/2	1/1*
Mr. Fu Wenguo	5/5	1/1*
Mr. Chen Xiangqing	5/5	1/1
Mr. Liu Gang (<i>appointed with effect from 25 June 2018</i>) ^(Note 3)	3/3	N/A
Non-executive Director		
Mr. Lau Ho Fung	3/5	0/1
INEDs		
Mr. Wu Chi Keung (<i>resigned with effect from 28 September 2018</i>) ^(Note 3)	4/4	1/1*
Mr. Zhang Yuezhou	4/5	1/1*
Mr. Zhu Zhanbo	4/5	1/1*
Mr. Meng Jingzong (alias Owens Meng) (<i>appointed with effect from 28 September 2018</i>) ^(Note 3)	1/1	N/A

Notes:

- * The Directors participated in AGM via teleconferencing.
- During the Year, the Board had circulated and passed written resolutions on five occasions, which were dated 25 June 2018, 3 July 2018, 1 August 2018, 28 September 2018 and 29 December 2018, respectively, in addition to the physical Board meetings stated above.
- The directors resigned or was appointed during the Year. The attendances of such directors are stated with reference to the number of meetings held during his tenure.

Board Diversity Policy

The Board has adopted a board diversity policy (the “**Board Diversity Policy**”) on 7 November 2013 and discussed all measurable objectives set for implementing the same.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of a diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made up on the merits and contribution that the selected candidates will bring to the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are separated and assumed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one member of the Board. Mr. Zhao Hongliang, the Chairman, is responsible for overseeing the functions of the Board while Mr. Fu Wenguo, the Chief Executive Officer, is responsible for managing the Group's business and overall operations. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

BOARD COMMITTEES

The Board has established, with written terms of reference, three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference for each Board committee are in line with the Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.

Audit Committee

The Board has established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises all the three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo. Mr. Meng is the chairman of the Audit Committee. The terms of reference of the Audit Committee were revised and adopted on 29 December 2018 with effect from 1 January 2019.

The principal responsibilities of the Audit Committee include, among others:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and other terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards;
- discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and ensuring co-ordination where more than one audit firm is engaged before the audit commences;
- developing and implementing a policy on engaging an external auditor to supply non-audit services and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- monitoring the integrity of the Company's financial statements and annual report, interim report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them;

Corporate Governance Report

- reviewing the Company's financial controls, and unless expressly addressed by a separate risk committee or the Board itself, reviewing the Company's risk management and internal control systems;
- discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- ensuring co-ordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group's financial and accounting policies and practices;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
- considering other topics as defined by the Board.

For the Year, the Audit Committee held three meetings to review and supervise the financial reporting process and review the risk management and internal control systems of the Group. It had, in conjunction with Ernst & Young, the independent auditor of the Company, reviewed the Group's audited results for the year ended 31 December 2017 and unaudited interim results for the six months ended 30 June 2018 and recommended the same to the Board for their consideration and approval. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The Audit Committee also carried out and discharged its other duties as set out in the CG Code.

Details of the attendance of the Audit Committee meetings are as follows:

Members	Attendance
Mr. Wu Chi Keung (<i>Chairman</i>) (<i>resigned with effect from 28 September 2018</i>) (<i>Note 1</i>)	2/2
Mr. Meng Jingzong (alias Owens Meng) (<i>Chairman</i>) (<i>appointed with effect from 28 September 2018</i>) (<i>Note 1</i>)	1/1
Mr. Zhang Yuezhou	2/3
Mr. Zhu Zhanbo	2/3

Note:

The Audit Committee met on 29 March 2019 and, among other matters, reviewed the Group's audited consolidated results for the Year.

The directors resigned or was appointed during the year. The attendance of such directors are stated with reference to the number of meetings held during his tenure.

Remuneration Committee

The Board has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Zhang Yuezhou and Mr. Zhu Zhanbo and an executive Director, namely Mr. Zhao Hongliang. Mr. Zhang Yuezhou is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include, among others:

- making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing a remuneration policy;
- reviewing and approving the management's remuneration proposals by reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and such packages include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of the non-executive Directors;
- considering salaries paid by comparable companies, time commitment, responsibilities and employment conditions else wherein the Group;
- reviewing and approving compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of the Directors for misconduct to ensure that they are consistent with the contractual terms and are otherwise reasonable and appropriate;
- ensuring that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration; and
- consulting the Chairman and/or Chief Executive Officer (where applicable) about their remuneration proposals for other executive Directors.

During the Year, the Remuneration Committee held two meetings and reviewed the remuneration packages of all the Directors, and made recommendations to the Board on the remuneration proposal for all Directors.

Corporate Governance Report

Details of the attendance of the Remuneration Committee meetings are as follows:

Members	Attendance
Mr. Zhang Yuezhou (<i>Chairman</i>)	2/2
Mr. Wu Chi Keung (<i>resigned with effect from 28 September 2018</i>)	2/2
Mr. Meng Jingzong (alias Owens Meng) (<i>appointed with effect from 28 September 2018</i>)	0/0
Mr. Zhu Zhanbo	2/2
Mr. Zhao Hongliang	2/2

Note:

During the Year, the Remuneration Committee had circulated and passed written resolutions on three occasions, which were dated 25 June 2018, 3 July 2018, and 28 September 2018, respectively, apart from the physical Remuneration Committee meetings stated above.

The Remuneration Committee met on 29 March 2019 and considered certain remuneration-related matters of the Directors and senior management.

Nomination Committee

The Board has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee comprises three INEDs, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo and an executive Director, namely Mr. Fu Wenguo. Mr. Zhu Zhanbo is the chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee include, among others:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships in accordance with the nomination policy of the Company (the "**Nomination Policy**"), details of which was set out in this report;
- assessing the independence of the INEDs;
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that the Board has set for implementing such policy, and the progress on achieving the objectives; and making disclosure of its review results in the corporate governance report contained in the Company's annual report; and
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for the Directors, in particular, the Chairman and the chief executives.

During the Year, the Nomination Committee held one meeting and, among other matters, (i) reviewed the structure, size and composition of the Board; and (ii) assessed the independence of the INEDs.

Details of the attendance of the Nomination Committee meetings are as follows:

Members	Attendance
Mr. Zhu Zhanbo (<i>Chairman</i>)	1/1
Mr. Wu Chi Keung (<i>resigned on 28 September 2018</i>)	1/1
Mr. Meng Jingzong (alias Owens Meng) (<i>appointed on 28 September 2018</i>)	0/0
Mr. Zhang Yuezhou	1/1
Mr. Fu Wenguo	1/1

Note:

During the Year, the Nomination Committee had circulated and passed written resolutions on two occasions, which were dated 25 June 2018 and 28 September 2018, respectively, apart from the physical Nomination Committee meeting stated above.

The Nomination Committee met on 29 March 2019 and, based on the Nomination Policy, recommended the re-appointment of all the retiring Directors at the forthcoming AGM.

Nomination Policy

The key objectives of the Nomination Policy shall inter-alia include the following:

- to guide the Board in relation to appointment/re-appointment/removal of directors of the Company;
- to devise criteria for performance evaluation of the independent non-executive directors of the Company and the Board as a whole; and
- to devise a policy on the size and composition of the Board taking into account the available and needed diversity and balance in terms of experience, knowledge, skills and judgment of the directors.

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to the criteria, including but not limited to the following (collectively, the “**Criteria**”):

- Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- Commitment for responsibilities of the Board in respect of available time and relevant interest;
- Qualifications, both academic and professional, including accomplishment and experience in the relevant industries in which the Company’s business is involved;
- Independence;
- Reputation for integrity;
- Potential contributions that the individual can bring to the Board; and
- Plan(s) in place for the orderly succession of the Board.

Corporate Governance Report

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

- The Nomination Committee will, giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- The Nomination Committee may consult any source it considers appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from a third party agency firm and proposals from shareholders of the Company with due consideration given to the Criteria;
- The Nomination Committee may adopt any process it considers appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third party reference checks;
- The Nomination Committee will consider a broad range of candidates who are in and outside of the Board's circle of contacts;
- Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate;
- The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and where an on-executive Director is considered, the Remuneration Committee will make the recommendation to the Board on the proposed remuneration package;
- The Board may arrange for the selected candidate to be interviewed by the members of the Board who are not members of the Nomination Committee and the Board will thereafter deliberate and decide the appointment as the case may be; and
- All appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.

Board's Corporate Governance Functions

The Board is responsible for performing the corporate governance functions of the Company as set out in code provision D.3.1 of the CG Code. The Board has reviewed this corporate governance report in discharge of its corporate governance functions, ensuring compliance with the Listing Rules.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company, pursuant to which Messrs. Zhao Hongliang and Fu Wenguo agreed to act as executive Directors for a further term of three years with effect from 1 November 2016, Mr. Chen Xiangqing and Mr. Liu Gang agreed to act as executive Directors for a term of three years with effect from 10 September 2018 and 25 June 2018, respectively.

Non-executive Director has been appointed for a further term of three years with effect from 1 November 2016.

Each of the INEDs except Mr. Meng Jingzong (alias Owens Meng) has been appointed for a further term of three years with effect from 7 November 2016 while Mr. Meng Jingzong (alias Owens Meng) has been appointed for an initial term of three years with effect from 28 September 2018.

Save as disclosed aforesaid, none of the Directors has or is proposed to have a service contract or letter of appointment with the Company or any of its subsidiaries other than the contracts or letters of appointment expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

All the Directors, including the INEDs, are subject to retirement by rotation and eligible for re-election in accordance with the Bye-Laws. At each AGM, one-third of the Directors for the time being (or if their number is not three (3) or a multiple of three (3), then the number nearest to but not exceeding one-third (1/3)), will retire from office by rotation provided that every Director will be subject to retirement at least once every three (3) years. A retiring Director will be eligible for re-election and will continue to act as a Director throughout the meeting at which he retires. The Company at the general meeting at which a Director retires may fill the vacated office. The Directors to retire by rotation will include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire will be those who have been the longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire will (unless they otherwise agree among themselves) be determined by lot.

The Bye-Laws further provide that the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed will hold office only until the next following AGM and will then be eligible for re-election at the meeting but will not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

Any Director appointed by the Board to fill a casual vacancy will hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board will hold office only until the next following AGM and will then be eligible for re-election.

Corporate Governance Report

Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for the Year are set out in note 8 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors and Senior Management" in this annual report for the Year by band is set out below:

	2018 Number of employees	2017 Number of employees
Nil to HKD1,000,000	–	1
HKD1,000,001 to HKD1,500,000	1	1
	1	2

INDEPENDENT AUDITOR'S REMUNERATION

For the Year, the fees charged by Ernst & Young in respect of the audit and non-audit (primarily review of interim financial information and report on continuing connected transactions) services provided to the Group for the Year amounted to approximate RMB1,950,000 and RMB450,000, respectively.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements for the Year, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and are properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated its reporting responsibility in the independent auditor's report of the Company's consolidated financial statements for the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility for maintaining an adequate and effective risk management and internal control systems of the Group and reviewing their effectiveness. The Company has an established risk framework under which it identifies risks relevant to the operations and activities of the Group, and assesses these risks in relation to their likelihood and potential impacts. Procedures have been setup for, inter alia, safe guarding assets against unauthorised use or disposition, maintaining proper accounting records and ensuring reliability of financial information, ensuring compliance with relevant legislation and regulations and protecting the interests of the Shareholders. Such systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and aims to provide a reasonable, as opposed to an absolute assurance against material misstatement or loss. Under our framework, management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems, while the Board and the Audit Committee oversee the actions of management and monitor the effectiveness of these systems and to safeguard the Group's assets. This risk management and internal control framework (which include financial, operational and compliance controls) is reviewed annually by the Audit Committee on behalf of the Board.

In order to maintain sound and effective risk management and internal control systems, the Company has established and maintained stringent internal control procedures including the adoption of a corporate governance manual. Internal reporting guidelines have been developed at all department levels of the Company for identifying potential events of non-compliance, and all employees have been encouraged by management to report promptly any potential or actual non-compliance. The Internal Audit Department has been established to carry out annual risk assessment on each audit area and devise a yearly audit plan according to their risk ratings. The Internal Legal Department of the Group is also responsible for coordinating ongoing trainings for the staff by selecting and recommending suitable courses for the Directors, the management level and other employees of the Group. Periodic review of the Company's human resources policies has also been carried out to ensure sufficient manpower for the implementation of internal control measures. The Board has regularly evaluated the internal control procedures in order to prevent and detect any internal control procedural errors.

During the Year, the Company had in place renewed manuals for its risk management system, safety management system, human resources management system and work injury management system. In particular, the internal control department identified the major risks in connection with the information system, the management of construction-in-progress, the procurement process and the management of biological assets. Relevant sampling inspections were conducted and no material deficiencies were identified in the management as well as execution process.

The Company has also enhanced its internal communication system, ensuring policies formulated by the Board and the management would be effectively communicated to the relevant employees for execution. Internal communication between employees and the management has also been enhanced through conducting weekly or monthly meetings. Employees are encouraged to report potential fraud and suspicious circumstances relating to internal control failure to the management, which would be handled and investigated by a special audit team of the internal audit department, and relevant findings would be communicated to the whistleblower. Reward and management system is in place to encourage employees to streamline the production process and reduce costs. Responsibilities of employees and their internal control responsibilities are communicated through performance management system and face-to-face meetings.

Disclosure of Inside Information

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has strictly prohibited unauthorized use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the company secretary/joint company secretaries and investor relations officers are authorized to communicate with parties outside the Group.

Corporate Governance Report

In respect of the Year, the Company has carried out a review of, and the Board has received a confirmation from the management on, the effectiveness of the risk management and internal control systems of the Group and no significant areas of concern were identified. The Directors are of the view that the systems of internal control and risk management are effective and adequate and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness or adequacy of the Group's risk management and internal control systems.

JOINT COMPANY SECRETARIES

The Company appointed Mr. Liu Gang (“**Mr. Liu**”) as one of the joint company secretaries of the Company (the “**Joint Company Secretaries**”) for the period from 7 November 2013 to 4 April 2017. Mr. Liu then served as the Company Secretary with effect from 5 April 2017. Mr. Liu joined the Group in January 2012 with sound understanding of the operations of the Board and the Company. He had been closely involved in the preparation of the initial listing of the Company's shares on the Main Board of the Stock Exchange on 26 November 2013 and, hence, was familiar with the legal and the Listing Rules' requirements applicable to the Group.

On 25 June 2018, Mr. Liu resigned as the Company Secretary following his appointment as executive Director with effect from the same day. The Company has appointed Ms. Song Miao (“**Ms. Song**”) and Mr. Kwok Siu Man (“**Mr. Kwok**”) as the Joint Company Secretaries with effect from 25 June 2018. Details for the above change are set out in the Company's announcement published on 25 June 2018.

Given the important role of the Company Secretary in the corporate governance of the Company, particularly in assisting the Company as well as the Directors in complying with the Listing Rules and other relevant laws and regulations, the Company appointed Mr. Kwok, who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as the other Joint Company Secretary to work closely with and provide assistance to Ms. Song in discharge of the latter's duties and responsibilities as a Joint Company Secretary. Mr. Kwok was nominated by Boardroom Corporate Services (HK) Limited (“**Boardroom**”) to assume such office and Boardroom has been providing certain corporate secretarial services to the Company pursuant to an engagement letter entered into between the Company and Boardroom. The primary person at the Company with whom Mr. Kwok has been contacting in respect of company secretarial matters is Ms. Song who is currently also the Director of Investor Relations.

