



Lanzhou Zhuangyuan Pasture Co., Ltd.*

蘭州莊園牧場股份有限公司

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

Stock Code: 1533



庄园有牧场
自然更新鲜

*For identification purposes only



2019 Annual
Report

About Us

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



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Hongfu
Mr. Wang Guofu
Mr. Chen Yuhai (*resigned on 6 March 2020*)
Ms. Zhang Qianyu

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng

Independent Non-Executive Directors

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

Supervisors

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

AUDIT COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGY COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu
Ms. Ho Wing Yan (*ACIS, AC (PE)*)

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu (*Executive Director*)
Ms. Ho Wing Yan (*ACIS, AC (PE)*)

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

Sanjiaocheng Village
Sanjiaocheng Town
Yuzhong County
Lanzhou, Gansu
PRC

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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



Corporate Information

H SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

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

LEGAL ADVISOR (AS TO HONG KONG LAW)

Howse Williams

27/F Alexandra House
18 Chater Road
Central
Hong Kong

PRINCIPAL BANK

Agricultural Development Bank of China, Yuzhong County Branch

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

AUDITORS

WUYIGE Certified Public Accountants LLP

22F., Xueyuan International Tower
No. 1 Zhichun Road
Haidian District
Beijing

COMPANY WEBSITE

<http://www.lzzhuangyuan.com>



Annual Results Highlights

FINANCIAL HIGHLIGHTS

Results

	Years ended 31 December	
	2019 RMB'000	2018 RMB'000
Operating income	813,554	657,732
Gross profit	253,899	212,337
Profit for the year attributable to equity shareholders of the Company	51,321	63,533
Earnings per share (RMB)(1)	0.27	0.34
Proposed dividend per share (RMB)	5.50 cents	6.80 cents

- Operating income increased by 23.69% as compared to the year ended 31 December 2018.
 - Gross profit increased by 19.57% as compared to the year ended 31 December 2018.
 - Profit for the year attributable to equity shareholders of the Company decreased by 19.22% as compared to the year ended 31 December 2018.
- (1) The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year.



Chairman's Statement

REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the audited annual report of 蘭州莊園牧場股份有限公司 Lanzhou Zhuangyuan Pasture Co., Ltd.* (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Reporting Year").

Our operating income increased by 23.69% from RMB658 million for the year ended 31 December 2018 to RMB814 million for the year ended 31 December 2019, primarily due to acquisition of Xi'an Dongfang Dairy Company Limited 西安東方乳業有限公司 ("Xi'an Dongfang Dairy" or "Dongfang Dairy") and increase of revenue in the consolidated financial statements.

Our total gross profit margin of our dairy products was 32.16% for 2018 and 30.95% for 2019. The overall gross profit margin remained stable.

As one of the leading enterprises in dairy products market in northwestern China, the Group's distribution network covers most local markets in Gansu, Qinghai and Shaanxi. To improve the operating efficiency, the Company consolidated the portfolio of the distributors and sales agents, with the total number decreasing from 1,039 to 765.

Ma Hongfu

Chairman

The increase in the household income has promoted a diversified and high-end demand of the consumers for dairy products. Dairy companies placed emphasis on milk source development to ensure product quality and witnessed a period of competition in the entire industry chain of milk sources, products and channels with higher industry concentration.

Dairy industry is an important one concerning people's livelihood. The dairy product processing falls within the animal husbandry product processing industry supported by national policies. China attaches great importance to the revitalization of the dairy industry. In June 2018, the Opinions on Revitalizing Dairy Industry and Ensuring Dairy Product Quality and Safety (Guo Ban Fa 2018 No. 43) was issued by the General Office of the State Council, which specified the strategic positioning of dairy industry and provided for the definite requirements for the construction of quality milk base. The idea of "revitalizing the dairy industry and strengthening the construction of quality milk bases" was put forward in the Several Opinions of the Central Committee of the Communist Party of China and the State Council on Adhering to the Priority of Agriculture and Rural Development and Accomplishing Works on Agriculture, Countryside and Farmers (Central Document No. 1) in 2019. This indicated that China will increase the supportive policies on further promoting the development of a strong industry.

We are implementing the "Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District", to promote the construction of quality milk bases; and the "reconstruction and expansion project with daily processing 600 tons of liquid milk", which reached the intended conditions for use as at the end of the Reporting Year, to further improve product quality and meet consumers' diversified demand for products.

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



* For identification purpose only

Management Discussion and Analysis

INDUSTRY REVIEW

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

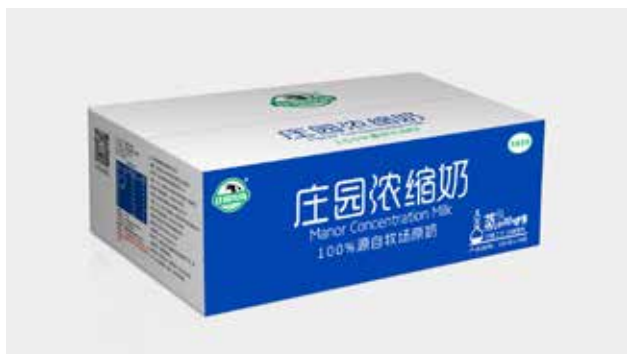
China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health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



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

BUSINESS REVIEW

We are one of the leading dairy companies in Gansu, Qinghai and Shaanxi where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated five dairy farms and collectively operated two dairy farms through cooperation with local dairy farmers as at 31 December 2019. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so as to maintain approximately 64% of our raw milk requirement that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



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

Management Discussion and Analysis

We are a major player in the sales of “Cold Chain Liquid Milk Products” (i.e. liquid milk product(s) that have a short shelf life between 3 days to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products) in the Gansu, Qinghai and Shaanxi regional markets. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu, Qinghai and Shaanxi due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu, Qinghai and Shaanxi regional markets and then further expand into other provinces in the northwestern China market.

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

Key Financial Ratios

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

	2019	2018
Current ratio ⁽¹⁾	0.64	0.72
Quick ratio ⁽²⁾	0.54	0.60
Return on equity ⁽³⁾	4.26	5.50%
Return on assets ⁽⁴⁾	2.24	3.30%
Gearing ratio ⁽⁵⁾	50.84	42.17%

Notes:

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

Management Discussion and Analysis

Biological Assets

During the Reporting Year, our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2019 and 2018:

	At 31 December	
	2019 RMB'000	2018 RMB'000
Dairy cows		
Milkable cows	189,266	180,621
Heifers	155,117	68,662
Calves	15,712	21,021
Total	360,095	270,304

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

	2019 (Heads)		2018 (Heads)	
Dairy cows				
Milkable cows	5,560		5,196	
Heifers	6,472		2,839	
Calves	1,380		2,069	
Total	13,412		10,104	

Dairy Farming

- Milk yield**

Our raw milk production was approximately 49,675 tons (2018: approximately 27,927 tons), representing an increase of approximately 77.87% year-on-year, mainly due to the increase in the number of milkable cows.

During the Reporting Year, the average annual milk production per milkable cow decreased from a range of 5.6 tons to 10.9 tons in 2018 to a range of 5.0 tons to 10.2 tons in 2019, which was mainly due to the higher percentage of number of imported cows over the total number of cows.



Management Discussion and Analysis

Dairy Products Production

In 2019, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own dairy farms and quality fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

- **Optimizing Liquid Milk Product Mix**

Product mix has affected our revenue, gross profit and gross profit margin in the past. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future. The gross profit margin of the pasteurised milk products of the Group increased from 36.14% in 2018 to 40.56% in 2019, due to the moderate change in the mix of liquid milk products of the Group after the acquisition of Xi'an Dongfang Dairy Co., Ltd., priority given to the pasteurised milk products and modified milk products by Xi'an Dongfang Dairy Co., Ltd., and a relatively higher gross profit margin of pasteurised milk products. The gross profit margin of UHT milk products decreased from 25.66% in 2018 to 18.48% in 2019, due to fiercer market competition in 2019. There was an increase in the sales volume of modified milk products and the gross profit margin remained stable.

- **Expansion of our Distribution Network**

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu, Qinghai and Shaanxi. As at 31 December 2019, we had entered into distribution agreements with 765 distributors and sales agents, as compared to 1,039 distributors and sales agents as at 31 December 2018. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network, solidify our established position in our primary markets and consolidate our distributors and sales agents in 2019. Furthermore, we have also expanded our distribution network into the China national market, especially in the northwestern China region.



Management Discussion and Analysis

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

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products increased from RMB8,711 per tonne in 2018 to RMB8,916 per tonne in 2019.