As Mr. Kwok was first appointed as the company secretary of a Hong Kong Hang Seng Index constituent stock company in 1991 and has been acting in such capacity for a number of other reputable companies listed on the Stock Exchange at a substantial amount of time since then, he was not required to have at least 15 hours of relevant continuous professional development training under the Listing Rules for each of the five consecutive years from 2012.

During the Year, Mr. Liu and Ms. Song have received relevant professional training and Mr. Kwok has undertaken 15 hours of such training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene a Special General Meeting ("SGM")

Shareholders who hold not less than 10% of the paid-up capital of the Company as at the date of depositing the requisition can convene a SGM by serving a written requisition notice to the Board or the Company Secretary for the purpose of requesting for convening a SGM. The written requisition shall be deposited to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong and to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda for the attention of the Board or the Company Secretary.

If the requisition is well-founded, the Board will, according to the applicable rules and regulations, issue sufficient notice to all Shareholders for convening the SGM. If the requisition is improper, the Company will notify the relevant requesting Shareholders of the objection and no SGM will be convened.

Procedures for Shareholders to Send Enquires to the Board

Shareholders can forward their questions about shareholding, share transfer/registration and dividend payment to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited whose contact particulars are as follows:

Email address:	hkinfo@computershare.com.hk
Address:	Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
Tel. No.:	(852) 2862 8555
Fax. No.:	(852) 2865 0990/2529 6087

For enquiries about the Company's information, Shareholders can contact Ms. Song, a Joint Company Secretary, whose contact particulars are as follows:

Email address:	songmiao@ystdfarm.com
Fax. No.:	(86) 1064363988

or direct the enquiries to the Company's principal place of business in Hong Kong located at 31/F, 148 Electric Road, North Point, Hong Kong for the attention of the Board.

To put forward proposals at an AGM or a SGM, the Shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Company's registered office.

The request will be verified with the Company's branch share registrar in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

Corporate Governance Report

Moreover, the notice period concerning the notice to be given to all the Shareholders for consideration of the proposals submitted by the Shareholders concerned varies as follows pursuant to bye-law 66 of the Bye-laws:

- (a) for an AGM, it shall be called by not less than twenty-one (21) clear days' notice and not less than twenty (20) clear business days;
- (b) for any SGM at which the passing of a special resolution is to be considered, it shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days; and
- (c) for all other SGMs, they may be called by not less than fourteen (14) clear days' notice and not less than ten (10) clear business days.

Procedures for Shareholders to Propose a Person for Election as a Director

Shareholders can propose a person for election as a Director at a general meeting in accordance with bye-law 111 of the Bye-Laws. By doing so, the Shareholder should deposit (i) a written notice (the "**Proposal Notice**") of the intention to propose the person (the "**Candidate**") for election as a Director; and (ii) a written notice (the "**Consent Notice**") by the Candidate of his/her willingness to be elected at the address of the Company's (a) principal place of business in Hong Kong or (b) Hong Kong branch share registrar and transfer office mentioned above at least seven (7) clear days before the date of the general meeting and the period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and shall be at least seven (7) clear days in length.

The Proposal Notice (i) must be accompanied by the information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Shareholder proposing the Candidate for election as a Director.

The Consent Notice (i) must indicate the Candidate's willingness to be elected and consent of the publication of his/her information as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the Candidate.

In order to allow the Shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, those Shareholders who wish to make the proposal are urged to submit and lodge the Proposal Notice and the Consent Notice as early as practicable.

To enable the Shareholders to make an informed decision on the relevant election proposal at a general meeting, the Company shall publish an announcement or issue a supplemental circular as soon as practicable after the receipt of the Proposal Notice and the Consent Notice. The Company shall include particulars of the Candidate in the announcement or the supplemental circular. The Company shall assess whether or not it is necessary to adjourn the meeting to give Shareholders at least ten (10) business days to consider the relevant information disclosed in the announcement or the supplemental circular.

The relevant procedures are available on the respective websites of the Company at www.ystdfarm.com and www.ystdairyfarm.com.

For the purpose of the section headed "Shareholders' Rights" in this report, a business day shall mean any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which the Stock Exchange is open for the business of dealing in securities.

COMMUNICATION WITH SHAREHOLDERS

The Company adopted a shareholders' communication policy on 7 November 2013 with the objective of ensuring that both individual and institutional Shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), for the purpose of enabling the Shareholders to exercise their rights in an informed manner, and to allow them and the investment community to engage actively with the Company.

Information about the Company will be communicated to the Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), AGMs and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications on the respective websites of the Stock Exchange and the Company.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the Year.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its memorandum of association and Bye-Laws on the respective websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

INTRODUCTION

Scope of this Report

This report is prepared in accordance with the Environmental, Social and Governance (“**ESG**”) Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It aims to provide a balanced representation of the efforts made by the Company and its subsidiaries (the “**Group**”) on corporate social responsibility and covers the Group’s operation in the production and sale of raw milk for the year ended 31 December 2018 (the “**Year**”). There are no significant change in the scope of this report from that of the environment, social and governance report for the year ended 31 December 2017.

ESG Working Group

To demonstrate our commitment to transparency and accountability, the Company has established an ESG working group, which has clear terms of reference that set out the powers delegated to it by the Board of Directors.

Corporate Social Responsibility (“**CSR**”) Vision, Policy and Strategy

The Group adopted a CSR Policy in order to commit to the highest standards of corporate governance, and aims to integrate CSR into the Group’s business strategy and management approach.

CSR is viewed as a business philosophy that creates shared sustainable value with its stakeholders in the economic, social and environmental dimensions. The Group’s CSR vision and CSR Policy guide the Group’s business and operational decisions to take into account its responsibility to the CSR cornerstones with pragmatic objectives providing guidance on the application of these principles in its daily operations.

The Group’s CSR Policy describes our long-term approach to specific issues in the four cornerstones: Marketplace, Workplace, Community and Environment, which is instrumental in enabling our business to operate in a sustainable manner. Within each of the cornerstones, core principles and pragmatic objectives provide guidance on practicing CSR in our daily operations.

Sustainability

The sustainable growth of the business of the Group is dependent on two critical aspects, which are, environmental protection and natural resources' exploitation. The need for achieving the harmonious development of society while catering to the increasing demands of resources has been recognized by the Group. Considering the importance of environment and natural resources, the Group has developed and implemented several management policies and conservation strategies in its business operations. To protect the environment and condense the exploitation of natural resources, the Group conforms to the requisite environmental regulations and international general practices, and undertakes measures accordingly. One of the prominent goals of the Group is to improve the efficiency in terms of using natural resources such as energy, water and other non-renewable resources. The actions taken by the Group constitute regular assessments of greenhouse gas (“GHG”) emissions, classification and recycling of wastes, and deliberations on conservation strategies with those farms who consume higher levels of energy. Maintaining a balance between the business needs and sustainability of the natural environment has been regarded as eminently essential, for which, the Group emphasizes on offering quality services and products.

Stakeholders Engagement

The Group endeavours to create sustainable growth and long-term value for its stakeholders, who comprise the Group's employees, investors, customers and the wider community. We continue to interact with our stakeholders on an ongoing basis in order to understand their views and collect their feedback. Our communication channels with our stakeholders include company website, annual general meeting and staff meetings.

ENVIRONMENTAL

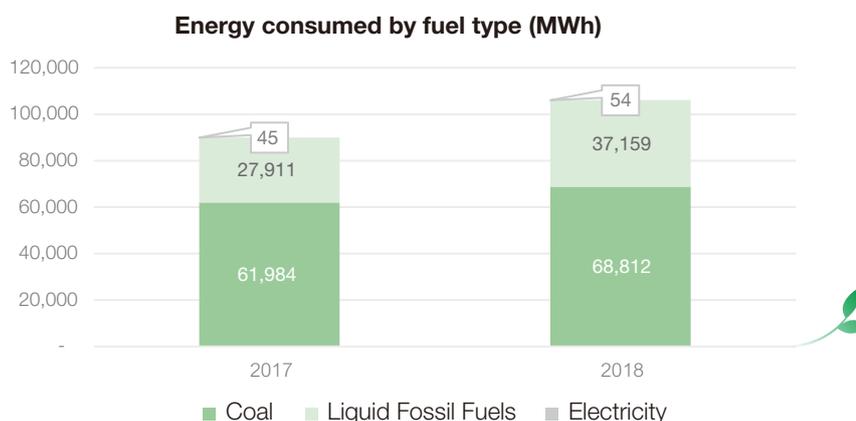
Emission

The laws and regulations adopted by local authorities, including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例) to curtail the high emissions of greenhouse gas are considered and followed by the Group. No non-compliance with the laws and regulations relating to gas emissions, water discharges and generation of waste that have or may result in significant impact on the Company was identified during the Year. Apart from such conformity, the Group focuses on formulating and implementing needful measures to further the cause of preserving natural environment.

Environmental, Social and Governance Report

GHG Emissions from Energy Consumed

The majority of the Group's operational greenhouse gas emissions are a result of its energy use. Most of this is from combustion of coal, consumption of liquid fossil fuels and use of electricity for the heating system, vehicles and on-farm equipment, respectively.



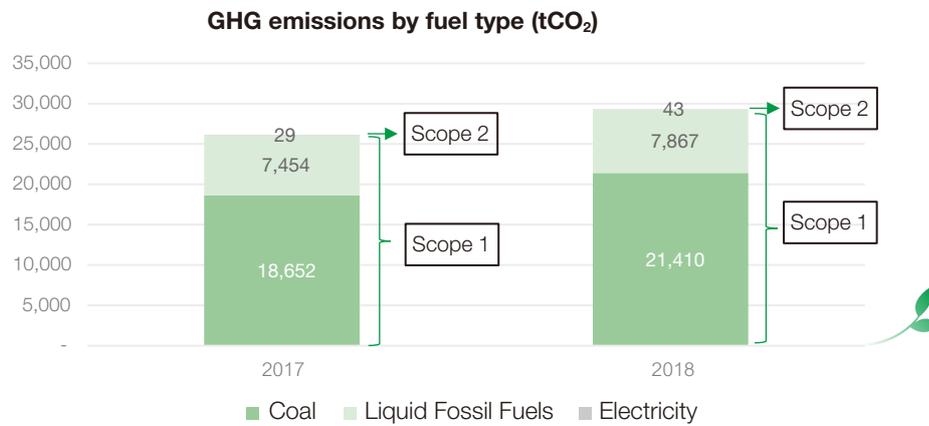
	2017 MWh	2018 MWh	Variance Increase/ (decrease)
Energy Consumption			
Coal	61,984	68,812	11%
Liquid fossil fuels	27,911	37,159	33%
Electricity	45	54	20%
Total energy consumption	89,940	106,025	18%
Energy consumption intensity			
Per cow ¹	1.47	1.67	14%
Per milk produced (tonne) ²	0.33	0.36	9%

Notes:

Energy consumption intensity is calculated by dividing the total energy consumption by (1) the number of cows; and (2) total milk produced.

- The number of cows for 2017 and 2018 is approximately 61,207 and 63,644 respectively.
- The total milk produced for 2017 and 2018 is approximately 270,539 tonnes and 293,667 tonnes respectively.

The respective GHG emissions by fuel types are analyzed below:



	2017 tCO ₂	2018 tCO ₂	Variance Increase/ (decrease)
GHG emissions			
Scope 1: Direct emissions			
– Carbon dioxide	26,106	29,277	12%
Scope 2: Indirect emissions			
– Carbon dioxide	29	43	48%
Total GHG emissions (Scope 1 + 2)	26,135	29,320	12%
GHG emissions intensity (Scope 1 + 2)			
Per cow ¹	0.43	0.46	7%
Per milk produced (tonne) ²	0.10	0.10	0%

Notes:

GHG emissions intensity is calculated by dividing the total GHG emissions by (1) the number of cows; and (2) total milk produced.

Environmental, Social and Governance Report

Total energy consumed by the Group increased by 18% from 89,940 MWh in 2017 to 106,025 MWh in 2018 and the corresponding GHG emission increased by 12% from 26,135 tCO₂ in 2017 to 29,320 tCO₂ in 2018. Such increase was mainly as a result of the installation and use of heating system in Keshan Farm during the Year.

Considering the usage of resources, the Group is eminently devoted towards using natural resources efficiently while emphasizing on their conservation. The majority of the Group's energy consumption was contributed by the combustion of coal, in view of this, the Group has already started the transition towards other greener alternatives, where possible and economically viable. For instance, solar panels are gradually placed on the farms to provide heating for the facility, as they are rendered as a sustainable option when comparing with generators. In this manner, the CO₂ production is reduced while decreasing the power consumption.

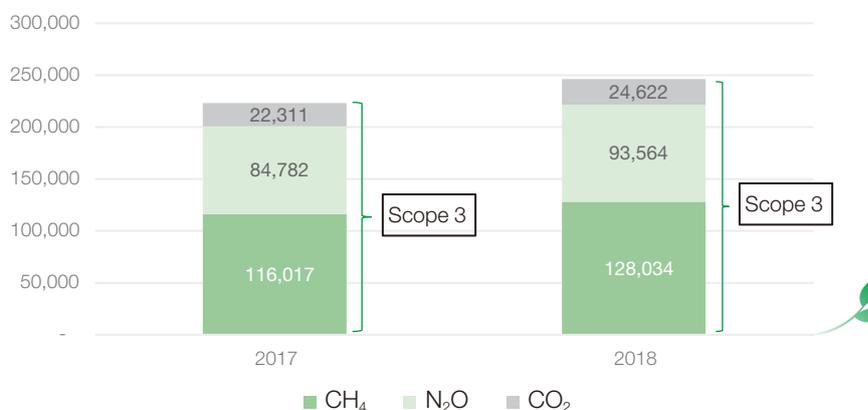
The Group strives for continuous energy reduction, for which, implementation plans pertaining to energy consumption and conservation are developed through the assistance of autonomous consultants. One such plan or project is currently implemented, where CH₄ is converted into energy. Doing so decreases energy consumption rate.

As a result of the various efforts on environmental conservation, the Group's GHG emission from energy consumed per milk produced remained constant at 0.1 tCO₂ per tonne.

On-farm GHG Emission

Methane (CH₄), nitrous oxide (N₂O) and carbon dioxide (CO₂) are the leading greenhouse gases emitted by the dairy farming. Methane (CH₄) is generated from plant diet of cows and other ruminants, where the animals are unable to digest the intake due to the high content of cellulose. Nonetheless, the methanogens, having interdependent association with ruminants, are the microorganisms residing within their guts. These are responsible for disintegrating the cellulose into carbohydrates, which further instigates a surge of energy within both the ruminant and microbial community. This process generates a by-product, which is methane. When utilizing fertilizers and manures in crop production, nitrous oxide (N₂O) is emanated. Moreover, it can be directly generated from the storage systems and land applications of manures. Lastly, carbon dioxide (CO₂) emissions are generated due to the animal respiration and decomposition of soil organic matter in the dairy farms. There is no identifiable hazardous waste generated from the dairy operation.