Quality Control

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

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

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

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

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



Management Discussion and Analysis

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

Brand Building

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

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

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



Management Discussion and Analysis

FINANCIAL OVERVIEW

Operating Income

Principal Activities

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2019 and 2018:

	Years ended 31 December					
	2019			2018		
	Sales Amount <i>RMB'000</i>	Sales Volume <i>Tonne</i>	Average Selling Price <i>RMB/Tonne</i>	Sales Amount <i>RMB'000</i>	Sales Volume <i>Tonne</i>	Average Selling Price <i>RMB/Tonne</i>
Liquid milk products						
Pasteurised milk	49,609	6,136	8,085	27,459	3,922	7,001
UHT milk	193,179	28,368	6,810	229,944	32,052	7,174
Modified milk	279,751	30,399	9,203	170,149	19,488	8,731
Yogurt	255,975	22,416	11,419	199,739	16,551	12,068
Subtotal	778,514	87,319	8,916	627,291	72,013	8,711
Milk beverage	10,114	2,051	4,932	1,347	410	3,285
Other dairy products	3,687	158	23,309	3,106	137	22,672
Total	792,315	89,528	8,850	631,744	72,560	8,707

Our revenue from principal activities increased by 25.4% from RMB631.7 million for the year ended 31 December 2018 to RMB792.3 million for the year ended 31 December 2019, mainly due to the contribution of Xi'an Dongfang Dairy acquired by the Group.



Management Discussion and Analysis

Gross profit and gross profit margin

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

Products	Years ended 31 December					
	2019			2018		
	Cost of Sales	Gross Profit	Gross Profit Margin	Cost of Sales	Gross Profit	Gross Profit Margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Liquid milk products						
Pasteurised milk	29,486	20,123	40.56%	17,536	9,923	36.14%
UHT milk	157,475	35,704	18.48%	170,919	58,995	25.66%
Modified milk	179,377	100,373	35.88%	106,383	63,766	37.48%
Yogurt	170,073	85,902	33.56%	130,727	69,012	34.55%
Subtotal	536,411	242,103	31.10%	425,595	201,696	32.15%
Milk beverage	7,521	2,593	25.64%	1,096	251	18.63%
Other dairy products	3,158	529	14.34%	1,882	1,224	39.41%
Total	547,090	245,225	30.95%	428,573	203,171	32.16%

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 32.16% for the year ended 31 December 2018 and 30.95% for year ended 31 December 2019. The overall gross margin during the Reporting Year remained basically stable as compared to last year.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from RMB9.21 million for the year ended 31 December 2018 to RMB16.12 million for the year ended 31 December 2019. The increase during the Reporting Year was primarily due to the increase in raw milk yield.

Management Discussion and Analysis

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

We recorded gain from changes in fair value less costs to sell of biological assets amounted to RMB10.7 million for the year ended 31 December 2019, which increased by 218.63% from the loss of RMB9.0 million for the year ended 31 December 2018, primarily due to the increase in the cow price as a result of the impact of market conditions in 2019.

Qualification and independence of the valuers

Beijing Yatai Lianhua Assets Appraisal Co. Ltd. (“Beijing Yatai Lianhua”) was established in 1993 certified with the Licensed Certification for Appraisals in relation to Securities and Futures (《證券期貨相關業務評估資格》) jointly issued by the MOF and the CSRC. It possesses qualifications in the valuation of properties and land. Given the need of the Company for the preparation of financial statements for the year ended 31 December 2018, the Company engaged Beijing Yatai Lianhua to perform a valuation on the biological assets intended to be carried at fair value that are reported by four wholly-owned subsidiaries and a wholly-owned sub-subsidiary under the Company, being Qinghai Shengya Plateau Pasture Co., Ltd.*, Linxia County Ruiyuan Pasture Co., Ltd.*, Lanzhou Ruixing Farming Co., Ltd.*, Wuwei Ruida Pasture Co., Ltd.* and Shaanxi Duoxian Farming Co., Ltd.*

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

The key members of Beijing Yatai Lianhua engaged in this valuation were Mr. Wang Ming and Ms. Chen Ying. Mr. Wang Ming is the deputy head and asset appraiser of Beijing Yatai Lianhua, and Ms. Chen Ying the project manager and asset appraiser of Beijing Yatai Lianhua. They have provided valuation services in relation to the conversion, listing, transfer of equity interest, ect., to numerous companies in Mainland China and have extensive experience in asset appraisal.



Management Discussion and Analysis

Operating expenses

	Years ended 31 December	
	2019 RMB'000	2018 RMB'000
Selling and distribution expenses	81,584	83,983
General and administrative expenses	77,390	48,711
Total operating expenses	158,974	132,694

Our operating expenses increased from RMB132.7 million for the year ended 31 December 2018 to RMB159.0 million for the year ended 31 December 2019. This was mainly because we invested more in promotion and branding in order to further strengthen our sales channels and product sales during the Reporting Year. The acquisition of Xi'an Dongfang Dairy Co., Ltd. also contributed to the increase in selling expenses as compared with the previous period.

The increase in administration expenses was mainly due to the acquisition of Xi'an Dongfang Dairy Co., Ltd.

Financial expenses

Our net finance costs increased by 4.72% from RMB21.2 million for the year ended 31 December 2018 to RMB22.2 million for the year ended 31 December 2019, primarily because we have not received the interest subsidies for policy related preferential loans.

Current ratio

As at 31 December 2019, our current ratio (current assets/current liabilities) was approximately 0.64 compared to 0.72 as at 31 December 2018.

Management Discussion and Analysis

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations. As at 31 December 2019 and 2018, we had RMB248.2 million and RMB388.8 million in cash and cash equivalents, respectively, which were mainly denominated in RMB and primarily consisted of cash on hand and bank deposits.

Indebtedness

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2019, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB366 million at interest rates ranging from 4.35% to 6.09% per annum. As at 31 December 2019, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB227.3 million at interest rates ranging from 4.75% to 5.7% per annum.

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

Asset-liability ratio

As at 31 December 2019, our asset-liability ratio was 50.84% (the ratio of total liabilities to assets) compared to 42.17% as at 31 December 2018.

Foreign exchange risk and pledge of assets

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

For the year ended 31 December 2019, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed. The management will continue to monitor foreign currency risk and adopt prudent measures as and when appropriate.

As at 31 December 2019, the book value of our restricted assets was RMB601.7 million (31 December 2018: RMB339.4 million). The types and book value the restricted assets were as follows: (1) monetary capital of RMB 165.5 million (31 December 2018: RMB14.3 million); (2) fixed assets of RMB 346.1million (31 December 2018: RMB319.5 million); (3) intangible assets of RMB54.8 million (31 December 2018: RMB5.7 million); (4) long-term equity investments of RMB35.3 million (31 December 2018: nil).



Management Discussion and Analysis

Asset impairment

(1) Goodwill from the acquisition of 82% equity in Xi'an Dongfang Dairy Co., Ltd

The Company convened the sixth meeting of the third session of the Board of Directors on 26 July 2018 to consider and approve the Resolution on the Acquisition of Equity in Subsidiary Xi'an Dongfang Dairy Co., Ltd., in relation to acquiring a total of 82% equity in Xi'an Dongfang Dairy Co., Ltd. (hereinafter referred to as "Dongfang Dairy") with RMB249,000,000 in cash. The Company convened the second Extraordinary General Meeting and class shareholders' meeting of 2018 on 26 September 2018 to consider and approve the Resolution on the Acquisition of Equity in Subsidiary Xi'an Dongfang Dairy Co., Ltd. Dongfang Dairy completed the change to industrial and commercial registration on 1 November 2018, and obtained the Business License issued by the Xi'an Administration for Industry and Commerce. Upon completion of the change, the Company became the sole shareholder of Dongfang Dairy and owned 100% equity interests of Dongfang Dairy. The acquisition incurred goodwill of RMB58,691,000.

The Company made a provision for goodwill impairment amounting to RMB48,719,000 for the goodwill resulting from the acquisition of 82% equity in Xi'an Dongfang Dairy Co., Ltd., which was included in the Company's profits and losses for 2019. According to the performance compensation agreement in respect of the acquisition, the Company recognized a compensation of RMB22,333,000 due from the original shareholders of Xi'an Dongfang Dairy, which was included in the non-operating income for the Period. The Company also recognized closing trading financial assets and the gains and losses from changes in fair value for the Period totaling RMB20,412,000 by calculating the compensation receivable based on result forecast of Xi'an Dongfang Dairy for 2020, discounted at 4.75% of the Company's latest financing costs.