On-farm GHG emissions by gas type (tonnes, tCO_{2e})



	2017 Equivalent CO ₂ Emission tCO _{2e}	2018 Equivalent CO ₂ Emission tCO _{2e}	Variance Increase/ (decrease)
On-farm GHG emissions			
Scope 3: Other Indirect emissions			
– Methane	116,017	128,034	
– Nitrous oxide	84,782	93,564	
– Carbon dioxide	22,311	24,622	
Total GHG emissions (Scope 1 + 2 + 3)	223,110	246,220	10%
GHG emissions intensity (Scope 1 + 2 + 3)			
Per cow ²	4.07	4.33	6%
Per milk produced (tonne) ³	0.92	0.94	2%

Environmental, Social and Governance Report

Notes:

1. The above calculation is based on the reference from Food and Agriculture Organization of the United Nations. <http://www.fao.org/news/story/en/item/41348/icode/>.
2. GHG emissions intensity is calculated by dividing the total GHG emissions by the number of cows.
3. GHG emissions intensity is calculated by dividing the total GHG emissions by total milk produced.

The Group's total GHG emissions increased by 11% from 249,245 tCO₂e in 2017 to 275,540 tCO₂e in 2018 as a result of the increased in the number of cows raised from 61,207 in 2017 to 63,644 in 2018.

On farm GHG emissions accounted for 90% and 89% of total GHG emissions in 2017 and 2018, respectively. To reduce CH₄, N₂O and CO₂ emissions arising with the milk production, the Group has instigated certain initiatives concerned with cow maintenance such as the continuous monitoring of milk yield and review of feeding formula to enhance productivity of cows, thereby reduce GHG emissions intensity, where possible.

Use of Resources

	2017 tonne	2018 tonne	Variance Increase/ (decrease)
Water consumption	1,700,498	1,733,776	2%
Water consumption intensity			
Per cow ¹	28	27	(4%)
Per milk produced (tonne) ²	6.29	5.90	(6%)

Notes:

Water consumption intensity is calculated by dividing the total water consumption by (1) the number of cows; and (2) total milk produced.

The Group recognizes that water management is one of the material aspects of preserving the natural environment. Water management is promoted by recycling the waste water obtained from the farms by executing the operations of filtering, sedimentation and oxygen treatment. Afterwards, the water is used for farm and cow cleaning and irrigation. Hence the Group does not have any concern in sourcing water that is fit for such purposes. While the Group's overall water consumption increased slightly by 2% from 1,700,498 tonnes in 2017 to 1,733,776 tonnes in 2018, mainly as a result of increase in the number of cows raised in the Year, water consumption intensity per cow and per tonne of milk produced decreased by 4% and 6% respectively, which indicate that the Group is using water in a more efficient manner.

The Group currently does not report on the volume of non-hazardous waste generated from dairy farms, however, consistent reduction of potential impacts of its activities on the environment are encouraged. For instance, the Group promotes green information and electronic communication by the use of e-mail and electronic statements, where possible, with an aim to minimize wastes produced from its activities.

Except for the Withdrawal Decision received by Baiquan Ruixincheng Farm, in which professional advisers have engaged to advise on the possible actions to be taken by the Group, the Group is not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group relating to air and GHG emission, discharges into water and land and generation of hazardous and non-hazardous wastes.

The Environment and Natural Resources

Another integral aspect that is respected by the Group is environmental protection, for which the Group has developed proactive strategies that attenuates the impact of technology on the environment. Deploying energy efficient equipment for carrying out various stages of production has been a mean to minimize the consumption of fuel, electricity and water. This has also contributed to streamlining the processes for improving the utilization of resources and discovering new domains for conserving the environment.

For ensuring the compliance with the local laws and regulations including Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (畜禽規模養殖污染防治條例), the Group has formulated and implemented environmental and waste management plans. For example, the impact of operations, in the three Kedong dairy farms, Zhenlai, Gannan, Baiquan and Keshan dairy farms, on the environment was assessed and only then the concerned production activities were approved.

Cow manure is the major waste product that is obtained from the dairy farms. This manure is treated via the deployment of waste treatment facilities such as biogas recycling. Such facilities are established in the farms, which collect and process the cow manure for fuel. Biogas produced through fermentation is used directly for heating. The residual waste is then recycled and converted into fertilizers, which are distributed to attain soil nutrition.

Apart from the aforementioned actions, the Group aligns its business activities with the local requirements related to natural environment. Moreover, the Group aims at reducing the repercussions of dairy farming on the environment while preserving and minimizing the usage of natural resources. The protection and conservation of natural resources and ecosystems, reduction of negative impacts across the global value chain and incessant improvement of overall business operations are highly encouraged by the Group.

Environmental, Social and Governance Report

SOCIAL

Employment and Labour Practices

Employment

Employees are an integral part of any organization and the corresponding labour management practices play a requisite role in affecting a company's culture, success and reputation. For attaining a higher position in the competitive business market, it is eminently essential to acquire a positive work culture by ensuring the sustainability of the employees and maintaining their safety. Attracting and retaining the employees are equally important in the quest of promoting an optimal work culture. Considering the work culture of the Group, the local residents residing closer to the farms are provided with enticing employment opportunities. In case the local people are unable to fulfill the demands of a particular job, only then the search of workforce is extended outside the local boundaries. The Group does not differentiate the workforce on the basis of gender, as long as the candidates are equipped with the qualifying experience or skills.

The Group offers salaries above the local minimum wage regulation. No non-compliance with the laws and regulations relating to labour and employment that have resulted or may result in significant impact on the Company was identified during the Year.

In the process of screening and recruitment, the candidates are required to acquire a physical examination certificate, provided by health and epidemic prevention departments. Apart from the recruitment and selection of employees, the skills of the workforce are developed through adequate trainings. Moreover, the employees are subject to regular medical examinations, which are carried out on the basis of job type and the employee position.

Health and Safety

The foremost objective of the Group is to ensure a robust system pertaining to policies while emphasizing on continuous improvements in all the business operations. Health and safety is one such aspect that underlies the success of an organization as it promotes an effective workforce. Therefore, the Group offers hazard identification training to all the employees, in which the individuals are trained to determine the potential health risks and apply preventive measures to resolve such issues. For promoting this cause, all the farms are requested to prepare a safety assessment report and occupational disease hazard assessment report.

The health and safety measures undertaken by the Group include the following:

- An animal health and epidemic prevention system is put in place to ensure the well-being of the farm herd. The farm's veterinarian is liable to supervise, implement and enhance the epidemic reporting system.
- The farms are regularly patrolled by the security guards, where all the activities in the farms are monitored. This comprises of the registration of personnel and delivery vehicle disinfection prior to entry. Other vehicles are prohibited from entering the facility.

Environmental, Social and Governance Report

- The production area is well guarded wherein the non-production workers are not allowed to enter the restricted zone. As a precaution, the staff members and keepers are not allowed in the production area before the sterilization of uniform, which must be disinfected into the locker room. Their uniforms are replaced and are only permitted inside the area after the sterilization.
- Visits to the farm by the general public are declined.
- Regular cleaning and disinfecting of the farm is carried out.
- Any ill cow or dead cow is isolated immediately and transported to either a diagnosis room or isolation zone.
- Feed quality is checked regularly to ensure freshness.
- Vaccination is offered to the cows in a regular manner to minimize the risk of infectious disease.
- Imported cows must pass the national import and export inspection and quarantine bureau's isolation test before admitting to the farm.
- In case a disease erupts among the cows, the animals are immediately isolated for treatment by the Group's veterinarians. Once an infectious disease is confirmed, it is reported directly to the farm and the Group. Infected cows will be separated in the isolation room, individual care including feeding and cleaning is provided until recovery.
- Sick carcasses and their contaminants are either burned or buried.
- Measures on epidemic prevention are implemented and improvement on feed management can reduce sick incident. Our goal is to reduce the numbers of sick cows.

During the Year, no non-compliance with the laws and regulations relating to occupational safety that have resulted or may result in significant impact on the Company was identified.

Development and Training

An effective workforce is only attained through essential development and training programs. The same has been recognized by the Group, which offers development opportunities to build a stronger team. In Hong Kong and Mainland China, a vigorous and appropriate training development framework was developed as per the requirements of different staff members working at different positions. The types of training comprise on the job training, occupational health and safety management, use of personal protection equipment, personal hygiene, technical training, management training and compliance and policies training. The Group emphasizes on staff training, offering room for individual staff's personal growth and long-term career development, so that staff could grow together with the Group. Moreover, the training is conducted in a regular fashion and evaluated timely to comprehend its effectiveness.

Environmental, Social and Governance Report

Labour Standards

To recruit and motivate the potential employees, the Group offers competitive remuneration and welfare packages. The workforce is retained by the Group by providing promotion opportunities and salary adjustments as per the performance given by the individual employees. The additional benefits given to the employees range from free meal and accommodation, annual leave and medical coverage in accordance with local regulations. With this robust system of motivating the employees with enticing rewards and support, the Group strives to retain talent and envision the development of all the staff members.

Apart from this, an ethical code is followed within the organization, wherein the employees are not differentiated on the basis of gender and racism. All are offered with equal opportunities and any act of misconduct, such as sexual harassment, is seriously prohibited. Grievance mechanisms and disciplinary procedures are also set in place that assist the transparent and adequate governance of the business. The Group abides by all the regulations and laws on terms of employment, and strictly prohibits the use of forced labour or child labour in all the business activities. During the Year, no violation of related laws, rules and regulations on child labour and forced labour was identified.

Operating Practices

Supply Chain Management

As the quality of feed has a substantial effect on the quality and yield of raw milk, the Group follows a strict review mechanism for choosing the feed suppliers. Only those feed suppliers who are legally approved and can ensure the proper means of importing the feed are selected. Qualified suppliers will be registered under the “Approved List of Suppliers” of the Group. For this purpose, the Group conducts surprise inspection tours to the supplier workshops and reviews the needful aspects of production. While the feed being delivered to the dairy farms are quarantined, the in-house laboratory performs the requisite sampling inspections. The feeds are checked for quality and only after they pass the inspection, they are allowed to be stored in the warehouse.

Product Responsibility

The Group adheres strictly to the local laws and regulations on product safety, including the Regulation on the Supervision and Administration of the Quality Safety of Dairy Products (乳品質量安全監督管理條例) and Regulations on the Administration of Livestock and Poultry (種畜禽管理條例). During the Year, no non-compliance with the laws and regulations relating to products and services safety that have resulted or may result in significant impact on the Company was identified.

Control Over the Quality of Dairy Cows

The safety and quality of the raw milk is highly influenced by the quality of the dairy cows. At present, the Group breeds the high-quality Holstein dairy cows. To achieve high quality of breed, the dairy cows are inseminated with the semen from selected Holstein bulls sourced from Canada and the United States. The frozen semen of selected Holstein bulls is purchased from international suppliers either directly or through third-party domestic trading companies. Before purchasing the semen, the quarantine report of the respective bull is assessed. The semen is assessed on the basis of several factors, including the nutritional content of raw milk produced by the bull's offspring, and the milk yield and health condition of the bull's offspring. This ensures the appropriate mix and quality of the cows.

Quality Control During the Milking Process

In all the dairy farms, a standard milking procedure is followed. For ensuring the milk quality and safety of the cows, the milk is produced and extracted in an automated and sanitary environment. The sterilizing fluids are sprayed across the teats of the dairy cows, and are rigorously cleaned with dry towels before attaching the milking cups. The milking cups are also sterilized and only then the milking process is commenced. The first three squeezes of raw milk from the dairy cows are discarded. Moreover, consistent inspection of the complete process is carried out with caution, for which the set milk safety standards are followed. After the milking process is complete, the teats of dairy cows are sanitized again so as to avoid any infection. Therefore, following this rigorous process of milking ensures the optimal quality of the raw milk with low microbe count and low somatic cell count ("SCC").

Quality Control During Storage and Transportation

After the milking process is completed, the raw milk is further tested and inspected before supplying it to the end user. The milk is tested against veterinary drug residues, SCC, microbe count, protein content and fat content. During this inspection, if any amount of veterinary drug residue that exceeds the safety standards are found, then all the stored raw milk is discarded. However, there has been no such incident during the Year. A quality report is then generated to be stored as an internal record.

Anti-epidemic Measures

It is essential to note that the Group has a prominent focus on reducing or avoiding the occurrence of diseases within the farm premises. For this purpose, several general management practices are adopted and implemented for controlling and preventing different types of diseases.

Environmental, Social and Governance Report

For ensuring good health of animals in the farm, they are subject to regular vaccinations, monitoring and controlling of parasites infestation, and promoting cleanliness for avoiding diseases. The workers are trained on how to care for the herd and protect them from unwanted harm through basic biosecurity measures. Such measure constitutes all the aspects of farm management and thus, aims at minimizing the disease transmission. For example, it involves the management of motor vehicle parking. All new bovines are individually quarantined before coming onto farm for at least two weeks. Cow with any illness is immediately isolated from the quarantine zone for veterinary diagnosis.

Anti-Corruption

The protocols and laws concerned with bribery, privileges, political contributions, medical sales and inducements are closely followed by the Group. During the Year, no violation of related rules and regulations on bribery, extortion, fraud and money laundering was identified. As per the specified policy, the employees are obstructed from offering unaccounted privileges and entertainment to the clients, as it may be viewed as a reward for customer purchase decisions. Therefore, the client entertainment must never surpass the rational and just business practices.

For ensuring an ethical behavior and conduct in the business environment, all the employees are subject to business ethics training, corresponding to their position and are developed by the group's legal advisers. In case any policy is compromised, a severe, earnest and just action is undertaken against the employee violating the rule. A board audit committee is set in place to conduct internal audits that investigate the obedience towards business processes and practices. To furthering the ethical code among all, revisions of the subject matter pertaining to ethical training and auditing are executed annually. Also, the controls and compliance process are examined through the input provided by the legal counsel and external advisers.

Community

Community Investment

The Group has portrayed immense dedication in furthering the environmental cause by collaborating with the local communities in the project area and offering them the required support. The communities are assisted in determining the development plans, however, the support is only useful if the communities are prepared to help themselves. When considering the complementary support offered by the Group, the Group follows its policy on corporate citizenship, wherein the communities are informed and updated about the several developments carried out in the farms.

The communities are also aware of the manner which the Group operates, thus, allowing them to contribute in decision-making pertaining to essential developments. Such a process, recognized during environmental impact assessment preparation, is followed all the way through the project implementation phase. In addition, the public shows an intrinsic involvement with the complete project and partakes in decision-making for the betterment of the local and wider environment.

Sponsored community activities are arranged and established on the basis of community needs, which demonstrates the commitment of the Group in fulfilling its corporate social responsibility. These activities demonstrate acute care to the elderly, patients, disabled people and local students. Apart from such programs, the Group has been inclusive to the community by contributing through generous donations and formulating plans for environment conservation.

Directors' Report

The directors of the Company (the "**Directors**") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year**").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. During the Year, the Company's subsidiaries were principally engaged in the production and sale of raw milk in the People's Republic of China (the "**PRC**").

RESULTS

The results of the Group for the Year and the state of affairs of the Company and of the Group as at 31 December 2018 are set out in the consolidated financial statements and their accompanying notes on pages 71 to 139 of this annual report.

DIVIDEND

The board of Directors (the "**Board**") does not recommend the payment of a final dividend for the Year (2017: Nil).

ANNUAL GENERAL MEETING (THE "AGM")

The AGM for the Year is scheduled to be held on Tuesday, 25 June 2019. A notice convening the AGM will be issued and dispatched to the shareholders of the Company (the "**Shareholders**") in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 20 June 2019 to Tuesday, 25 June 2019 (both days inclusive). In order to qualify for attending and voting at the AGM, non-registered Shareholders should ensure that all transfers documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 19 June 2019.