(2) Fixed assets of wholly-owned subsidiaries Ningxia Zhuangyuan Pasture Co., Ltd. and Qinghai Shengyuan Pasture Co., Ltd

The sites of the Company's wholly-owned subsidiaries Ningxia Zhuangyuan Pasture Co., Ltd. and Qinghai Shengyuan Pasture Co., Ltd. were classified as closed areas for livestock and poultry breeding and were included in the scope of closure and relocation. The Company actively responded to the government arrangements by carrying out the relocation and shutdown work, while actively negotiating with local governments on compensation. The Company made a provision for impairment of RMB9,239,000 for the fixed assets of the above two wholly-owned subsidiaries that may be terminated or disposed of in advance due to the relocation.

Management Discussion and Analysis

Contingent liabilities

As at 31 December 2018 and 31 December 2019, we did not have significant contingent liabilities.

Capital structure

During the Reporting Year, in 2019, the Company directionally issued 3,341,000 restricted shares to 84 share incentive targets at a grant price of RMB6.96 per share, thus share capital was increased by RMB3,341,000 and the balance of RMB19,910,000 was included in capital reserve.

Significant investments

The Company was established in April 2000. Its production base located in Sanjiaocheng, Yuzhong County, Lanzhou City, Gansu Province was built according to the then market size, consumer demand and industry characteristics, and was complete and put into production in 2003. After nearly 20 years, some workshops look outdated with some equipment getting obsolete. Due to limited plant area and fixed plant layout, the Company's dairy processing base in Yuzhong County is now unable to fully meet the growing demand for product diversification in the dairy consumer market and introduction of advanced dairy production processes such as filling technology.

In view of its future long-term planning and sustainable development, the Company started the “reconstruction and expansion project with daily processing 600 tons of liquid milk” in 2018. This “reconstruction and expansion project with daily processing 600 tons of liquid milk” will be built on the land where the existing production and processing base is locate with a site area of 35.70 acres and 113.82 acres of newly purchased land in 2018, that is, a total of 149.52 acres of land. An experienced and qualified engineering design institute was engaged to provide a rational and modern plan for overall layout for investment and construction. Existing obsolete production equipment with low utilization rate, long service life and outdated production technology will be demised. At the same time, new production lines will be purchased and built to increase the Company's production capacity. The capacity and output realized after the project is completed and put into operation will include the existing capacity and output of the Yuzhong processing base with some enhancement.

The Company invested RMB14.5 million in 2018 and RMB316.7 million in 2019, together accounting for 13% of its total assets of RMB2,492.7 million in 2019. As of the end of 2019, the cumulative investment was RMB331.2 million, accounting for 13% of its total assets of RMB2,492.7 million in 2019.

It is expected that the completion of the “reconstruction and expansion project with daily processing 600 tons of liquid milk” will help optimize the production process and enrich the product structure; improve production efficiency and reduce labor costs; improve production standards and strengthen product quality control; and integrate the Group's production resources for long-term development.



Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2019.

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

Basic information on the proceeds raised from the H Share Listing

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

The Raised Funds utilized in 2019 were RMB8,524,000, and the total funds utilized in the previous years were RMB107,688,000. As of 31 December 2019, the Company had utilized RMB116,212,000 out of the funds raised from the last H Share Listing. The net interest income from the Raised Funds after deduction of handling charges was RMB180,000. The balance of the Raised Funds deposited in the special account was RMB0, and the balance of the Raised Funds unutilized was RMB0.



Management Discussion and Analysis

We set out below the status of the application of the net proceeds from the H Share Listing to 31 December 2019:

(RMB'000)

Total raised funds	116,031	Total raised funds invested during this year	8,524
Total raised funds which changed purpose during the Reporting Year		Total raised funds invested accumulatively	116,031
Total accumulatively raised funds which changed purpose	46,413		
The proportion of total accumulatively raised funds which changed purpose	40%		

Committed investment projects and use of excessive raised funds	Whether the project has been changed (including some changes)	Total committed investment of raised funds	Total investment after adjustment ⁽¹⁾	The amount invested during this year	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period (%) ^{(2)/(1)}	The date when the project reaches a predetermined usable state	The benefit realized during this year	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project

Committed investment projects

1. The construction of 3,000 raw milk kiosks of communities	Yes	37,130					N/A	N/A	N/A	N/A
2. Some source of fund for the project of importing approximately 5,000 dairy cows from Australia or New Zealand	Yes	34,809	81,222		81,222	100%	Note 1 and Note 2			
3. The promotion of brands	No	23,206	23,206	8,524	23,206	100%	N/A	N/A	N/A	No
4. The construction of a new technical centre	Yes	9,283					N/A	N/A	N/A	N/A
5. Operating capital and others	No	11,603	11,603		11,603	100%	N/A	N/A	N/A	N/A
Total		116,031	116,031	8,524	116,031	100%				

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

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



Management Discussion and Analysis

Basic information on the proceeds raised from the A Share Listing

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

The funds utilized in 2019 were nil, the temporary supplemental liquidities were RMB100,000,000 and the interest income of the special account for funds raised after deducting handling charges for the current year was RMB438,000. As of 31 December 2019, the Company had utilized RMB203,400,000 out of the funds raised from the A Share Listing. The net interest income from the Raised Funds after deduction of handling charges was RMB1,354,000. The balance of the Raised Funds deposited in the special account was RMB107,458,000, and the balance of the Raised Funds unutilized was RMB107,458,000.

Management Discussion and Analysis

We set out below the status of the application of the net proceeds from the A Share Listing to 31 December 2019:

(RMB'000)

Total raised funds	309,504	Total raised funds invested during this year	
Total raised funds which changed purpose during the reporting period	106,104	Total raised funds invested accumulatively	203,400
Total accumulatively raised funds which changed purpose	256,104		
The proportion of total accumulatively raised funds which changed purpose	83%		

	Whether the project has been changed (including some changes)	Total committed investment of raised funds	Total investment after adjustment ⁽¹⁾	The amount invested during this year	Accumulated amount invested as of the end of the period ⁽²⁾	Investment progress as of the end of the period ^{(%)⁽²⁾⁽¹⁾}	The date when the project reaches a predetermined usable state	The benefit realized during this year	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project

Committed investment projects

1. The project of cultivation and construction of 10,000 imported good dairy cows	Yes	260,193	53,400		53,400	100%	Note 1			No
2. The construction project of self-service milk selling machines and ancillary facility	Yes	49,310					N/A	N/A	N/A	Yes
3. The acquisition of 82% equity interest of Xi'an Dongfang Dairy	No		150,000		150,000	100%	31 October 2018	12,519	Note 2	No
4. Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District	No		106,104				N/A	N/A	N/A	No
Total		309,504	309,504		203,400	66%		12,519		

Note 1: Cattle breeding project of 10,000 imported improved dairy cows: as of 31 December 2019, RMB53,400,000 was paid for the purchase of 3,000 Holstein cows for the "cattle breeding project of 10,000 imported improved dairy cows", of which 2,241 cows have reached to the pasture, and the remaining 759 cows have not yet.

Note 2: On 31 October 2018, the Company acquired 82% equity of Xi'an Dongfang Dairy Co., Ltd., enabling it to become the Company's wholly-owned subsidiary.



Management Discussion and Analysis

The original shareholders commit to the Company that the net profit (subject to the net profit attributable to the parent company after a deduction of non-recurring profit or loss) in 2018, 2019 and 2020 will not be lower than RMB18,000,000.00, RMB22,000,000.00 and RMB25,000,000.00. During the period of commitments, the accumulative net profit of Xi'an Dongfang Dairy Co., Ltd. as of the end of the current period is lower than the one committed. The net profit of Dongfang Dairy after deducting non-recurring profit and loss was RMB18,456,400 in 2018. Dongfang Dairy failed to meet the performance commitments in 2019, recording a net profit after deducting non-recurring profit and loss of RMB12,518,500. It is expected that Xi'an Dongfang Dairy will still be unable to meet the performance commitments in 2020.

Human Resources

We had 922 employees in PRC and Hong Kong as at 31 December 2019 (31 December 2018: 907 employees).

During the Reporting Year, total staff costs were RMB69.55 million (the corresponding period in 2018: RMB49.6 million).

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

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

The Restricted Shares Incentive Scheme for 2019 (draft) was considered and approved at the meeting of the board held by the Company on 11 March 2019; the general meeting was held on 23 May 2019 to consider and approve the Restricted Shares Incentive Scheme for 2019 (draft); the meeting of the board was held on 21 June 2019 to consider and approve “first grant of 3,340,600 restricted shares to the 84 incentive targets after adjustments”; “Application Materials for Completion of Registration of Equity Incentive Grant” was submitted to Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited on 27 June 2019; and the listing date of first grant of restricted shares was 12 July 2019.