BUSINESS REVIEW AND PERFORMANCE

Review of our Business and Performance

A discussion and analysis of the Group's performance during the Year and the key factors affecting its results and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report.

Information about affair review of, and an indication of likely future development in, the Group's business is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

Directors' Report

Principal Risks and Uncertainties

The followings are the major risks and uncertainties currently faced or anticipated by the Group.

Operational Risk

Outbreak of animal disease, product contamination and unstable supply of the feed are certain risks distinctive to the dairy farming industry. Additionally, product safety and quality are crucial to the business of the Group as product contamination involving the farms of the Group could affect the Group's reputation and sales.

Competition Risk

The Group faces competition from large scale dairy farming companies in the PRC as well as foreign suppliers that sell substitutes for raw milk, such as raw milk powder. The Group's ability to compete is, to a significant extent, dependent on its ability to distinguish its products from those of the Group's competitors by providing high quality products at reasonable prices.

Regulatory Risk

The Group conducts business in an industry that is subject to stringent PRC environmental laws and regulations. Failures to comply with the PRC environmental laws and regulations may lead to claims, liabilities or the suspension of our operations, and thereby adversely affect our business and results of operations.

Financial Risk

The Group is exposed to a variety of financial risks in the normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to note 29 to the consolidated financial statements.

The Board is dedicated to ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible.

Particulars of Important Events

Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng Farm**"), an indirect wholly-owned subsidiary of the Company, is operating a farm in Baiquan County, Qiqihar City, Heilongjiang Province for the production and sale of milk. As at 31 December 2018, Baiquan Ruixincheng Farm had 4,968 dairy cows.

On 25 February 2019, Baiquan Ruixincheng Farm received a notice from Department of Ecology and Environment of Heilongjiang Province dated 28 December 2018, which stated that Department of Ecology and Environment of Heilongjiang Province withdrew the previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm (the "**Withdrawal Decision**"). Without the previous approval given by Department of Ecology and Environment of Heilongjiang Province, Baiquan Ruixincheng Farm cannot continue the operation of the farm.

On 8 March 2019, Baiquan Ruixincheng Farm received a notice from Heilongjiang Shuangyang River Provincial Nature Reserve Management Office dated 5 March 2019 to request Baiquan Ruixincheng Farm to remove its farm from its current location by the end of June 2020.

Management considered these external sources of information as impairment indicator and recorded an impairment provision of RMB420,694,000 for immovable property, plant and equipment and prepayment for construction and equipment after netting off related government grants as at December 31, 2018. All movable inventories, dairy cows and property, plant and equipment will be transferred to the Group's other farms to continue its operation. In addition, management also accrued additional expenses of RMB15,548,000, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee.

Management has engaged professional advisers to advise on the possible actions to be taken and has appealed to Heilongjiang Province People's Government against the Withdrawal Decision. Depending on the outcome of this appeal, management may also commence administrative proceedings at the People's Court of the PRC in the future.

Save as disclosed above, since 31 December 2018, being the end of the financial year under review, no important event has occurred affecting the Group.

Compliance with Laws and Regulations

During the Year, to the best of the knowledge and information of the Directors, the Group has complied with the relevant laws and regulations that had a significant impact on the business and operation of the Group.

Environmental Policies and Performance

We recognise the importance of environmental protection and place great emphasis on promoting environmental sustainability. In the course of our operation, the Group has inevitably produced considerable amount of cow manure by cows and heifers rearing. While cow manure is not hazardous waste or pollutants that have a significant adverse effect on the environment, in order to promote our own self-sufficiency and the environmental sustainability of our operations, the Group has implemented various waste management measures such as installing cow waste treatment facilities to treat the cow manure at all of our farms and recycling processed waste through internal recycling systems to produce fertilizers. The Group has also made continuous effort in exploring the possibility of generating electricity by processing the collected bio-waste into biogas.

Apart from the measures abovementioned, the Group has implemented a number of environment-friendly measures in its workplaces by implementing energy-saving practices. For instance, the Group opts for energy efficient lighting equipment and has encouraged our employees to reduce printing and, if reasonably practicable, make use of duplex printing for internal documents. We shall broaden the scope of our green agenda and identify energy improvement opportunities in order to uphold our sustainable development and environment friendly attitude in our daily operation. The Group's commitment to protecting the environment is well reflected by its continuous efforts in promoting green measures and awareness in its daily business operations.

Further discussion of our environmental policies and performance is set out in the "Environmental, Social and Governance Report" on pages 36 to 48 of this annual report.

Directors' Report

Stakeholders' Engagement

The Group understands the importance of its customers, suppliers and employees to its long-term business development, and therefore has dedicated to maintain good relationship with these stakeholders.

Recognising the crucial roles of our customers and suppliers in our business operation, the Group has reinforced its relationships with these business partners through ongoing communication in a proactive and effective manner. In particular, the Group has through continuous interaction with its customers to ensure that the quality of our raw milk product has satisfied their needs and requirements and will, therefore, meet up to our customers' expectation. Besides, the Group is also dedicated to developing good relationship with its suppliers to ensure a stable supply of reliable and high-quality feed for the Group's daily operation.

Apart from the above, the Group recognizes the importance of human capital in its long-term development. The Group has provided a fair and safe workplace and offered competitive remuneration, benefits and career development opportunities based on the merits and performance of our employees. The Group also places ongoing effort to provide adequate training and development resources to our staff with an aim to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth.

Permitted Indemnity

Pursuant to the bye-laws of the Company (the "**Bye-laws**"), the Company may take out and pay the premium and other moneys for the maintenance of insurance, bonds and other instruments for the benefit either of the Company or the Directors' indemnity (and/or other officers) or any of them to indemnify the Company and/or the Directors (and/or other officers) for this purpose against any loss, damage, liability and claim which they may suffer or sustain in connection with any breach by the Directors (and/or other officers) or any of them of their duties to the Company. The Company has arranged for an appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities during the Year and the indemnity provision and directors' and officers' liability insurance remained in force as of the date of this report.

FINANCIAL SUMMARY

A summary of the results as well as the assets and liabilities of the Group for the last five financial years is set out on page 140 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 22 to the consolidated financial statements.

DIVIDEND POLICY

The Company has adopted a dividend policy, a summary of which is disclosed as below.

Any amount of dividends of the Company will be at the discretion of the Directors and will depend upon the Company's future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which the Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the Bermuda Companies Act, including the approval of Shareholders.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 24 to the consolidated financial statements and the consolidated statement of changes in equity on pages 130 and 73, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to equity holders, comprising the share premium, share option reserve, exchange fluctuation reserve and retained profits, amounted to approximately RMB3,096.1 million.

Under the Companies Act 1981 of Bermuda (as amended), the share premium account of the Company in the amount of RMB2,956.4 million may be applied for paying distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the Year are set out in note 12 to the consolidated financial statements.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

MANAGEMENT CONTRACTS

No contracts (except for the executive Directors' service contracts) concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or executed during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's largest customer and the three largest customers accounted for approximately 69.5% and 91.4%, respectively, of the Group's total revenue for the Year. The purchases made by the Group from its largest supplier and five largest suppliers accounted for approximately 29.7% and 48.4% of the Group's total purchases for the Year, respectively.

None of the Directors or any of their close associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's three largest customers or five largest suppliers.

Directors' Report

BOARD

The Directors who were in office during the Year and up to the date of this report are named as follows:

Executive Directors

Mr. Zhao Hongliang (趙洪亮) (*Chairman*)^R
Mr. Fu Wenguo (付文國) (*Chief Executive Officer*)^N
Mr. Chen Xiangqing (陳祥慶) (*Chief Financial Officer*)
Mr. Liu Gang (劉剛) (*appointed with effect from 25 June 2018*)
Mr. Wang Shaogang (王紹崗) (*Vice-Chairman*) (*resigned with effect from 25 June 2018*)

Non-executive Director

Mr. Lau Ho Fung (劉浩峰)

Independent Non-executive Directors (the "INEDs")

Mr. Zhang Yuezhou (張月周)^{A/R/N}
Mr. Zhu Zhanbo (朱戰波)^{A/R/N}
Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)^{A/R/N} (*appointed with effect from 28 September 2018*)
Mr. Wu Chi Keung (胡志強)^{A/R/N} (*resigned with effect from 28 September 2018*)

A: Member of the audit committee
R: Member of there muneration committee
N: Member of the nomination committee

In accordance with bye-laws 108(A) and (B) of the Bye-laws, Messrs. Fu Wenguo ("**Mr. Fu**") and Mr. Chen Xiangqing ("**Mr. Chen**") will retire from office by rotation at the AGM. Pursuant to bye-law 112 of the Bye-laws, Mr. Liu Gang ("**Mr. Liu**") and Mr. Meng Jingzong (alias Owens Meng) ("**Mr. Meng**") will retire from office at the AGM. All the above retiring Directors, being eligible, have offered themselves for re-election thereat.

CONFIRMATION OF INDEPENDENCE OF INEDs

The Company has received from each of the INEDs, namely Mr. Zhang Yuezhou ("**Mr. Zhang**"), Mr. Zhu Zhanbo ("**Mr. Zhu**") and Mr. Meng, an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. At the date of this report, the Company considers all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical information of the Directors and senior management of the Group are set out on pages 12 to 16 of this annual report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rules 13.51(B) of the Listing Rules, the change in information of Directors subsequent to the date of the 2018 annual report of the Company is set out below.

- Mr. Wang Shaogang (“**Mr. Wang**”) resigned as an executive Director and the vice-chairman of the Group on 25 June 2018.
- Mr. Liu was appointed as an executive Director on 25 June 2018.
- Mr. Wu Chi Keung (“**Mr. Wu**”) resigned as an INED and ceased to be the chairman of the audit committee (the “**Audit Committee**”) and a member of each of the remuneration committee (the “**Remuneration Committee**”) and the nomination committee of the Board (the “**Nomination Committee**”) on 28 September 2018.
- Mr. Meng was appointed as an INED, the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee on 28 September 2018. Mr. Meng was appointed as an independent director of TDH HOLDINGS, INC., a company listed on Nasdaq (stock symbol: PETZ), on 1 February 2019.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zhao Hongliang (“**Mr. Zhao**”) and Mr. Fu, being all the executive Directors, has entered into a service contract with the Company, pursuant to which each of Mr. Zhao and Mr. Fu has agreed to act as an executive Director for a further term of three years with effect from 1 November 2016 while Mr. Chen and Mr. Liu have agreed to act as an executive Directors for a term of three years with effect from 10 September 2018 and 25 June 2018, respectively.

The current non-executive Director has entered into a letter of appointment with the Company, pursuant to which he has been appointed for a term of three years commencing on 1 November 2016.

Each of the INEDs has entered into a letter of appointment with the Company, under which each of them has been appointed for a further term of three years commencing on 7 November 2016 while Mr. Meng has been appointed for an initial term of three years commencing on 28 September 2018.

None of the Directors proposed for re-election at the AGM as stated in the section headed “Board” above has a service contract with the Company or any of its subsidiaries, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the executive Directors and the five individuals with the highest emoluments for the Year are set out in notes 7 and 8 to the consolidated financial statements, respectively.

The non-executive Director is not entitled to any Director's fee. Each of Mr. Zhang and Mr. Zhu, an INEDs is entitled to a Director's fee of HK\$125,000 per annum and Mr. Meng, an INED, is entitled to a Director's fee of HK\$200,000 per annum.

Directors' Report

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

As at 31 December 2018, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")), which were required: (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares

Name of Directors/ Chief Executive	Capacity/ Nature of interest	Number of Shares held	Number of underlying Shares held (Note 2)	Total	Approximate percentage of issued Shares	
Mr. Zhao (Note 1)	(i)	Interest in a controlled corporation and beneficial owner/Corporate and personal interest	1,150,900,000	4,500,000	1,155,400,000	24.63%
	(ii)	Deemed interest under S.317 of the SFO	170,200,000	–	170,200,000	3.63%
	Total		1,321,100,000	4,500,000	1,325,600,000	28.26%
Mr. Chen	Beneficial owner/Personal Interest	–	13,500,000	13,500,000	0.29%	
Mr. Fu	Beneficial owner/Personal Interest	–	20,000,000	20,000,000	0.43%	
Mr. Liu (Note 3)	Beneficial owner/Personal Interest	2,101,000	15,000,000	17,101,000	0.36%	

Notes:

- 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao, an executive Director and the chairman of the Board (the "Chairman"). Therefore, Mr. Zhao is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao.

Options were granted to Mr. Zhao Hongliang on 5 June 2018 pursuant to a share option scheme adopted by the Company on 7 November 2013 (the "Share Option Scheme"), which entitle him to subscribe for a total of 4,500,000 Shares upon his exercise of such options.

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao was deemed to be interested in an aggregate of approximately 28.26% of the issued share capital of the Company.

- These represent the Shares to be issued and allotted by the Company upon exercise of the Options granted under the Share Option Scheme.
- Mr. Liu was appointed as an executive Director with effect from 25 June 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2018, so far as it was known by or otherwise notified to any Directors or the chief executive of the Company, the particulars of the corporations or persons (other than a Director or the chief executive of the Company) which/who had 5% or more interests in the Shares and the underlying Shares as recorded in the register kept under section 336 of the SFO were as follows:

Long Positions and Short Positions in the Shares

Name of Shareholders	Capacity/ Nature of interest	Number of Shares held	Deemed interest		Total	Approximate percentage of issued Shares
			Number of underlying Shares held	pursuant to Section 317 of the SFO		
ZHL Asia Limited (Note 1)	Beneficial owner/Personal Interest	1,150,900,000	–	174,700,000	1,325,600,000	28.26%
Mr. Zhao (Note 1)	Interest in a controlled corporation and beneficial owner/Corporate and Personal Interest	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
Ms. Li Shuxia (Note 2)	Interest of spouse/Family Interest	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
ZHY Asia Limited (Note 1)	Beneficial owner/Personal Interest	170,200,000	–	1,155,400,000	1,325,600,000	28.26%
Mr. Zhao Hongyu (Note 1)	Interest in controlled corporation/ Corporate Interest	170,200,000	–	1,155,400,000	1,325,600,000	28.26%

Notes:

- Please refer to note 1 under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
- Ms. Li Shuxia is the wife of Mr. Zhao, an executive Director and the Chairman. Accordingly, Ms. Li Shuxia was deemed or taken to be interested in all the Shares in which Mr. Zhao was interested and deemed or taken to be interested for the purpose of the SFO.

Directors' Report

Save as disclosed above, as at 31 December 2018, so far as it was known by or otherwise notified to the Directors or the chief executive of the Company, no other corporations or persons (other than a Director or the chief executive of the Company) had any interest or short position in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme for the purpose of providing incentives or rewards to selected participants for their contributions to the Group. Details of the Share Option Scheme are set out in note 23 to the consolidated financial statements.

Share options comprising a total of 148,850,000 underlying Shares (the "Options") were granted under the Share Option Scheme to certain employees of the Group and the Directors on 22 August 2014 (the "First Grant Date"), 8 December 2015 (the "Second Grant Date") and 5 June 2018 (the "Third Grant Date"), respectively. Details of the movements of the Options during the Year are as follows:

Grantees	Number of underlying Shares comprised in Options					Outstanding as at 31.12.2018	Exercise price per Share HK\$	Grant Date	Validity period of the Options
	Outstanding as at 01.01.2018	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised during the Year				
Directors									
Mr. Zhao	6,500,000.00	-	6,500,000.00	-	-	-	1.462	22.08.2014	<i>Note 1</i>
	3,900,000.00	-	3,900,000.00	-	-	-	0.59	08.12.2015	<i>Note 2</i>
	-	4,500,000.00	-	-	-	4,500,000.00	0.24	05.06.2018	<i>Note 3</i>
Mr. Fu	5,000,000.00	-	5,000,000.00	-	-	-	1.462	22.08.2014	<i>Note 1</i>
	10,000,000.00	-	10,000,000.00	-	-	-	0.59	08.12.2015	<i>Note 2</i>
	-	20,000,000.00	-	-	-	20,000,000.00	0.24	05.06.2018	<i>Note 3</i>
Mr. Chen	1,500,000.00	-	1,500,000.00	-	-	-	1.462	22.08.2014	<i>Note 1</i>
	4,000,000.00	-	4,000,000.00	-	-	-	0.59	08.12.2015	<i>Note 2</i>
	-	13,500,000.00	-	-	-	13,500,000.00	0.24	05.06.2018	<i>Note 3</i>
Mr. Liu	3,500,000.00	-	3,500,000.00	-	-	-	1.462	22.08.2014	<i>Note 1</i>
	6,000,000.00	-	6,000,000.00	-	-	-	0.59	08.12.2015	<i>Note 2</i>
	-	15,000,000.00	-	-	-	15,000,000.00	0.24	05.06.2018	<i>Note 3</i>
Former Directors									
Mr. Wang (<i>Note 4</i>)	3,500,000.00	-	-	-	-	3,500,000.00	1.462	22.08.2014	<i>Note 1</i>
	6,000,000.00	-	-	-	-	6,000,000.00	0.59	08.12.2015	<i>Note 2</i>
Mr. Wu (<i>Note 5</i>)	200,000.00	-	-	200,000.00	-	-	1.462	22.08.2014	<i>Note 1</i>
	300,000.00	-	-	300,000.00	-	-	0.59	08.12.2015	<i>Note 2</i>
Senior management members									
Mr. Wang Yongxin	2,000,000.00	-	-	-	-	2,000,000.00	1.462	22.08.2014	<i>Note 1</i>
	4,000,000.00	-	-	-	-	4,000,000.00	0.59	08.12.2015	<i>Note 2</i>
	-	7,000,000.00	-	-	-	7,000,000.00	0.24	05.06.2018	<i>Note 3</i>
Employees (in aggregate)	20,250,000.00	-	19,150,000.00	-	-	1,100,000.00	1.462	22.08.2014	<i>Note 1</i>
	56,300,000.00	-	43,200,000.00	-	-	13,100,000.00	0.59	08.12.2015	<i>Note 2</i>
	-	108,500,000.00	-	300,000.00	-	108,200,000.00	0.24	05.06.2018	<i>Note 3</i>

Notes:

1. The validity period of the Options shall expire on the 7th anniversary of the First Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the First Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the First Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the First Grant Date: 40% of such Options granted.

3,565,000 outstanding Options were cancelled on 5 June 2018.
2. The validity period of the Options shall expire on the 7th anniversary of the Second Grant Date or the earlier determination of the Share Option Scheme. The respective exercise dates are as follows:

Tranche I: beginning on the 1st anniversary of the Second Grant Date: 30% of such Options granted;

Tranche II: beginning on the 2nd anniversary of the Second Grant Date: 30% of such Options granted; and

Tranche III: beginning on the 3rd anniversary of the Second Grant Date: 40% of such Options granted.

67,100,000 outstanding Options was cancelled on 5 June 2018.
3. The validity period of the Options is from 5 June 2018 to 4 June 2025. 60% of the Option granted will be vested and exercisable on or after 5 June 2018 and the remaining 40% of the Option granted will be vested and exercised on or after 5 June 2019.
4. Mr. Wang resigned as an executive Director with effect from 25 June 2018 and he remains as employee of the Company.
5. Mr. Wu resigned as an INED with effect from 28 September 2018.

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

Save as disclosed in the paragraph headed "Share Option Scheme" above, at no time during the Year was the Company, its holding company, nor any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares and debentures in the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director or a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries or fellow subsidiaries was a party during the Year.

Directors' Report

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no contract of significance (whether for the provision of services to the Company or not) between the Company or any of its subsidiaries and controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries during the Year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this report, none of the Directors are considered to have any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and have any other conflicts of interest, as required to be disclosed under the Listing Rules.

NON-COMPETE UNDERTAKINGS

As disclosed in the Prospectus, Mr. Zhao Hongliang (an executive Director and the Chairman), Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited (collectively, the **"Controlling Shareholders"**) executed a deed of non-compete and other undertakings (the **"Non-compete Undertakings"**) in favour of the Company (for itself and for the benefits of its subsidiaries) on 7 November 2013. Pursuant to the Non-compete Undertakings, each of the Controlling Shareholders has, amongst other matters, irrevocably undertaken to the Company on a joint and several basis that at any time during the Relevant Period (as defined therein), each of them will not, directly or indirectly, compete or may compete with the Company's business. A summary of the principal terms of the Non-compete Undertakings is set out in the section headed "Relationship with our Controlling Shareholders" of the Prospectus.

Subsequent to the completion of placing of new Shares under general mandate on 13 January 2017 (the **"Placing"**), the shareholding of the Controlling Shareholders fell from 34.06% to 28.39%. As such, Mr. Zhao Hongliang, Mr. Zhao Hongyu, ZHL Asia Limited and ZHY Asia Limited have ceased to be controlling shareholders (as defined in the Listing Rules) in the Company from 13 January 2017. As a result, the Non-compete Undertakings ceased to be applicable to the Controlling Shareholders. For details of the Placing, please refer to the announcements of the Company dated 23 December 2016 and 13 January 2017, respectively.

Each of the Controlling Shareholders has made an annual written declaration as to the compliance with the terms of the Non-compete Undertakings during the period which the Non-compete Undertakings was applicable to them within the Year. The INEDs have reviewed the compliance by each of the Controlling Shareholders with the Non-compete Undertakings and considered that, for the Year, the Controlling Shareholders have complied with the terms of the Non-compete Undertakings during the period which the Non-compete Undertakings were applicable to them.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 26 to the consolidated financial statements. Save as disclosed herein and in the paragraph headed "Continuing Connected Transactions" below, none of them constituted a connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group entered into certain transactions with parties which were connected persons of the Company under the Listing Rules. These transactions are considered to be continuing connected transactions under the Listing Rules, which need to be disclosed herein in compliance with the requirements under Chapter 14A of the Listing Rules.

Connected Person

Feihe Dairy Group (comprising Heilongjiang Feihe Dairy Co., Ltd. (黑龍江飛鶴乳業有限公司) (“**Feihe Dairy HLJ**”) and its subsidiaries) is not a connected person of the Company for the purpose of the then Rule 14A.11 of the Listing Rules. However, due to the past relationship and transactions with Feihe Dairy Group, being one of the Group's customers, as disclosed in “Our Relationship with Feihe Dairy Group” paragraph in the section headed “History, Development And Reorganization” of the Prospectus, it has been deemed by the Stock Exchange as the Company's connected person after the Listing pursuant to Rule 14A.19 of the Listing Rules. As such, the Company has agreed to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with the Feihe Dairy Group from the Listing Date.

2017 Feihe Master Agreement

As disclosed in the Prospectus, on 1 November 2013, (a) Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司) (“**Ruixinda**”) and Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司) (“**Ruixincheng**”), both indirect wholly-owned subsidiaries of the Company on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) on the other part entered into a master agreement for the purchase of raw milk which expired on 31 December 2015.

Ruixinda and Ruixincheng (for themselves and on behalf of other members of the Group) and Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) entered into a new master agreement (the “**New Feihe Master Agreement**”) on 14 December 2015 to continue the supply of raw milk to Feihe Dairy Group for a term of three years ended 31 December 2018.

The Company for itself and on behalf of its subsidiaries and China Feihe Limited (for itself and on behalf of its subsidiaries) entered in to a master agreement dated 12 May 2017 (the “**2017 Feihe Master Agreement**”) to confirm the priority arrangement of the Group's supply for a raw milk to Feihe Dairy Group for a term ending on 31 December 2019.

Pursuant to the 2017 Feihe Master Agreement, the Group would supply raw milk to Feihe Dairy Group in the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers. The Shareholders passed a resolution by way of poll at the special general meeting held on 17 July 2017 approving the continuing connected transactions contemplated under the 2017 Feihe Master Agreement and the annual caps relating thereto. Details of the 2017 Feihe Master Agreement are disclosed in the announcement and the circular of the Company dated 12 May 2017 and 30 June 2017, respectively.

The approved annual caps in respect of the transactions contemplated under the 2017 Feihe Master Agreement for each of the three years ending 31 December 2019 are RMB812 million, RMB902 million and RMB1,015 million, respectively. The aggregate value of raw milk supplied to Feihe Dairy Group under the 2018 Feihe Master Agreement for the Year was approximately RMB762.9 million. The connected transactions abovementioned have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Year.

Directors' Report

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The INEDs have reviewed the above continuing connected transactions for the Year and confirmed that the above continuing connected transactions were entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. in accordance with the terms of the agreement governing the continuing connected transactions (i.e. the 2017 Feihe Master Agreement) that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ernst & Young, Certified Public Accountants, the Company's independent auditor, were engaged to report on the Group's continuing connected transactions 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 Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued their unqualified letter to the Board containing their findings and conclusions in respect of the Group's continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the Company has maintained a sufficient public float (i.e. at least 25% of the issued Shares are held by the public) as required by the Listing Rules during the Year and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, the Company did not redeem any of the Company's listed securities nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

EVENT AFTER REPORTING PERIOD

Save as disclosed elsewhere in this report, the Group did not have any material subsequent event after the Year and up to the date of this report.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or requiring the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Year or subsisted at the end of the Year.

CORPORATE GOVERNANCE

Particulars of the Company's significant corporate governance practices are set out in the Corporate Governance Report on pages 18 to 35 of this annual report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the three INEDs, namely Mr. Meng (committee chairman), Mr. Zhang and Mr. Zhu. It has reviewed with management the audited consolidated financial statements of the Company for the Year.

INDEPENDENT AUDITOR

There were no changes of independent auditor in the past three years.

The consolidated financial statements of the Company for the Year have been audited by Ernst & Young which will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having approved by the Board upon the Audit Committee's recommendation, a resolution to re-appoint Ernst & Young as the independent auditor and to authorise the Directors to fix its remuneration will be proposed at the forthcoming AGM.

On behalf of the Board

Zhao Hongliang

Chairman

Hong Kong, 29 March 2019

Independent Auditor's Report



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

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

To the shareholders of YuanShengTai Dairy Farm Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of YuanShengTai Dairy Farm Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 71 to 139, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

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 matters 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
<i>Fair value of biological assets</i>	
<p>As at 31 December 2018, the carrying value of the Group's biological assets, mainly including heifers/calves and milkable cows, amounted to RMB1,211,650,000, representing 25% of its total assets.</p> <p>During the year ended 31 December 2018, the Group recorded a loss of RMB313,472,000 arising from the changes in fair value less costs to sell of biological assets.</p> <p>The Group's biological assets are measured at fair value less costs to sell. The determination of the fair value requires significant management's judgements regarding inter alia, the species, age, culling rates and growing condition of the biological assets; cost incurred and the average milk yield of each cow, the estimated milk price and the discount rate. Management employs external valuer to support its determination of the fair value of the biological assets.</p> <p>Relevant disclosures are included in notes 3 and 15 to the consolidated financial statements.</p>	<p>Our audit procedures for the year ended 31 December 2018 included stocktaking of biological assets, understanding management's judgements and key assumptions adopted to determine the fair value of the biological assets. In particular, we performed stocktake of all heifers/calves and milkable cows at the year end, and we compared the valuation inputs to available market data. We considered the objectivity, independence and expertise of the independent valuer. We also involved our internal valuation specialists to assist us in evaluating the valuation models and the judgements and key assumptions adopted, including discount rate and contributory asset charges. In addition, we evaluated the adequacy of the related disclosures of the fair value of biological assets in the consolidated financial statements.</p>

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<i>Assets impairment of Baiquan Ruixincheng Dairy Farming Co., Ltd.</i>	
<p>Baiquan Ruixincheng Dairy Farming Co., Ltd. ("Baiquan Ruixincheng Farm"), an indirect wholly owned subsidiary of the Company, is operating a farm in Baiquan County, Qiqihar City, Heilongjiang Province, for the production and sale of milk. As at 31 December 2018, Baiquan Ruixincheng Farm has 4,968 dairy cows.</p> <p>On 25 February 2019, Baiquan Ruixincheng Farm received a notice from Department of Ecology and Environment of HeiLongJiang Province dated 28 December 2018 which stated that Department of Ecology and Environment of HeiLongJiang Province withdrew the previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm. Without the previous approval given by Department of Ecology and Environment of HeiLongJiang Province, Baiquan Ruixincheng cannot continue the operation of the farm. On 8 March 2019, Baiquan Ruixincheng Farm received a notice from Heilongjiang Shuangyang River Provincial Nature Reserve Management Office dated 5 March 2019 to request Baiquan Ruixincheng Farm to remove its farm from its current location by the end of June 2020.</p> <p>Management considered these external sources of information as impairment indicator, recorded an impairment provision of RMB420,694,000 for immovable property, plant and equipment and prepayment for construction and equipment after netting off related government grants as at December 31, 2018. All moveable inventories, dairy cows and property, plant and equipment will be transferred to the Group's other farms to continue its operation. In addition, management also accrued additional expenses of RMB15,548,000, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee. This matter was significant to our audit because the amount of provision accrued was material to the consolidated financial statements and the assessment involved the determination of the recoverable amounts of the assets which involved significant judgements and estimates.</p> <p>Relevant disclosures are included in notes 3, 6, 12, 14 and 20 to the consolidated financial statements.</p>	<p>We checked all official documents addressed to Baiquan Ruixincheng Farm from government official, inquired with management of its assessment of potential impacts and assessed management's assumptions in calculating the impairment loss of property, plant and equipment and prepayment for construction and equipment and additional accrued expenses.</p>

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment on property, plant and equipment</i>	
<p>As at 31 December 2018, the carrying amount of the Group's property, plant and equipment amounted to RMB2,118,597,000, representing 44% of its total assets, and an impairment charge of RMB461,618,000 was provided in the current year regarding immovable property, plant and equipment of Baiquan Ruixincheng Farm. As at 31 December 2018, after assessing external and internal sources of information, management considered no indicator of impairment existed except for Baiquan Ruixincheng Farm which was discussed in KAM "Assets impairment of Baiquan Ruixincheng Dairy Farming Co., Ltd.". In addition, management also performed an impairment assessment on the property, plant and equipment in accordance with IAS 36 Impairment of Assets. Management assessed the recoverable amount of property, plant and equipment, prepaid land lease payments, prepayments for construction and equipment and biological assets based on one cash-generating unit that includes all the long-term assets of the Group involved in the production of raw milk. Management concluded that no further impairment should be provided. This matter was significant to our audit because the balance of property, plant and equipment was material to the consolidated financial statements and the impairment assessment involved the determination of the recoverable amounts of the assets which was complex and involved significant judgements and estimates.</p> <p>Relevant disclosures are included in notes 3 and 12 to the consolidated financial statements.</p>	<p>Our audit procedures included, amongst others, evaluating the Group's policies and procedures to identify triggering events for potential impairment of assets. We have also involved our internal valuation specialists to assist us in evaluating the assumptions, discount rate and methodologies used by the Group, and compared the key assumptions used in the impairment assessment to historical data of the Group and the external data in a similar industry to assess the assumptions made by management.</p>

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, 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.
- 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.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Yee Chung Man.