Corporate Social Responsibility

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

Management Discussion and Analysis

OUTLOOK

1. The Company will continue to take the production of quality dairy products as the goal on the basis of a complete set of production facilities and processes such as large-scale concentrated farming, concentrated unified milking, specialized storage, transportation and processing of fresh milk and further improve the level of dairy farming through production demonstration and technology radiation. We will strengthen the cooperation with external professional dairy farming institutions with large farming scale, rich farming experience and high product quality to form balanced, complementary and diversified supply sources of fresh and raw milk while strengthening the construction of our own milk source base. We will continue to ensure the effective connection of safe and reliable milk source with dairy product processing link to achieve the security and controllability of product quality during the whole process.
2. We will continue to strengthen the study on the consumption behaviors of dairy products consumers within the region, perfect the formula of products and optimization configuration of processes and equipments on a consumer-oriented basis, make the products to own targeted and characteristic advantages, and establish a system of consumption analysis to trigger research and development in order to satisfy consumption demands under different scenarios and maintain the loyalty of consumers to the brand with upgrading products.
3. We will further deepen and penetrate sales channels, increase the sinking efforts of sales channels, actively expand the markets of third-tier cities and rural areas and vigorously promote the in-depth development of channels, so as to consolidate and increase market share and enhance market occupancy rate.
4. The Company will continue to conduct various forms of on-the-job trainings, improve work skills, enhance work efficiency and tamp the construction of the middle-level team. The Company will strengthen the recruitment of professional talents with market qualifications or excellent skills and give full development space and positive incentive policies to ensure the stability of the talent team and the echelon construction of the talent reserve and enhance the core competitiveness of the Company.



Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ma Hongfu (馬紅富), aged 54, the founder of our Group, is the executive Director, chairman of the Board, the general manager of the Company and a member of each of the strategy committee and the nomination committee of the Company. Mr. Ma Hongfu also served as the general manager of our Company from April 2011 to 21 December 2017 and was appointed as the general manager of the Company again on 10 March 2020. He was appointed to the Board on 6 April 2011. He is responsible for the overall management of our Company. Mr. Ma worked as the chairman of the board and the general manager of Gansu Minqinxian Hongchang Agriculture and Trading Company* (甘肅省民勤縣宏昌農貿公司) from 1988 to 1999. Mr. Ma obtained a degree of Executive Master of Business Administration (EMBA) from Tsinghua University (清華大學) in July 2005. He is the legal representative of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”), Wuwei Ruida Pasture Co., Ltd.* (武威瑞達牧場有限公司) (“Wuwei Ruida”), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) (“Qinghai Shengya”) and Qinghai Shengyuan Pasture Co., Ltd.* (青海聖源牧場有限公司) (“Qinghai Shengyuan”).

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

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

Directors, Supervisors and Senior Management

Executive Directors (Continued)

Mr. Wang Guofu (王國福), aged 51, is the executive Director, deputy chairman and financial controller of the Company. He was appointed to the Board on 6 April 2011 and was appointed as the financial controller of the Company on the same day. Mr. Wang has more than 20 years of experience in the food industry. Mr. Wang completed his master courses majoring in Business Management in Lanzhou University (蘭州大學) in August 2005 and has accountant qualification (會計師). He was an accountant in Gansu Import and Export of Agricultural By-products Company (甘肅省農副產品進出口公司) from 1990 to 1992, and he was the financial manager and subsequently the financial controller of Lanzhou Yongtai Food Co., Ltd. (蘭州永泰食品有限責任公司) from 1992 to 2001. He is primarily responsible for the overall financial management of our Company. He is the legal representative of Yuzhong Ruifeng Pasture Co., Ltd.* (榆中瑞豐牧場有限公司) (“Yuzhong Ruifeng”) and Linxia County Ruian Pasture Co., Ltd.* (臨夏縣瑞安牧場有限公司) (“Linxia Ruian”) and the supervisor of Qinghaihu Dairy Co., Ltd.* (青海青海湖乳業有限責任公司) (“Qinghaihu Dairy”), Qinghai Shengya Plateau Pasture Co., Ltd.* (青海聖亞高原牧場有限公司) (Qinghai Shengya), Linxia County Ruiyuan Pasture Co., Ltd.* (臨夏縣瑞園牧場有限公司) (“Linxia Ruiyuan”) and Lanzhou Ruixing Farming Co., Ltd.* (蘭州瑞興牧業有限公司) (“Lanzhou Ruixing”).

Ms. Zhang Qianyu (張騫予), aged 39, is the executive Director, secretary to the Board, manager of the securities department and joint company secretary of the Company. Ms. Zhang is responsible for system establishment, plans administration and equity management. Ms. Zhang joined the Company in January 2018. Ms. Zhang obtained her bachelor degree in Accounting from Taiyuan University of Technology (太原理工大學) in July 2003. She was a member of The Chinese Institute of Certified Public Accountants. Prior joining the Company, Ms. Zhang worked as a business manager of the investment banking department of Xi'an Branch of GF Securities Co., Ltd. from July 2012 to December 2016. Ms. Zhang was the general manager of the investment banking department of Lanzhou Branch of China CITIC Bank Corporation Limited from January 2017 to December 2017.



Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Song Xiaopeng (宋曉鵬), aged 42, is the non-executive Director and a member of the strategy committee of the Company. He was appointed to the Board on 2 March 2015. Since 2010, Mr. Song has successively been the Deputy General Manager of Shenzhen Shenshang Richland Xingye Fund Management Co., Ltd. (深圳市深商富坤興業基金管理有限公司) and the Senior Investment Manager of Shenzhen Richland Equities Ltd. (深圳市富坤創業投資有限公司). Mr. Song obtained his bachelor degree in Management from Shanxi University of Finance & Economics (山西財經大學) in March 2002. He was a qualified Certified Public Accountant of the PRC.

Mr. Yap Kean Chong (葉健聰), aged 54, is the non-executive Director of the Company. He was appointed to the Board on 6 April 2011. Mr. Yap obtained his bachelor degree in Business in Curtin University of Technology in February 1988, and his post graduate diploma in Business from Curtin University of Technology in August 1990. He was qualified as the admitted Associate of the Institute of Chartered Secretaries and Administrators in May 1991 and received the Certificate of Membership of the Institute of Chartered Accountant in Australia in February 2002. Mr. Yap has been the director and chief executive officer of Rico Harvest Capital (上海財晟股權投資管理有限公司) since 2009.

Independent Non-executive Directors

Ms. Liu Zhijun (劉志軍), aged 47, is the independent non-executive Director and the chairman of each of the audit committee and the remuneration and appraisal committee of the Company. She graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in securities and futures (證券與期貨) in July 1996. Ms. Liu then obtained a master degree in finance (金融學) in January 2001 from Wuhan University (武漢大學) and a doctoral degree in finance (金融學) in June 2009 from Suzhou University (蘇州大學). She is also a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Since July 1996, Ms. Liu has been teaching in School of Finance of Lanzhou University of Finance and Economics (蘭州財經大學) and is currently a professor of the said university. Ms. Liu also serves as an independent non-executive director of Gansu Dunhuang Seed Co., Ltd. (甘肅省敦煌種業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600354), Gansu Yasheng Industrial (Group) Co., Ltd (甘肅亞盛實業(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange, Stock code: 600108) and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002644).

Mr. Wong Cho Hang Stanley (黃楚恒), aged 45, is the independent non-executive Director and a member of each of the audit committee and nomination committee of the Company. He was appointed to the Board on 2 March 2015. Mr. Wong has been the director and vice general manager of Chuan Chiong Co., Ltd. (泉昌有限公司) since 2007. He is awarded the “2014 Excellence in Achievement of World Chinese Youth Entrepreneurs” (世界傑出青年華商) jointly by Yazhou Zhoukan (亞洲週刊) and World Federation of Chinese Entrepreneurs Organisation (世界華商組織聯盟). He is the committee member of 11th Fujian Provincial Committee of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆福建省委員會委員). Mr. Wong obtained his bachelor degree in Economics, from Carleton University in 1998.