Ernst & Young

Certified Public Accountants

Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	1,099,547	1,014,128
Cost of sales		(846,920)	(760,867)
Gross profit		252,627	253,261
Other income	5	25,938	43,027
Selling and distribution expenses		-	(19,871)
Administrative expenses		(69,425)	(82,692)
Other expenses		(15,739)	(32,967)
Changes in fair value less costs to sell of biological assets	15	(313,472)	(228,665)
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm	6	(436,242)	-
LOSS BEFORE TAX	6	(556,313)	(67,907)
Income tax expense	9	-	-
LOSS FOR THE YEAR		(556,313)	(67,907)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		23,190	(22,560)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(533,123)	(90,467)
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Owners of the Company		(533,123)	(90,467)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	11	RMB(11.86) cents	RMB(1.46) cents

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	2,118,597	2,596,929
Prepaid land lease payments	13	86,684	91,768
Prepayments, other receivables and other assets	14	19,325	68,256
Biological assets	15	1,211,650	1,211,825
Total non-current assets		3,436,256	3,968,778
CURRENT ASSETS			
Inventories	16	302,610	259,379
Trade receivables	17	58,712	85,339
Prepayments, other receivables and other assets	14	8,167	11,654
Prepaid land lease payments	13	5,081	5,096
Cash and cash equivalents	18	979,573	1,135,920
Total current assets		1,354,143	1,497,388
CURRENT LIABILITIES			
Trade payables	19	285,759	233,211
Other payables and accruals	20	278,384	464,765
Total current liabilities		564,143	697,976
NET CURRENT ASSETS		790,000	799,412
TOTAL ASSETS LESS CURRENT LIABILITIES		4,226,256	4,768,190
NON-CURRENT LIABILITIES			
Other payables and accruals	20	134,327	156,137
Total non-current liabilities		134,327	156,137
Net assets		4,091,929	4,612,053
EQUITY			
Issued capital	22	37,674	37,674
Reserves	24	4,054,255	4,574,379
Total equity		4,091,929	4,612,053

Zhao Hong Liang
Director

Chen Xiang Qing
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2018

Attributable to owners of the Company								
	Issued capital	Merger reserve	Share premium	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total equity
Notes	RMB'000	RMB'000 (Note 24)	RMB'000	RMB'000 (Note 24)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	30,727	186,000	2,621,198	455,505	34,082	8,270	1,019,931	4,355,713
Loss for the year	-	-	-	-	-	-	(67,907)	(67,907)
Other comprehensive loss for the year:								
Exchange differences related to foreign operations	-	-	-	-	-	(22,560)	-	(22,560)
Total comprehensive loss for the year	-	-	-	-	-	(22,560)	(67,907)	(90,467)
Issue of shares	22 6,947	-	340,384	-	-	-	-	347,331
Share issue expenses	-	-	(5,210)	-	-	-	-	(5,210)
Equity-settled share option arrangements	-	-	-	-	4,686	-	-	4,686
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	(1,238)	-	1,238	-
At 31 December 2017 and 1 January 2018	37,674	186,000	2,956,372	455,505	37,530	(14,290)	953,262	4,612,053
Loss for the year	-	-	-	-	-	-	(556,313)	(556,313)
Other comprehensive income for the year:								
Exchange differences related to foreign operations	-	-	-	-	-	23,190	-	23,190
Total comprehensive income/(loss) for the year	-	-	-	-	-	23,190	(556,313)	(533,123)
Equity-settled share option arrangements	23 -	-	-	-	12,999	-	-	12,999
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	(31,705)	-	31,705	-
At 31 December 2018	37,674	186,000*	2,956,372*	455,505*	18,824*	8,900*	428,654*	4,091,929

* These reserve accounts comprise the consolidated reserves of RMB4,054,255,000 (2017: RMB4,574,379,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(556,313)	(67,907)
Adjustments for:			
Interest income	<i>5</i>	(9,349)	(26,466)
Depreciation	<i>6</i>	68,410	73,223
Recognition of prepaid land lease payments	<i>6</i>	5,099	5,588
Loss on disposal of items of property, plant and equipment	<i>6</i>	5,022	14,113
Changes in fair value less costs to sell of biological assets	<i>15</i>	313,472	228,665
Equity-settled share option expense	<i>23</i>	12,999	4,686
Recognition of government grants		(9,256)	(7,684)
Recognition of impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm		436,242	–
Impairment of prepayments, other receivables and other assets		–	9,301
Foreign exchange differences, net		(1,343)	9,253
		264,983	242,772
(Increase)/decrease in inventories		(43,231)	57,226
Decrease in trade receivables		26,627	20,403
(Increase)/decrease in prepayments, other receivables and other assets		(1,278)	10,405
(Decrease)/Increase in accruals and other payables		(23,060)	29,883
Increase in trade payables		52,548	48,098
		276,589	408,787
Cash generated from operations		11,049	22,589
Interest received			
		287,638	431,376
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(187,627)	(212,242)
Additions to biological assets		(410,537)	(391,882)
Proceeds from disposal of biological assets		91,863	94,803
Proceeds from disposal of items of property, plant and equipment		973	4,888
Receipt of government grants		60,000	5,975
Decrease/(increase) in time deposits		689,706	(180,640)
		244,378	(679,098)
Net cash flows from/(used in) investing activities			

Consolidated Statement of Cash Flows

Year ended 31 December 2018

<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue expenses	–	(5,210)
Proceeds from issue of shares	–	347,331
Net cash flows (used in)/from financing activities	–	342,121
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	363,606	278,460
Effect of foreign exchange rate changes, net	1,343	(9,253)
CASH AND CASH EQUIVALENTS AT END OF YEAR	896,965	363,606
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	179,532	363,606
Non-pledged time deposits	800,041	772,314
Cash and cash equivalents as stated in the statement of financial position	979,573	1,135,920
Less: Non-pledged time deposits with maturity of more than three months when acquired	(82,608)	(772,314)
Cash and cash equivalents as stated in the statement of cash flows	896,965	363,606

Notes to the Consolidated Financial Statements

31 December 2018

1. CORPORATE AND GROUP INFORMATION

YuanShengTai Dairy Farm Limited (the “**Company**”) is a limited liability company incorporated in Bermuda and its registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

During the year ended 31 December 2018, the Company and its subsidiaries (together, the “**Group**”) are principally engaged in the production and sale of milk in the People’s Republic of China (the “**PRC**”).

Information about subsidiaries

Particulars of the Company’s subsidiaries (all of which are private companies with limited liability) are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Natural Dairy Farm Limited	BVI/Mainland China	US\$100	100	–	Investment holding
Royal Dairy Farm Limited	Hong Kong/Mainland China	HKD100	–	100	Investment holding
黑龍江甘南瑞信達原生態牧業有限公司 Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. (“ Ruixinda Gannan ”)**	PRC/Mainland China	RMB38,000,000	–	100	Production and sale of raw milk
黑龍江克東和平原生態牧業有限公司 Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (“ YST Heping ”)**	PRC/Mainland China	RMB246,520,000	–	100	Production and sale of raw milk
黑龍江克東瑞信達原生態牧業股份 有限公司 Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd. (“ YST Heilongjiang ”)**	PRC/Mainland China	RMB186,850,000	–	100	Production and sale of raw milk
鎮賚瑞信達原生態牧業有限公司 Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd. **	PRC/Mainland China	RMB60,000,000	–	100	Production and sale of raw milk
哈爾濱市瑞信達牧業有限公司 Harbin Ruixinda Dairy Farming Co., Ltd. (“ Ruixinda ”)**	PRC/Mainland China	RMB180,000,000	–	100	Investment holding
哈爾濱市瑞信誠商貿有限公司 Harbin Ruixincheng Trading Co., Ltd. (“ Ruixincheng ”)**	PRC/Mainland China	RMB550,000,000	–	100	Inactive

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
克東勇進原生態牧業有限公司 Kedong Yongjin YuanShengTai Dairy Farming Joint Stock Co., Ltd.**	PRC/Mainland China	RMB1,216,000,000	-	100	Production and sale of raw milk
克東瑞信達商貿有限公司 Kedong Ruixinda Commercial Trade Co., Ltd.**	PRC/Mainland China	RMB430,000,000	-	100	Sale of raw milk
甘南瑞信誠商貿有限公司 Gannan Ruixincheng Commercial Trade Co., Ltd.**	PRC/Mainland China	RMB400,000,000	-	100	Inactive
拜泉瑞信誠牧業有限公司 Baiquan Ruixincheng Dairy Farming Co., Ltd. ("Baiquan Ruixincheng Farm")**	PRC/Mainland China	RMB534,113,940	-	100	Production and sale of raw milk
克山瑞信誠牧業有限公司 Keshan Ruixincheng Dairy Farming Co., Ltd.**	PRC/Mainland China	RMB100,000,000	-	100	Production and sale of raw milk

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

* Registered as limited liability companies under PRC law.

2.1 BASIS OF PRESENTATION

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

Basis of consolidation

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

Notes to the Consolidated Financial Statements

31 December 2018

2.1 BASIS OF PRESENTATION (Continued)

Basis of consolidation (Continued)

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. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4 IFRS 9 IFRS 15	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Financial Instruments Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28</i>

Other than as explained below regarding the impact of Amendments to IFRS 2, IFRS 9, IFRS 15 and IFRIC Interpretation 22, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.
- (b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Notes to the Consolidated Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement		IFRS 9 measurement	
	Category	Amount RMB'000	Amount RMB'000	Category
<i>Financial assets</i>				
Trade receivables	L&R ¹	85,339	85,339	AC ²
Financial assets included in prepayments, other receivables and other assets	L&R	8,785	8,785	AC
Cash and cash equivalents	L&R	1,135,920	1,135,920	AC
		<u>1,230,044</u>	<u>1,230,044</u>	
Total assets		<u>5,466,166</u>	<u>5,466,166</u>	
<i>Financial liabilities</i>				
Trade payables	AC	233,211	233,211	AC
Financial liabilities included in other payables and accruals	AC	436,175	436,175	AC
		<u>669,386</u>	<u>669,386</u>	
Total liabilities		<u>854,113</u>	<u>854,113</u>	

¹ L&R: Loans and receivables

² AC: Financial assets or financial liabilities at amortised cost

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

Impairment

There is no opening adjustment for impairment allowance since no impairment allowances were accrued under IAS 39 or the ECL allowances under IFRS 9.

Impact on reserves and retained profits

There is no impact of transition to IFRS 9 on reserves and retained profits as at 1 January 2018.

(c) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

The financial statement line items were not affected as at 1 January 2018 as a result of the adoption of IFRS 15.

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has no impact on other comprehensive income, financial position or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted.

Notes to the Consolidated Financial Statements

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

	Note	Amounts prepared under		
		IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
CONTINUING OPERATIONS				
Cost of sales	(i)	(846,920)	(824,079)	(22,841)
Gross profit		252,627	275,468	(22,841)
Selling and distribution expenses	(i)	–	(22,841)	22,841
Loss before tax		(556,313)	(556,313)	–
Loss for the year		(556,313)	(556,313)	–
Loss for the year and total comprehensive loss attributable to owners of the Company		(533,123)	(533,123)	–
Loss per share attributable to ordinary equity holders of the Company				
Basic and diluted		(11.86) cents	(11.86) cents	–

The reasons for the changes in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (Continued)

(i) *Transportation expenses related to sale of raw milk*

Upon the adoption of IFRS 15, the Group has assessed that there was only one performance obligation in contracts for the sale of raw milk. The revenue from sale of raw milk is recognised at the point in time when control of the asset is transferred to the customers. Transportation expense is incurred before the transfer of control of raw milk and is directly related to the satisfaction of the performance obligation for delivery of raw milk. Accordingly, transportation expense was reclassified from selling and distribution expenses to cost of sales.

For the year ended 31 December 2018, the adoption of IFRS 15 resulted in an increase in cost of sales of RMB22,841,000 and a decrease in selling and distribution expenses of RMB22,841,000, respectively.

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

Notes to the Consolidated Financial Statements

31 December 2018

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

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

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

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.

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 January 2016 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16, replaces IAS 17 *Leases*, IFRIC Interpretation 4 *Determining whether an Arrangement contains a Lease*, Standing Interpretations Committee (“**SIC**”) Interpretation 15 *Operating Leases – Incentives* and SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a preliminary assessment on the impact of adoption of IFRS 16. The expected changes in accounting policies will not have any significant impact on the Group’s financial statements.

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.

Notes to the Consolidated Financial Statements

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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 in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC Interpretation 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. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Annual Improvements 2015-2017 Cycle, issued in December 2017, sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. Details of the amendments are as follows:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its biological assets and agricultural produce at fair value 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 to 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and biological assets), 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 the statement of profit or loss and other comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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 the statement of profit or loss and other comprehensive income 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;

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.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income 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 principal annual rates used for this purpose are as follows:

Buildings	3-4%
Plant and machinery	6-10%
Furniture and fixtures	18-20%
Motor vehicles	11-12%
Other equipments	18-20%

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 the statement of profit or loss and other comprehensive income 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 mainly represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Biological assets

Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the statement of profit or loss and other comprehensive income for the period 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 dairy cows is determined based on their present location and condition and is determined independently by professional valuers.

The feeding costs and other related costs including the depreciation charge, utility costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Agricultural produce represents raw milk harvested from the Group's biological assets. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices quoted in the local area. The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation costs, excluding finance costs and income tax.

Leases

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 and other comprehensive income 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 and other comprehensive income 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 (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

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 of not adjusting the effect of a significant financing component, 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 policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Initial recognition and measurement (Continued)

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.

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.

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 follow:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in administrative expenses for receivables.

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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 statements 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.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (Continued)

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 risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all 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 the Group's 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 (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for 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).

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 30 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)****General approach (Continued)**

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 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.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss and other comprehensive income.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, 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 payables and other payables and accruals.

Subsequent measurement

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

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 and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

Loans and borrowings (Continued)

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 and other comprehensive income.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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 statement of profit or loss and other comprehensive income.

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the 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, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

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.

Income tax

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

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and 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, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income 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 the statement of profit or loss and other comprehensive income 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.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018)

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.

(a) Sale of raw milk

Revenue from the sale of raw milk is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the raw milk.

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.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (b) interest income, 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.

Contract assets (applicable from 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities (applicable from 1 January 2018)

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

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant, and equipment, biological assets, 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 and other comprehensive income on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binominal model, further details of which are given in note 23 to the financial statements.

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 statement of profit or for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to the Consolidated Financial Statements

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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.

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 Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Renminbi (“**RMB**”). The Company’s functional currency is Hong Kong dollars (“**HKD**”). 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 statement of profit or loss and other comprehensive income.

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

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statement of profits or losses and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

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 the statement of profit or loss and other comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Notes to the Consolidated Financial Statements

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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.

Estimation uncertainty

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

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the dairy product sector, the historical default rates are adjusted. 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 customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of each reporting period adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 15 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)**Estimation uncertainty** (Continued)***Impairment of non-financial assets (other than goodwill)***

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the production and sale of raw milk. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

The Group's revenue from external customers is derived solely from its operations in Mainland China.