Directors, Supervisors and Senior Management

Independent Non-executive Directors (Continued)

Mr. Zhao Xinmin (趙新民), aged 50, is the independent non-executive Director, chairman of the nomination committee and a member of each of the audit committee, the remuneration and appraisal committee and the strategy committee of the Company. Mr. Zhao has more than 20 years of experience in the securities law sector. Mr. Zhao obtained his bachelor degree in Law from Gansu Institute of Political Science and Law (甘肅政法學院) in June 1993. He acquired the Lawyer's Practice License of the PRC in March 1994. He was a lawyer of Gansu Zheng Tian He Law Firm (甘肅正天合律師事務所) from 1994 to 2001. Mr. Zhao was a lawyer of Allbright Law Office (上海錦天城律師事務所) from 2001 to 2005. Mr. Zhao has been the partner of Shanghai Ke Hui Law Firm* (上海科匯律師事務所) since 2005. Mr. Zhao also serves as an independent non-executive director of Gansu Qilianshan Cement Group Company Limited (甘肅祁連山水泥集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600720), Duzhe Publishing and Media Corp. (讀者出版傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603999), and Lanzhou Foci Pharmaceutical Co., Ltd (蘭州佛慈製藥股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002644).

Supervisors

Mr. Wei Lin (魏琳), aged 51, was appointed to the Supervisory Committee on 2 March 2015. Mr. Wei has been the managing partner (執行事務合夥人) of Gansu Hengrui Asset Valuation Firm (甘肅恒瑞資產評估事務所) since 2012. Mr. Wei worked in ICBC Lanzhou Branch Qilihe Sub-branch (中國工商銀行蘭州分行七里河支行) from 1985 to 2001. He has obtained the Finance and Economics Personnel Certificate (金融經濟師證書) accredited by Ministry of Personnel People's Republic of China (中華人民共和國人事部) in October 1996. He was qualified as a PRC Asset Valuer accredited by the China Appraisal Society (中國資產評估協會) in August 2005. Mr. Wei has completed a three-year Finance programme in Night College of Lanzhou University of Finance and Economics (蘭州商學院) in July 1991.

Mr. Sun Chuang (孫闖), aged 33, obtained his bachelor degree in Law from Zhengzhou University (鄭州大學) in July 2010. He is also the arbitrator of the Shenzhen Court of Arbitration. Mr. Sun obtained the Legal Professional Qualification Certificate of the PRC in 2010. He also obtained Securities Investment Fund Industry Qualification Certificate of the PRC in 2017. Mr. Sun has served as the vice general manager for the risk management department of Shenzhen CDF- Capital Co., Ltd. (深圳市創東方投資有限公司) since July 2016. Mr. Sun has extensive experience in investment risk management and legal matters. From July 2010 to July 2013, Mr. Sun served as the legal specialist of China General Nuclear Power Service Group Company Limited* (中廣核服務集團有限公司) (formerly known as Guangdong Daya Bay Nuclear Power Service (Group) Company Limited (廣東大亞灣核電服務(集團)有限公司)). Mr. Sun served as the legal manager of Shenzhen Taifeng Investment Group Company Limited (深圳市泰豐投資集團有限公司) from August 2013 to August 2014. From September 2014 to June 2016, Mr. Sun served as the legal manager of Shenzhen Baode Investment Holding Company Limited (深圳市寶德投資控股有限公司).



Directors, Supervisors and Senior Management

Supervisors (Continued)

Ms. Du Wei (杜魏), aged 42, was appointed to the Supervisory Committee on 6 April 2011. Ms. Du has obtained the college diploma majoring in Electronic Technology and Micro-computer Application by Lanzhou University (蘭州大學) in July 2001, and was engaged in a self-learning programme of Lanzhou University majoring in Computer Science Application and graduated in June 2004. Ms. Du is also qualified as Second Level Corporate Human Resource Manager (二級企業人力資源管理師) by the Occupational Skill Testing Centre of Human Resource and Social Security Department (人力資源和社會保障部職業技能鑒定中心) in December 2013. Ms. Du joined our Company in March 2008 and used to serve as the person-in-charge in our human resource department. Ms. Du is currently the manager of our human resource department responsible for management of human resource of our Company.

Senior Management

Mr. Feng Jun (馮軍), aged 42, is the deputy general manager of the Company. From May 2011 to July 2012, Mr. Feng completed his advanced education in Senior Training Course for Marketing Directors and successfully graduated from Xi'an Jiaotong University. Mr. Feng Jun started his career by working at Zhuangyuan Dairy in August 2000 as a manager of the marketing department, marketing director, etc. At present, he acts as the general manager of Qinghaihu Dairy, responsible for the operation and management work of Qinghaihu Dairy.



Supervisory Committee's Report

The supervisory committee of the Company (the "Supervisory Committee") has executed its duties earnestly, safeguarded the rights and interests of the Company and the Shareholders, complied with the principle of good faith and carried out its work in a diligent and proactive manner pursuant to the provisions of the Company Law of People's Republic of China, other relevant laws and regulations and the articles of association of the Company.

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

During the Reporting Year, the Supervisory Committee convened 12 meetings.

The Supervisory Committee has reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming AGM. We are of the opinion that the Board, chief executive of the Company and other Senior Management have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the articles of association of the Company. Up till now, none of the Directors, chief executive of the Company nor Senior Management has been found to have been in breach of any laws or regulations or the articles of association of the Company in material respects and damaged the interests of the Company or the Shareholders. The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2019 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

Chairman of the Supervisory Committee

Wei Lin

Lanzhou, the PRC, 30 March 2020



Corporate Governance Report

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

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. Having made specific enquiry of all Directors and the supervisors of the Company (the "Supervisors"), all the Directors and Supervisors confirm that they have complied with the required standards of the Model Code during the year ended 31 December 2019.

BOARD OF DIRECTORS AND MANAGEMENT

The Board is responsible and has general power for the management and conduct of the Group's business. As of the date of this report, the Board consists of eight Directors, comprising three executive Directors, namely Mr. Ma Hongfu, Mr. Wang Guofu and Ms. Zhang Qianyu, two non-executive Directors, namely Mr. Song Xiaopeng and Mr. Yap Kean Chong, and three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. Biographical details of the Directors are set out in the "Directors, Supervisors and Senior Management" section on pages 25 to 29 of this annual report.

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

- developing the Company's development plans;
- developing the Company's management and business strategies;
- approving financial statements;
- developing and approving the internal control and risk management systems;
- developing and reviewing the Company's corporate governance policies and practices;
- developing, reviewing and monitoring the code of conduct and compliance manual for employees and Directors;

Corporate Governance Report

- reviewing and monitoring training and continuous professional development of Directors and senior management of the Company (the “Senior Management”);
- reviewing the Company’s compliance with the CG Code under the Listing Rules and disclosure as set out in the Corporate Governance Reports included in annual reports of the Company; and
- reviewing and monitoring the Company’s policies and practices regarding compliance with laws and regulations.

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

During the Reporting Year, the Board as a whole has performed the following corporate governance duties:

- (a) developed and reviewed the Company’s policies and practices on corporate governance;
- (b) reviewed and monitored the training and continuous professional development of the Directors and Senior Management;
- (c) reviewed and monitored the Company’s policies and practices on compliance with legal and regulatory requirements;
- (d) developed, reviewed and monitored the code of conduct and compliance manual (if any) applicable to employees and the Directors;
- (e) reviewed the Company’s compliance according to the CG Code and disclosure in the Corporate Governance Report; and
- (f) performed such other corporate governance duties and functions set out in Appendix 14 to the Listing Rules (as amended from time to time) for which the Board is responsible.



Corporate Governance Report

TRAINING AND DEVELOPMENT OF DIRECTORS

For the year ended 31 December 2019, the Directors took part in various continuous training with respect to Directors' duties through regularly receiving latest information and updates in relation to the Listing Rules and related regulations, participating in relevant training programmes or through regularly taking note of industrial updates, attending relevant seminars or perusing reading materials, magazines and updated information in relation to business and industrial development. The following table sets out a summary of the types of training our Directors received:

Directors	Reading materials updating on new rules and regulations
Executive Directors	
Mr. Ma Hongfu	✓
Mr. Wang Guofu	✓
Mr. Chen Yuhai (<i>resigned on 6 March 2020</i>)	✓
Ms. Zhang Qianyu	✓
Non-executive Directors	
Mr. Yap Kean Chong	✓
Mr. Song Xiaopeng	✓
Independent non-executive Directors	
Ms. Liu Zhijun	✓
Mr. Zhao Xinmin	✓
Mr. Wong Cho Hang Stanley	✓

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

During the year ended 31 December 2019, Mr. Ma Hongfu holds the position of the chairman of the Board while Mr. Chen Yuhai serves as the general manager of the Company, a position equivalent to a chief executive officer in the PRC.