All external sales of milk produced by the Group during the Year were attributable to customers located in Mainland China.

All non-current assets were located in Mainland China.

During the Year, the Group made sales to major customers, the revenue from which individually contributed to more than 10% of the Group's total revenue for that year. The analysis for 2018 and 2017 is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Customer A	762,924	532,594
Customer B	154,958	369,003
Others	181,665	112,531
	1,099,547	1,014,128

Notes to the Consolidated Financial Statements

31 December 2018

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue from contracts with customers	1,099,547	–
Sale of raw milk	–	1,014,128
	1,099,547	1,014,128

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Sale of raw milk <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services		
Sale of goods	1,099,547	1,099,547
Total revenue from contracts with customers	1,099,547	1,099,547
Geographical markets		
Mainland China	1,099,547	1,099,547
Total revenue from contracts with customers	1,099,547	1,099,547
Timing of revenue recognition		
Goods transferred at a point in time	1,099,547	1,099,547
Total revenue from contracts with customers	1,099,547	1,099,547

5. REVENUE AND OTHER INCOME (Continued)**Revenue from contracts with customers** (Continued)**(ii) Performance obligation**

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

Sale of raw milk

The performance obligation is satisfied upon delivery of the raw milk and payment is generally due within 30 days from delivery.

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<i>Other income</i>		
Government subsidies	14,198	16,425
Interest income from bank deposits	9,349	22,482
Others	2,391	4,120
	25,938	43,027

Notes to the Consolidated Financial Statements

31 December 2018

6. LOSSES BEFORE TAX

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

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
Breeding costs to produce		594,360	544,442
Production costs for raw milk		252,560	216,425
Cost of sales		846,920	760,867
Depreciation	12	121,678	116,897
Less: Capitalised in biological assets		(53,268)	(43,674)
Depreciation recognised in the statement of profit or loss and other comprehensive income*		68,410	73,223
Amortisation of prepaid land lease payments		5,099	5,588
Auditor's remuneration		2,400	2,400
Changes in fair value less costs to sell of biological assets	15	313,472	228,665
Employee benefit expenses excluding directors' and chief executive's remuneration:			
Wages and salaries		76,336	73,584
Equity-settled share option expense		8,927	2,472
Pension scheme contributions		19,200	15,360
Less: Capitalised in biological assets		(35,025)	(25,220)
Employee benefit expenses excluding directors' and chief executive's remuneration recognised in the statement of profit or loss and other comprehensive income**		69,438	66,196
Impairment losses and accrued expenses related to removal of Baiquan Ruixincheng Farm***		436,242	-
Impairment of prepayments, other receivables and other assets		-	9,301
Loss on disposal of items of property, plant and equipment		5,022	14,113
Foreign exchange differences, net		(1,343)	9,253

6. LOSSES BEFORE TAX (Continued)

- * Depreciation of approximately RMB66,778,000 (2017: RMB71,857,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.
- ** Employee benefit expenses of approximately RMB51,811,000 (2017: RMB48,973,000) is included in the cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income for the Year.
- *** Due to the withdrawal notice and removal notice received by Baiquan Ruixincheng Farm, impairment provision of RMB461,618,000 for immovable property, plant and equipment, impairment provision of RMB32,293,000 for prepayment for construction and equipment, additional accrued expenses, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee, of RMB15,548,000 and government grants of RMB73,217,000 related to the construction of the farm are charged to the consolidated statement of profit or loss and other comprehensive income for the Year. Further details are set out in the announcements of the Company dated 1 March 2019 and 15 March 2019.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Fees	1,285	389
Other emoluments:		
Salaries, allowances and benefits in kind	1,434	464
Equity-settled share option expense	4,072	2,214
Pension scheme contributions	343	376
	5,849	3,054
	7,134	3,443

Notes to the Consolidated Financial Statements

31 December 2018

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

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

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Equity- settled share option expense <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2018						
Wu Chi Keung*	169	-	-	6	-	175
Zhang Yuezhou	132	-	-	-	-	132
Zhu Zhanbo	132	-	-	-	-	132
Meng Jingzong**	42	-	-	-	-	42
	475	-	-	6	-	481
2017						
Wu Chi Keung	173	-	-	27	-	200
Zhang Yuezhou	108	-	-	-	-	108
Zhu Zhanbo	108	-	-	-	-	108
	389	-	-	27	-	416

* Mr. Wu Chi Keung resigned as an independent non-executive director with effect from 28 September 2018.

** Mr. Meng Jingzong was appointed as an independent non-executive director with effect from 28 September 2018.

Notes to the Consolidated Financial Statements

31 December 2018

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and chief executive

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Equity- settled share option expense <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2018						
Executive directors:						
Fu Wenguo*	-	558	-	1,591	125	2,274
Zhao Hongliang	-	558	-	405	33	996
Chen Xiangqing	180	200	-	997	125	1,502
Liu Gang****	630	60	-	983	-	1,673
Wang Shaogang***	-	58	-	90	60	208
	810	1,434	-	4,066	343	6,653
Non-executive directors:						
Lau Ho Fung	-	-	-	-	-	-
	-	-	-	-	-	-
	810	1,434	-	4,066	343	6,653
2017						
Executive directors:						
Fu Wenguo*	-	116	-	837	114	1,067
Wang Shaogang	-	116	-	522	114	752
Zhao Hongliang	-	116	-	514	34	664
Chen Xiangqing	-	116	-	314	114	544
	-	464	-	2,187	376	3,027
Non-executive directors:						
Sun Wei**	-	-	-	-	-	-
Lau Ho Fung	-	-	-	-	-	-
	-	-	-	-	-	-
	-	464	-	2,187	376	3,027

Notes to the Consolidated Financial Statements

31 December 2018

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and chief executive (Continued)

- * Mr. Fu Wenguo is also the chief executive of the Company.
- ** Mr. Sun Wei resigned as a non-executive director with effect from 23 January 2017.
- *** Mr. Wang Shaogang resigned as an executive director with effect from 25 June 2018.
- **** Mr. Liu Gang was appointed as an executive director with effect from 25 June 2018.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during 2018 and 2017.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors and chief executive (2017: three directors and chief executive), details of whose remuneration are set out in note 7 above.

The aggregate of the remuneration in respect of the individuals who are neither a director nor chief executive is as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	60	733
Equity-settled share option expense	941	857
Pension scheme contributions	–	17
	1,001	1,607

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

	2018 Number of employees	2017 Number of employees
Nil to HKD1,000,000	–	1
HKD1,000,001 to HKD1,500,000	1	1
	1	2

9. INCOME TAX

No provision for Hong Kong profits tax has been made for the Year as the Group did not generate any assessable profits arising in Hong Kong during the Year (2017: nil). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

According to the prevailing tax rules and regulations, certain subsidiaries of the Company operating in the agricultural business are exempted from enterprise income tax.

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

2018	Mainland China		Hong Kong		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(537,528)		(4,187)		(14,598)		(556,313)	
Tax at the statutory tax rate	(134,382)	25.0	(691)	16.5	-	0.0	(135,073)	24.3
Effect of tax exemptions								
granted to agricultural entities	134,121	(25.0)	-	0.0	-	0.0	134,121	(24.1)
Income not subject to tax	-	0.0	(927)	22.1	-	0.0	(927)	0.2
Expenses not deductible for tax	-	0.0	1,618	(38.6)	-	0.0	1,618	(0.3)
Tax losses not recognised	261	(0.0)	-	0.0	-	0.0	261	(0.0)
Tax charge at the Group's effective rate	-	0.0	-	0.0	-	0.0	-	0.0
2017								
Loss before tax	(62,447)		6,412		(11,872)		(67,907)	
Tax at the statutory tax rate	(15,612)	25.0	1,058	16.5	-	0.0	(14,554)	21.4
Effect of tax exemptions								
granted to agricultural entities	9,035	(14.5)	-	0.0	-	0.0	9,035	(13.4)
Income not subject to tax	-	0.0	(3,480)	(54.3)	-	0.0	(3,480)	5.1
Expenses not deductible for tax	-	0.0	2,422	37.8	-	0.0	2,422	(3.6)
Tax losses not recognised	6,577	(9.5)	-	0.0	-	0.0	6,577	(9.7)
Tax charge at the Group's effective rate	-	0.0	-	0.0	-	0.0	-	0.0

Notes to the Consolidated Financial Statements

31 December 2018

10. DIVIDENDS

No dividend was paid or proposed during the Year, nor has any dividend been proposed since the end of the Year.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the Year attributable to ordinary equity holders of the Company of RMB556,313,000 (2017: RMB67,907,000) and the weighted average number of ordinary shares in issue of 4,690,496,400 (2017: 4,664,795,050).

No adjustment has been made to the basic loss per share amounts for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	2,349,690	227,255	28,989	83,656	47,669	282,132	3,019,391
Accumulated depreciation	(273,883)	(78,790)	(18,892)	(39,782)	(11,115)	-	(422,462)
Net carrying amount	2,075,807	148,465	10,097	43,874	36,554	282,132	2,596,929
At 1 January 2018, net of accumulated depreciation	2,075,807	148,465	10,097	43,874	36,554	282,132	2,596,929
Additions	-	6,440	2,421	6,391	14,783	131,147	161,182
Disposals	(52,975)	(2,054)	(156)	(1,028)	(5)	-	(56,218)
Depreciation provided during the year	(76,533)	(22,349)	(3,752)	(9,625)	(9,419)	-	(121,678)
Impairment	(447,461)	-	-	-	-	(14,157)	(461,618)
Transfers	365,471	20,952	24	547	2,086	(389,080)	-
At 31 December 2018, net of accumulated depreciation and impairment	1,864,309	151,454	8,634	40,159	43,999	10,042	2,118,597
At 31 December 2018:							
Cost	2,661,252	248,905	30,116	85,127	64,464	24,199	3,114,063
Accumulated depreciation and impairment	(796,943)	(97,451)	(21,482)	(44,968)	(20,465)	(14,157)	(995,466)
Net carrying amount	1,864,309	151,454	8,634	40,159	43,999	10,042	2,118,597

Notes to the Consolidated Financial Statements

31 December 2018

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	1,734,992	218,866	27,783	93,364	21,019	677,038	2,773,062
Accumulated depreciation	(207,823)	(53,669)	(14,446)	(38,064)	(5,575)	-	(319,577)
Net carrying amount	1,527,169	165,197	13,337	55,300	15,444	677,038	2,453,485
At 1 January 2017, net of accumulated depreciation							
Additions	391	10,927	1,206	4,297	13,531	248,990	279,342
Disposals	(7,138)	(4,880)	(3)	(4,884)	(296)	(1,800)	(19,001)
Depreciation provided during the year	(67,612)	(28,387)	(4,475)	(10,839)	(5,584)	-	(116,897)
Transfers	622,997	5,608	32	-	13,459	(642,096)	-
At 31 December 2017, net of accumulated depreciation	2,075,807	148,465	10,097	43,874	36,554	282,132	2,596,929
At 31 December 2017:							
Cost	2,349,690	227,255	28,989	83,656	47,669	282,132	3,019,391
Accumulated depreciation	(273,883)	(78,790)	(18,892)	(39,782)	(11,115)	-	(422,462)
Net carrying amount	2,075,807	148,465	10,097	43,874	36,554	282,132	2,596,929

Notes to the Consolidated Financial Statements

31 December 2018

13. PREPAID LAND LEASE PAYMENTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Carrying amount at beginning of the year	96,864	102,452
Recognised during the year	(5,099)	(5,588)
Carrying amount at end of the year	91,765	96,864
Current portion	(5,081)	(5,096)
Non-current portion	86,684	91,768

At 31 December 2018 and 2017, all of the Group's leasehold land located in Mainland China did not have land use right certificates as all the land is leased from various independent third parties.

14. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Prepayments	54,920	71,125
Other receivables	4,865	8,785
Impairment allowance	59,785 (32,293)	79,910 –
Non-current portion	27,492 (19,325)	79,910 (68,256)
Current portion	8,167	11,654

Other receivables mainly represent receivables from purchasers of dairy cows and feeds, and interest receivables. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The impairment allowance was accrued for unrecoverable prepayment for construction and equipment related to Baiquan Ruixincheng Farm.

Except as disclosed above, none of above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes to the Consolidated Financial Statements

31 December 2018

15. BIOLOGICAL ASSETS

A – Nature of activities

Dairy cows owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group at 31 December 2018 and 2017 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held at 31 December 2018 and 2017 are dairy cows that have not had their first calves.

	2018 heads	2017 heads
Dairy cows		
Heifers and calves	31,219	32,963
Milkable cows	32,425	28,244
Total dairy cows	63,644	61,207

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when they reach approximately 16 months old. After approximately nine months following a successful insemination, 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 before a resting period of approximately 60 days.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

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

(i) **Regulatory and environment risks**

The Group is subject to laws and regulations in the location in which it operates breeding. 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.

15. BIOLOGICAL ASSETS (Continued)**A – Nature of activities** (Continued)**(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.

The value of dairy cows at the end of the year was:

	2018 <i>RMB'000</i>	<i>2017</i> <i>RMB'000</i>
Dairy cows	1,211,650	1,211,825

	Heifers and calves <i>RMB'000</i>	Milkable cows <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 January 2017	446,671	654,970	1,101,641
Increase due to raising (feeding costs and others)	341,082	–	341,082
Increase due to purchase	94,474	–	94,474
Transfer (out)/in	(262,267)	262,267	–
Decrease due to sales	(48,944)	(47,763)	(96,707)
Gain/(loss) arising from changes in fair value less costs to sell	3,170	(231,835)	(228,665)
Balance as at 31 December 2017 and 1 January 2018	574,186	637,639	1,211,825
Increase due to raising (feeding costs and others)	394,234	–	394,234
Increase due to purchase	8,933	–	8,933
Transfer (out)/in	(367,456)	367,456	–
Decrease due to sales	(32,196)	(57,674)	(89,870)
Loss arising from changes in fair value less costs to sell	(47,591)	(265,881)	(313,472)
Balance as at 31 December 2018	530,110	681,540	1,211,650

Notes to the Consolidated Financial Statements

31 December 2018

15. BIOLOGICAL ASSETS (Continued)

B – Value of dairy cows

The Group's dairy cows in Mainland China were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”), a firm of independent qualified professional valuers not connected with the Group, who has appropriate qualifications and recent experiences in the valuation of biological assets. The fair value less costs to sell of the heifers and calves are determined with reference to the market prices of items with similar age, breed and genetic merit, if the market prices are available. There is no active market for heifers and calves in the Mainland China market. An arm's length negotiation price in Mainland China might deviate from an overseas market price because of transportation costs, administrative costs and other factors. Due to the fact that the market prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less costs to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the year will reduce at a certain culling rate due to natural or unnatural factors.
- The culling rates adopted are 10%, 13%, 15%, 23%, 35% and 100% for milkable cows in the first to sixth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The average milk yield of each cow per day ranges from 24.25 to 26.21 kg during the projected period of six lactation cycles, which is the estimated amount of milk producible by a cow.
- The expected average prices of milk during the projected period of six lactation cycles, which is the estimated production period of a dairy cow, are estimated after taking into account 3% of growth for each projected year after considering future demand and inflation in Mainland China.
- The cash flows for financing the assets and taxation are not included in accordance with IAS 41 *Agriculture*.
- Costs are average costs based on historical cost information and taking into account a 3% growth for each projected year after considering future supply and inflation in Mainland China.
- The discount rate used was 12.5% (2017: 14%) for the year ended 31 December 2018.