Following the appointment of Mr. Ma Hongfu ("Mr. Ma") as the general manager of the Company, a position equivalent to a chief executive officer in the PRC, on 10 March 2020 after the resignation of Mr. Chen Yuhai, Mr. Ma will concurrently hold the position of the chairman of the Board and the general manager of the Company. This deviates from code provision A.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules which requires that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Corporate Governance Report

Mr. Ma is the founder of the Group and has over 20 years of experience of the dairy industry. His positions in the industry associates can also keep the Group updated with the latest development of the industry. The Board has set up four committees under the Board (including the strategy committee, the nomination committee, the remuneration committee and the audit committee) and includes three independent non-executive Directors. The members of the Board committees and the independent non-executive Directors have important role and functions in the decision making process of the Board and the daily operations of the Company, which has the effect of checks and balances of the power of the chairman of the Board and the general manager. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Ma, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Ma to hold both positions as the chairman and the general manager of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company. The Board will continue to review and consider splitting the roles of the chairman of the Board and the general manager of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENT OF DIRECTORS

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

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



Corporate Governance Report

BOARD MEETINGS

The Board meets regularly. During the Reporting Year, 19 Board meetings were held at approximately monthly intervals.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	19/19
Mr. Wang Guofu	19/19
Mr. Chen Yuhai (<i>resigned on 6 March 2020</i>)	19/19
Ms. Zhang Qianyu	19/19
Non-executive Directors	
Mr. Yap Kean Chong	19/19
Mr. Song Xiaopeng	19/19
Independent Non-executive Directors	
Ms. Liu Zhijun	19/19
Mr. Zhao Xinmin	19/19
Mr. Wong Cho Hang Stanley	19/19

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

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

Corporate Governance Report

BOARD MEETINGS *(Continued)*

During the Year, the Company convened one annual general meeting on 27 June 2019 and two extraordinary general meetings on 23 May 2019 and 30 December 2019, respectively.

Name of Directors	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Executive Directors	
Mr. Ma Hongfu	3/3
Mr. Wang Guofu	3/3
Mr. Chen Yuhai <i>(resigned on 6 March 2020)</i>	3/3
Ms. Zhang Qianyu	3/3
Non-executive Directors	
Mr. Yap Kean Chong	3/3
Mr. Song Xiaopeng	3/3
Independent Non-executive Directors	
Ms. Liu Zhijun	2/3
Mr. Zhao Xinmin	3/3
Mr. Wong Cho Hang Stanley	3/3

BOARD COMMITTEES

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



Corporate Governance Report

AUDIT COMMITTEE

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

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

During the Reporting Year, 7 meetings of the Audit Committee were held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun	7/7
Mr. Zhao Xinmin	7/7
Mr. Wong Cho Hang Stanley	7/7

Corporate Governance Report

NOMINATION COMMITTEE

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

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

During the Reporting Year, the Audit Committee has, inter alia, reviewed the consolidated financial statements of the Group for the year ended 31 December 2018, for the three months ended 31 March 2019, for the six months ended 30 June 2019 and for the nine months ended 30 September 2019 respectively, including the accounting principles and practices adopted by the Group, the report prepared by the external auditor covering major findings in the course of the audit, the selection and appointment of the external auditor and the risk management and internal control systems of the Group.

Subsequent to the end of the Reporting Year, the Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2019.

During the Reporting Year, 2 meeting of the Nomination Committee was held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Zhao Xinmin	2/2
Mr. Ma Hongfu	2/2
Mr. Wong Cho Hang Stanley	2/2



Corporate Governance Report

Nomination Policy

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

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

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

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

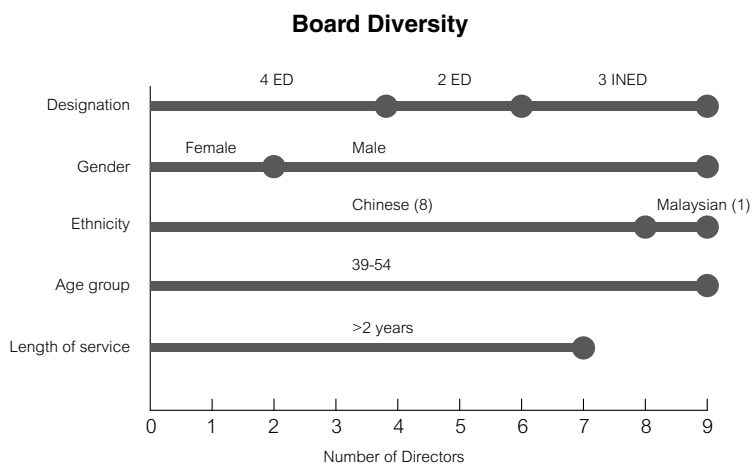
The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors’ resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on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

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

Corporate Governance Report

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

As at 31 December 2019, the Board's composition under major diversity perspectives was summarised as follows:



ED: Executive Director

NED: Non-Executive Director

INED: Independent Non-Executive Director



Corporate Governance Report

REMUNERATION AND APPRAISAL COMMITTEE

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

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

During the Reporting Year, 1 meetings of the Remuneration and Appraisal Committee were held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Ms. Liu Zhijun	1/1
Mr. Wang Guofu	1/1
Mr. Zhao Xinmin	1/1

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

Corporate Governance Report

SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2019, the emoluments of the Senior Management are within the following band:

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

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

STRATEGY COMMITTEE

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

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



Corporate Governance Report

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

During the Reporting Year, 2 meeting of the Strategy Committee was held.

Name of Members	Number of Meeting(s) Attended/ Number of Meeting(s) Held
Mr. Ma Hongfu	2/2
Mr. Song Xiaopeng	2/2
Mr. Zhao Xinmin	2/2

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

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

FINANCIAL REPORTING

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

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

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

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

Corporate Governance Report

AUDITORS AND THEIR REMUNERATIONS

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

Nature of Services	Fee paid/payable (RMB'000)
Audit Service (DAXIN)	1,800
Non-audit Services (Ruihua)	100

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu and Ms. Ho Wing Yan are our joint company secretaries as at the date of this report.

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

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

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



Corporate Governance Report

SHAREHOLDERS' COMMUNICATION POLICY AND RIGHTS

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

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

Convening extraordinary general meetings

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

Procedures for putting forward proposals at a general meeting

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

Corporate Governance Report

Procedures of Making Enquiry to the Board

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

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

Dividend Distribution Plan

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

Constitutional Documents of the Company

Save as the amendments to the Articles of Association as detailed in the Company's circulars dated 24 April 2019 and 14 November 2019 and the Company's announcement dated 5 August 2019 and as approved by our Shareholders at the extraordinary general meetings held on 23 May 2019 and 30 December 2019, there has been no amendment to the constitutional documents of the Company.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's internal control, assessment and management of risks. The internal control systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against any material misstatement or loss.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control and particularly the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. A year-end review of the effectiveness of the Group's risk management and internal control systems is conducted annually, and self-assessment and comprehensive risk assessment surveys are also conducted during the review. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest.



Corporate Governance Report

The process to identify, evaluate and manage risks of the Group are carried out on a regular and on-going basis. These processes are summarised as follows:

Risk identification

- Identify risks that may potentially affect the Group's business and operations.

Risk assessment

- Assess the impact and consequence of the identified risks on the business and the likelihood of their occurrence.

Response to findings of risk assessment

- Prioritise the risks by comparing the results of the risk assessment; and
- Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk monitoring and reporting

- Perform ongoing and regular monitoring of the risk and ensure that appropriate internal control processes are in place;
- Enhance the risk management strategies and internal control processes in case of any significant change of situation; and
- Report the results and effectiveness of risk management and internal control to the Board regularly.

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

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



Environmental, Social and Governance Report

BASIS OF PREPARATION

We have adopted the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide ("ESG Guide") in preparing this report. The Directors considered we have complied with the "comply or explain" provisions set out in the ESG Guide for the year ended 31 December 2019. This is the fourth annual Environmental, Social and Governance ("ESG") Report of the company. An online copy of this report is available at <http://www.lzzhuangyuan.com/>.

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

BUSINESS OPERATION OF THE GROUP

During the year ended 31 December 2019, the Group principally operates two business segments: (i) dairy farming business, under which we produced and sold raw milk; and (ii) dairy products production business, under which we produced and sold dairy products. This report provides general disclosures that cover both dairy farming business and dairy products production business.