The principal valuation assumption adopted in measuring the fair value of heifers and calves is as follows:

- The average market price of a heifer of 14 months old was RMB18,000 (2017: RMB19,000) for the year ended 31 December 2018 and the average feeding cost per day of each calf and heifer ranged from RMB30.00 to RMB33.76.

15. BIOLOGICAL ASSETS (Continued)**C – Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets.

	Fair value measurement using significant unobservable inputs (Level 3)	
	2018 RMB'000	2017 RMB'000
As at 31 December	1,211,650	1,211,825

D – Sensitivity analysis**Feeding costs sensitivity analysis for milkable cows**

The following table demonstrates the sensitivity to a reasonably possible change in feeding costs, with all other variables held constant, of the Group's loss before tax (through the impact on changes in the feeding costs).

	Increase/(decrease) in loss before tax	
	2018 RMB'000	2017 RMB'000
Increase in feeding costs of 10%	162,620	129,120
Decrease in feeding costs of 10%	(162,620)	(129,120)

Milk price sensitivity analysis for milkable cows

The following table demonstrates the sensitivity to a reasonably possible change in the milk price, with all other variables held constant, of the Group's loss before tax (through the impact on changes in the milk price).

	Increase/(decrease) in loss before tax	
	2018 RMB'000	2017 RMB'000
Increase in milk price of 10%	(270,750)	(226,600)
Decrease in milk price of 10%	270,750	226,600

Notes to the Consolidated Financial Statements

31 December 2018

16. INVENTORIES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Feeds	274,111	237,404
Others	28,499	21,975
	302,610	259,379

17. TRADE RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	58,712	85,339

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month.

An ageing analysis of the trade receivables as at the end of each reporting year, based on the invoice date, is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 1 month	56,303	54,844
1 to 2 months	372	6,777
Over 2 months	2,037	23,718
	58,712	85,339

No loss allowance for impairment of trade receivables for each of the reporting year was made.

17. TRADE RECEIVABLES (Continued)**Impairment under IFRS 9 for the year ended 31 December 2018**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Impairment under IAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	54,844
Less than 1 month past due	6,777
1 to 3 months past due	<u>23,718</u>
	<u>85,339</u>

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

Receivables that were past due but not impaired related to customers that have a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Notes to the Consolidated Financial Statements

31 December 2018

18. CASH AND CASH EQUIVALENTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Cash and bank balances	179,532	363,606
Time deposits	800,041	772,314
Cash and cash equivalents	979,573	1,135,920

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB88,324,000 (2017: RMB260,050,000). In addition, at the end of the reporting period, the time deposit of the Group denominated in RMB amounted to RMB82,548,000 (2017: RMB608,476,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

19. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting year, based on the invoice date, is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 2 months	205,450	185,778
2 to 6 months	68,432	38,779
6 to 12 months	6,043	4,816
Over 1 year	5,834	3,838
	285,759	233,211

Trade payables are non-interest-bearing and are normally settled on terms of two to six months.

20. OTHER PAYABLES AND ACCRUALS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Deferred income	145,201	167,804
Other payables – construction	163,305	268,432
Other payables – equipment and materials	18,704	7,955
Accrued expenses related to removal of Baiquan Ruixincheng Farm	15,548	–
Others	69,953	176,711
	412,711	620,902
Non-current portion		
Deferred income	(134,327)	(156,137)
	278,384	464,765

Other payables are non-interest-bearing and have no fixed terms of repayment.

Deferred income represented government grants received by the group as financial subsidies for the purchases of feed and the construction of farms. Government grants are recognised as income over the period necessary to match the grant on a systematic basis to the costs and expenses that they are intended to compensate on over the weighed average of the expected useful life of the relevant property, plant and equipment, except for recognition of government grants related to Baiquan Ruixincheng Farm's immovable property, plant and equipment of RMB73,217,000.

Accrued expenses related to removal of Baiquan Ruixincheng Farm of RMB15,548,000 represented accrued transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee.

21. DEFERRED TAX

The Group has tax losses arising in Mainland China of RMB34,798,000 (2017: RMB60,389,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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 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.

Notes to the Consolidated Financial Statements

31 December 2018

21. DEFERRED TAX (Continued)

As at 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB52,876,000 at 31 December 2018 (2017: RMB106,564,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. SHARE CAPITAL

Shares

	2018 RMB'000	2017 RMB'000
Authorised: 50,000,000,000 ordinary shares of HKD0.01 each	406,897	406,897
Issued and fully paid: 4,690,496,400 (2017: 4,690,496,400) ordinary shares of HKD0.01 each	37,674	37,674

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2017	3,908,747,000	30,727
Issue of shares (Note (a))	781,749,400	6,947
At 31 December 2017 and 1 January 2018	4,690,496,400	37,674
At 31 December 2018	4,690,496,400	37,674

Note:

- (a) On 13 January 2017, placement of new shares has been completed with a total of 781,749,400 shares at a placing price of HKD0.50 per share.

22. SHARE CAPITAL (Continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 23 to the financial statements.

23. 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, at the discretion of the Company's directors, include, amongst others, the Company's directors, covering the non-executive directors and independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, service providers rendering research, development or other technological support services to the Group, the Group's shareholders, advisors or consultants of the Group and any other participants who have contributed to the development and growth of the Group. The Scheme became effective on 7 November 2013 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 30% 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. 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 HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which period may commence from the date of grant of the option is made, but shall end in any event not later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Company's shares on the date of the offer for the grant, which must be a business day; (ii) the average of the closing prices of Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share of the Company.

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

Notes to the Consolidated Financial Statements

31 December 2018

23. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price <i>HKD per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HKD per share</i>	Number of options <i>'000</i>
At 1 January	0.868	132,950	0.873	144,850
Granted during the year	0.240	168,500	–	–
Cancelled during the year	0.893	(102,750)	–	–
Forfeited during the year	0.808	(800)	0.927	(11,900)
At 31 December	0.321	197,900	0.868	132,950

No share options were exercised during the year (2017: nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options <i>'000</i>	2017 Number of options <i>'000</i>	Exercise price <i>HKD per share</i>	Exercise period
1,980	12,735	1.462	22-8-2015 to 21-8-2021
1,980	12,735	1.462	22-8-2016 to 21-8-2021
2,640	16,980	1.462	22-8-2017 to 21-8-2021
6,840	27,150	0.590	8-12-2016 to 7-12-2022
6,840	27,150	0.590	8-12-2017 to 7-12-2022
9,120	36,200	0.590	8-12-2018 to 7-12-2022
101,100	–	0.240	5-6-2018 to 4-6-2025
67,400	–	0.240	5-6-2019 to 4-6-2025
197,900	132,950		

The Group recognised a share option expense of RMB12,999,000 (2017: RMB4,686,000) during the year ended 31 December 2018.

The fair value of the share options granted during the year ended 31 December 2018 was HKD15,815,410 (HKD0.0939 each). No share options were granted during the year ended 31 December 2017.

23. SHARE OPTION SCHEME (Continued)

On 5 June 2018, 102,750,000 share options (the “**Old Options**”) previously granted to directors and employees, 35,650,000 of which were granted in 2014 at the exercise price of HKD1.462 while 67,100,000 of which were granted in 2015 at the exercise price of HKD0.59, were cancelled and replaced by 168,500,000 share options (the “**New Options**”). On the date of grant, 26,840,000 of the Old Options were not vested while 75,910,000 of the Old Options were vested. The exercise price of the New Options was HKD0.24 per share, which was equal to the market price of the shares on the date of grant. 60% of the New Options (“**Tranche I**”) were vested and exercisable on or after 5 June 2018 and the remaining 40% of the New Options (“**Tranche II**”) will be vested and exercisable on or after 5 June 2019. The fair value of the New Options at the grant date is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is seven years. There is no cash settlement of the options. The fair value of options granted during the period ended 31 December 2018 was estimated on the date of grant using the following assumptions:

	Tranche I	Tranche II
Dividend yield (%)	–	–
Expected volatility (%)	50.0110	49.2340
Risk-free interest rate (%)	1.9960	2.0400
Expected life of share options (<i>years</i>)	3.5	4
Weighted average share price (<i>HKD</i>)	0.0919	0.0968

The expected life of the options is based on the assumption that each tranche of options will be exercised in the middle point between the vesting date and the last exercise date and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 197,900,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 197,900,000 additional ordinary shares of the Company and additional share capital of approximately HKD1,979,000 (equivalent to RMB1,7675,000) and share premium of HKD61,562,200 (equivalent to RMB52,107,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 197,900,000 share options outstanding under the Scheme, which represented approximately 4.2% of the Company’s shares in issue as at that date.

Notes to the Consolidated Financial Statements

31 December 2018

24. RESERVES

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 on page 73 of the financial statements.

The Group's merger reserve represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

The capital reserve represents the amount of a capital contribution from Ms. Li Shuxia, the spouse of Mr. Zhao Hongliang, to YST Heilongjiang for repayment of the total indebtedness.

25. COMMITMENTS

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Contracted, but not provided for: Plant and machinery	41,372	93,555

26. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Short term employee benefits	3,035	1,263
Post-employment benefits	360	397
Equity-settled share option expense	4,643	1,965
Total compensation paid to key management personnel	8,038	3,625

Further details of directors' and the chief executive's remuneration are included in note 7 to the financial statements.

27. 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:

2018

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	58,712
Financial assets included in prepayments, other receivables and other assets	4,865
Cash and cash equivalents	979,573
	1,043,150

Financial liabilities

	Financial assets at amortised cost RMB'000
Trade payables	285,759
Financial liabilities included in other payables and accruals	232,121
	517,880

Notes to the Consolidated Financial Statements

31 December 2018

27. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2017

Financial assets

	Loans and receivables <i>RMB'000</i>
Trade receivables	85,339
Financial assets included in prepayments and other receivables	8,785
Cash and cash equivalents	<u>1,135,920</u>
	<u>1,230,044</u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade payables	233,211
Financial liabilities included in other payables and accruals	<u>436,175</u>
	<u>669,386</u>

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group did not have any financial assets or financial liabilities measured at fair value as at 31 December 2018 (2017: nil).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and time deposits. 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 cash and bank balances with floating interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax.

	2018		2017	
	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax RMB'000	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax RMB'000
RMB	100	(1,709)	100	(8,145)
HKD	100	(1,893)	100	(3,194)
USD	100	(6,194)	100	(20)
RMB	(100)	1,709	(100)	8,145
HKD	(100)	1,893	(100)	3,194
USD	(100)	6,194	(100)	20

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from cash and cash equivalents and time deposits held by operating units in currencies other than the units' functional currencies. Approximately 62% (2017: 14%) of the Group's cash and cash equivalents and time deposits were denominated in currencies other than the functional currency of the operating units.

Notes to the Consolidated Financial Statements

31 December 2018

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD and US\$ exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets).

	2018		2017	
	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in loss before tax <i>RMB'000</i>	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in loss before tax <i>RMB'000</i>
If RMB weakens against HKD	3%	(49)	3%	(4,934)
If RMB strengthens against HKD	(3%)	49	(3%)	4,934
If RMB weakens against US\$	3%	(18,581)	3%	(61)
If RMB strengthens against US\$	(3%)	18,581	(3%)	61

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Maximum exposure and year-end staging as at 31 December 2018**

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			Simplified approach	RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	RMB'000		
Trade receivables*	-	-	-	58,712	58,712	
Financial assets included in prepayments, other receivables and other assets – Normal**	4,865	-	-	-	4,865	
Cash and cash equivalents – Not yet past due	979,573	-	-	-	979,573	
	984,438	-	-	58,712	1,043,150	

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Notes to the Consolidated Financial Statements

31 December 2018

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits, and financial assets included in prepayments, other receivables and other assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of the reporting period, the Group had certain concentrations of credit risk as 39% (2017: 68%) and 96% (2017: 94%) of the Group's trade receivables were due from the Group's largest customer and the four largest customers, respectively. Concentrations of credit risk are managed by establishing credit verification procedures. Management determines that there are minimal concentrations of credit risk within the Group as the customers of the Group's trade receivables are recognised and creditworthy.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

Liquidity risk

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

	2018 On demand or no later than 1 year RMB'000	2017 On demand or no later than 1 year <i>RMB'000</i>
Trade payables	285,759	233,211
Financial liabilities included in other payables and accruals	232,121	436,175
	517,880	669,386

29. 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. 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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade payables	285,759	233,211
Other payables and accruals	232,121	436,175
Less: Cash and cash equivalents	(979,573)	(1,135,920)
Net asset	(461,693)	(466,534)
Equity attributable to owners of the parent	4,091,929	4,612,053
Capital and net debt	3,630,236	4,145,519
Gearing ratio	N/A	N/A

Notes to the Consolidated Financial Statements

31 December 2018

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
NON-CURRENT ASSETS		
Due from subsidiaries	2,616,269	2,845,693
Investments in subsidiaries	1	1
Total non-current assets	2,616,270	2,845,694
CURRENT ASSETS		
Prepayments, other receivables and other assets	407	13
Cash and cash equivalents	528,850	156,909
Total current assets	529,257	156,922
CURRENT LIABILITIES		
Due to subsidiaries	7,980	7,617
Other payables and accruals	3,784	3,795
Total current liabilities	11,764	11,412
NET CURRENT ASSETS	517,493	145,510
Net assets	3,133,763	2,991,204
EQUITY		
Issued capital	37,674	37,674
Reserves (<i>note</i>)	3,096,089	2,953,530
Total equity	3,133,763	2,991,204

Zhao Hong Liang
Director

Chen Xiang Qing
Director

Notes to the Consolidated Financial Statements

31 December 2018

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Share premium <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2017	2,621,198	34,082	322,286	(139,885)	2,837,681
Total comprehensive loss	-	-	(212,139)	(11,872)	(224,011)
Issue of shares	340,384	-	-	-	340,384
Share issue expenses	(5,210)	-	-	-	(5,210)
Equity-settled share option arrangements	-	4,686	-	-	4,686
Transfer of share option reserve upon the forfeiture of share options	-	(1,238)	-	1,238	-
At 31 December 2017 and 1 January 2018	2,956,372	37,530	110,147	(150,519)	2,953,530
Total comprehensive income/(loss)	-	-	144,133	(14,573)	129,560
Equity-settled share option arrangements	-	12,999	-	-	12,999
Transfer of share option reserve upon the forfeiture of share options	-	(31,705)	-	31,705	-
At 31 December 2018	2,956,372	18,824	254,280	(133,387)	3,096,089

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements for the years ended 31 December 2014, 2015, 2016, 2017, and 2018 as follows:

RESULTS

	Year ended 31 December				
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue	1,099,547	1,014,128	1,029,232	1,032,648	1,162,890
(Loss)/profit for the year	(556,313)	(67,907)	(88,569)	66,173	418,790

ASSETS AND LIABILITIES

	As at 31 December				
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Total assets	4,790,399	5,466,166	5,043,579	4,940,280	5,073,570
Total liabilities	(698,470)	(854,113)	(687,866)	(520,148)	(737,381)
Total equity	4,091,929	4,612,053	4,355,713	4,420,132	4,336,189



YuanShengTai Dairy Farm Limited
原生态牧业有限公司

31st Floor, 148 Electric Road, North Point, Hong Kong

<http://www.ystdfarm.com/>