OUR ESG MANAGEMENT APPROACH

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

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

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

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

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



Environmental, Social and Governance Report

PROTECTING OUR ENVIRONMENT

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

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

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

In the Reporting Year, we consumed 904,327 cubic meter of water. While most of the water is drunk by our cattle and added to our products, only 428,557 cubic meter of waste water are discharged.

Our boiler will generate exhaust gas during the dairy product production. The main air pollutant is the Particulate matter (PM) emitted during the production of milk powder. To reduce the air pollutants generated, the exhaust gas will be dedusted, denitrified and desulfurized before emitted to the air.

We will examine the emission of the air pollutants regularly to ensure the emission is in compliance with the requirement specified in 《鍋爐大氣污染物排放標準》(GB13271-2014). During the Reporting Year, the air emission of the group are summarised in the table below:

Pollutants	2019 (tonne)
Nitrogen oxides (NOx)	5.8
Sulphur oxides (SOx)	19.3
Particulate matter (PM)	1.1

Environmental, Social and Governance Report

Our major greenhouse gas emissions is cattle methane and Nitrous oxide emission. In the Reporting Year, we produced 1,237 cubic meter methane and 87 tonne Nitrous oxide. Our indirect air and greenhouse gas emissions are mainly from purchased electricity. In the Reporting Year, we consumed 26,215 mWh electricity, which generated approximately 23,999 tonnes of carbon dioxide equivalent. To minimise our emissions, we have used Light Emitting Diodes (“LED”) lights and have temperature control system in all of our production plants.

The amount of each greenhouse gas emission for the Reporting Period is summarised in the table below:

	2019 (tCO ₂ e)	2019 (tCO ₂ e/tonne of fresh milk produced)
Scope 1 – Direct emission	76,580	
Scope 2 – Indirect emission	23,999	
Total emissions	102,598	2.02

Apart from electricity, we also consumed 2,087,136 cubic meter of natural gas and 382,103 liter of diesel in the Reporting Year. All of the natural gas is consumed by the dairy products production business while most of the diesel is consumed by the engines used in the dairy farming business.

Dairy Farming Business

Our major non-hazardous waste is cowpat. In the Reporting Year, we disposed 71,834 tonnes non-hazardous waste, mainly cowpat after decontamination. We adopt electronic scrapper to clear the cowpat automatically, which provides a clean and comfortable living environment to our cows with minimum water consumption. Used plastic wastes and medical wastes would be treated by qualified firms for disposal. Commercial wastes would be sent to waste transfer stations for recycling.

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

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

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

Dairy Products Production Business

Our major non-hazardous waste includes metal scrap from aged equipment and packaging materials. To minimize the waste, we adopt waste classification system to ensure all re-usable parts and materials would not be disposed. In the Reporting Year, we produced 1,468.73 tonnes general commercial wastes. We do not generate any hazardous waste.

Environmental, Social and Governance Report

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

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

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

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

Compliance

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

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

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

Environmental, Social and Governance Report

MATERIAL ENVIRONMENTAL KPIS ON USE OF RESOURCES AND WASTE DISPOSAL

	Unit of Measurement	2019 Annual total	Unit per tonne of fresh milk produced
Use of Coal	Tonne (t)	5,351	0.11
Use of Electricity	kWh	26,214,570	527.72
Use of Natural Gas	cubic meter (m3)	2,087,136	42.02
Use of Diesel	Litre (L)	382,103	7.69
Use of water	cubic meter (m3)	904,327	18.20
Waste Water Discharged	Tonne (t)	428,557	8.63
Disposal of Non-hazardous Waste	Tonne (t)	49,675	1.48

Note: The above figures are cover all 9 built dairy farms, 1 dairy farm under construction and 3 dairy products production facilities unless or otherwise specified.

EMPLOYMENT AND LABOUR PRACTICES

We recognise our employees as an important assets. As on 31 December 2019, the Group had 922 (2018: 907) employees. Of which, 444 are males and 478 are females. We are committed to building an open and inspirational working environment to our employees.

We promote fair competition

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

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

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

We do not tolerate discrimination or harassment

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



Environmental, Social and Governance Report

We welcome for feedbacks

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

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

We promote occupational safety and health

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

In the Reporting Year, we are not aware of any material non-compliance with the above-mentioned relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

We promote sustainable learning environment

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

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

Prohibition on child and forced labour

Our employment policy strictly prohibits the employment of child and forced labour. In the Reporting Year, we are not aware of any violation of child labour or forced labour related laws and regulations applied to PRC.



Environmental, Social and Governance Report

SUPPLY CHAIN MANAGEMENT

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

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

PRODUCT RESPONSIBILITY

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

Our quality control system is designed based on the Good Manufacturing Practices (GMPs), the Hazard Analysis and Critical Control Points (HACCPs) and the Sanitation Standard Operating Procedures (SSOPs). As at 31 December 2019, we have obtained Dairy HACCP Certification for our production of liquid milk at our Qinghai production facility and ISO9001:2008 Quality Management System Certificate for our development and production of pasteurised milk, UHT milk, yogurt, other milk beverages and milk powder.

Dairy Farming Business

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

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



Environmental, Social and Governance Report

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

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

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

Dairy Products Production Business

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

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

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



Environmental, Social and Governance Report

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

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

INTELLECTUAL PROPERTY

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

ANTI-CORRUPTION

In order to maintain a fair and efficient business and working environment, we attach great importance to responsibilities of anti-corruption. The Group does not tolerate any form of corruption. Also we make code of conduct regarding in employee handbook to prohibit employees from requiring, charging or accepting any form of interest from people, companies or organizations who do business with the Group. Whistleblowing system is formulated for employees to report any suspect of all forms of illegal practices. In the Reporting Year, we have encountered no incidents of non-compliance with all applicable laws and regulations relating to anti-corruption practices in PRC.

COMMUNITY INVESTMENT

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

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



Directors' Report

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

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

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

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

(A) FAIR REVIEW OF THE COMPANY'S BUSINESS

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

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

Directors' Report

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

Overview

We are one of the leading dairy companies in Gansu, Shaanxi and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We own and operate five dairy farms and collectively operate two dairy farms through cooperation with local dairy farmers as at 31 December 2019. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so as to maintain approximately 64% of our raw milk requirements that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

Product mix has affected our revenue, gross profit and gross profit margin in the past. The gross profit margin of the pasteurised milk products of the Group increased from 36.14% to 40.56% in 2019, due to the moderate change in the mix of liquid milk products of the Group after the acquisition of Xi'an Dongfang Dairy Co., Ltd., priority given to the pasteurised milk products and modified milk products by Xi'an Dongfang Dairy Co., Ltd., and a relatively higher gross profit margin of pasteurised milk products; the gross profit margin of sterilized milk products decreased from 25.66% in 2018 to 18.48% in 2019, due to fiercer market competition in 2019; there was an increase in the sales volume of modified milk products and the gross profit margin remained stable.

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



Directors' Report

Our business model

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

Our products and brands

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

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

Further discussion and analysis of the performance for 2019 and the financial position as at the end of 2019 using financial KPIs which complement or supplement the financial statements can be found in the Financial Overview of the Management Discussion and Analysis section set out on this annual report. This discussion forms part of this Directors' Report.



Directors' Report

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

Environmental matters

We are subject to extensive PRC national and local environmental laws and regulations concerning, among others, emissions to the air, discharges to land, sewage disposal, solid waste, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. We have implemented various measures in respect of our production plants and dairy farms to eliminate damage to the environment caused by waste water, waste gas, biowaste, solid wastes and noise from our production. Our PRC legal adviser has confirmed that we have obtained all necessary environmental permits and that our operations are currently conducted in accordance with the PRC environmental protection laws and regulations in all material respects. Lanzhou Ruixing Farming Co., Ltd., a wholly-owned subsidiary of the Company was ordered to take correction measures and pay a fine of RMB49,000, in respect of its violation of the Regulations on the Prevention and Control of Pollution Caused by Large-scale Breeding of Livestock and Poultry (《畜禽規模養殖污染防治條例》) in the Reporting Year. Lanzhou Ruixing Farming Co., Ltd. has paid the fine in full in a timely manner, taken comprehensive correction measures in relation to the violation of the Regulations on the Prevention and Control of Pollution Caused by Large-scale Breeding of Livestock and Poultry (《畜禽規模養殖污染防治條例》), and carried out self-inspection on environment protection work. Save for the administrative penalty mention above, we had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any such environmental laws or regulations which has materially adversely affected our production.

Health and safety matters

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



Directors' Report

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

Relationships with contracted farmers

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

Relationship with third party raw milk suppliers

Raw milk purchased from third party suppliers mainly comes from dairy farms in Gansu, which are two of the six traditional pastoral areas in China with plenty supply of raw milk. The years of business relationship with the Group was one year.

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

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

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



Directors' Report

Relationship with distributors

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

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

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

Relationship with employees

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

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

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



Directors' Report

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

The major risks we face in our business are:

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

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



Directors' Report

(C) IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2019 (PARAGRAPH 53-54 OF AB5)

Since the outbreak of pneumonia caused by the new coronavirus (the "COVID-19 Outbreak") in January 2020, the prevention and control of the pneumonia epidemic have been continuously carried out nationwide in the PRC.

The COVID-19 Outbreak in some provinces and cities, as well as the overall economy, caused certain influence, to some extent, which could affect the business of the Group. The extent of influence will depend on the situation of the epidemic prevention and control, duration and the implementation of the regulation policies.

The Group will continue to pay close attention to the development of the COVID-19 Outbreak, and evaluate and actively respond to its impact on the Company's financial position, operating results and other aspects. As of the date of this announcement, this assessment was still in progress.

Save as disclosed herein, subsequent to 31 December 2019, there had been no significant change in our business environment, principal business, pricing policy and costs structure.

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

Extensive sales and distribution regional network in Gansu, Qinghai and Shaanxi

We utilise multiple sales and distribution channels for our dairy products to maximise our reach to consumers. We have actively responded to market development through the establishment of different sales channels. We have expanded our sales and distribution network by engaging additional distributors, especially in second and third-tier cities in Gansu, Shaanxi and Qinghai. Our sales and distribution network covers most of the local markets in Gansu, Shaanxi and Qinghai.

Strong market-oriented product development

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

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

Short and longer term funding needs

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

Directors' Report

On 31 January 2019, at the fifteenth meeting of the third session of the Board of the Company, the Board considered and approved, among others, the relevant resolutions on the A Share convertible bond issuance plan. The proposed issuance of A Share convertible bonds is subject to, amongst others, the Shareholders' approvals at the extraordinary general meeting and the class meetings of the Company. The Company has applied to the China Securities Regulatory Commission (the "CSRC") regarding the cessation on auditing and withdrawal of the application documents of the public issuance of the A Share convertible bonds on 22 July 2019 and 19 September 2019 respectively. For details, please refer to the announcements of the Company dated 31 January 2019, 22 July 2019 and 19 September 2019.

On 5 December 2019, at the twenty-ninth meeting of the third session of the Board of the Company, the Board considered and approved, among others, the relevant resolutions on the proposed non-public issuance of A Shares. The proposed non-public issuance of A Shares has been approved by the Shareholders at the extraordinary general meeting and the class meetings of the Company held on 17 January 2020. For details, please refer to the announcement of the Company dated 5 December 2019 and the circular of the Company dated 31 December 2019.

Risk warning in respect of forward-looking statements

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

PRINCIPAL ACTIVITIES

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

RESULTS OF THE GROUP

The Group's and the Company's results for the Reporting Year and the state of affairs of the Group and the Company as at 31 December 2019 are set out in the Financial Statements on pages 85 to 247 of this annual report.

DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB5.50 cents per share (including tax) for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB6.80 cents per share). The total dividend amounted to approximately RMB10.49 million.

The proposed final dividend is subject to the consideration and approval of the Shareholders at the forthcoming annual general meeting (the "AGM") of the Company. The Company will publish announcement, circular and notice of general meeting regarding the AGM in accordance with the Listing Rules and the articles of association of the Company. For details in relation to the record date and date of closure of register of members for the payment of the final dividend to the holders of H Shares, please refer to the paragraph headed "Closure of Register of Members for H Shares for AGM and Dividend Distribution" below. It is expected that the final dividend will be distributed before 31 August 2020.

Directors' Report

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

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

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

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

For ascertaining H Shareholders' eligibility to attend and vote at the AGM, the register of members for H Shares of the Company will be closed from Saturday, 30 May 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of H Shares of the Company will be registered. H Shareholders whose names appear on the register of members for H Shares of the Company at the close of business on Friday, 29 May 2020 are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with H share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Friday, 29 May 2020.

Please refer to A Share announcement as published by the Company on the website of the Shenzhen Stock

Directors' Report

Exchange for relevant information in respect of the Shareholders of A Shares attending the AGM.

For ascertaining the entitlements of the Shareholders to receive the final dividend (if any), the register of members for H Shares of the Company will be temporarily closed from Wednesday, 8 July 2020 to Monday, 13 July 2020 (both days inclusive), during which no transfer of H Shares of the Company will be registered. All transfer documents together with the relevant share certificates and form of transfer must be delivered to the Company's H share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 7 July 2020. If the proposed profit distribution plan is approved at the AGM, the final dividend will be paid to the Shareholders whose names are registered in the Company's register of members on Monday, 13 July 2020.

FINANCIAL SUMMARY

A summary of the published financial performance and of the assets and liabilities of the Group for the last five reporting years, as extracted from the audited financial statement and accountant's report in the prospectus of the Company dated 30 September 2015 and reclassified as appropriate, is set out on page 248 of this annual report.

SHARE CAPITAL

As at 31 December 2019, there was a total issued share capital of 190,680,600 Shares which include:

	Number of Shares	Approximate percentages of share capital %
H Shares	35,130,000	18.42
A Shares	155,550,600	81.58
Total	190,680,600	100.00

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

3,340,600 A Shares were granted to 84 participants under the 2019 Incentive Scheme on 21 June 2019 with the grant price of RMB6.96 per A Share and the grant was completed on 12 July 2019. Details of the 2019 Incentive Scheme are set out in the section headed "Restricted Share Incentive Scheme" below.

Save as disclosed herein, during the year ended 31 December 2019, there was no purchase, redemption or sale by the Company, or any of its subsidiaries, of any listed securities of the Company during the Reporting Year.

Directors' Report

PRE-EMPTIVE RIGHTS

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

CAPITAL RESERVE, SURPLUS RESERVE AND RETAINED EARNINGS

Details of the movements in the reserves of the Company during the Reporting Year are set out in Notes V. XXXIV, XXXVI and XXXVII to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the aggregate amount of reserves available for distribution to equity Shareholders amounted to approximately RMB353.21 million (31 December 2018: RMB310.22 million).

CHANGES OF AUDITOR

Ruihua Certified Public Accountants (Special General Partnership) has resigned as the auditor of the Company on 19 September 2019.

On 19 September 2019, the Board proposed to appoint WUYIGE Certified Public Accountants LLP as the new auditor of the Company to fill the vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

The appointment of new auditor has been approved by the Shareholders at the extraordinary general meeting of the Company held on 30 December 2019. Further details of the change of auditors, please refer to the announcement of the Company dated 19 September 2019 and the circular of the Company dated 14 November 2019.

FIXED ASSETS AND CONSTRUCTION IN PROGRESS

Details of the changes in the fixed assets and construction in progress of the Group during the Reporting Year are set out in Notes V. X and XI to the Financial Statements.

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration proceedings during the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the largest customer and supplier of the Group accounted for 3.93% and 5.90% of the Group's total revenue and raw materials purchases, respectively, and the five largest customers and five largest suppliers of the Group accounted for 11.08% and 14.73% of the Group's total revenue and raw materials purchases, respectively.

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



Directors' Report

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Ma Hongfu
Mr. Wang Guofu
Mr. Chen Yuhai* (*Resigned on 6 March 2020*)
Ms. Zhang Qianyu

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng

Independent Non-Executive Directors

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

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

Supervisors

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

* Mr. Chen Yuhai has resigned as an executive Director and the general manager of the Company with effect from 6 March 2020, so as to devote more time to his other business commitments.

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

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



Directors' Report

UPDATES ON DIRECTORS' INFORMATION

Mr. Ma Hongfu was appointed as the general manager of the Company on 10 March 2020. Save as disclosed herein, there has been no change to the information of the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Ma Hongfu, Lanzhou Zhuangyuan Investment Co., Ltd. (蘭州莊園投資有限公司) ("Zhuangyuan Investment") and Gansu Lucky Cow Investment Co., Ltd. (甘肅福牛投資有限公司) ("Lucky Cow") (the Controlling Shareholders) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 23 September 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period for the year ended 31 December 2019.

ARRANGEMENT FOR DIRECTORS AND SUPERVISORS TO PURCHASE SHARES OR DEBENTURES

The interests in shares of the Company held by the Directors and Supervisors during the Reporting Year is disclosed in the section headed "DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" below. Save as disclosed in the paragraph headed "Restricted Share Incentive Scheme", at no time during the Reporting Year, the Directors or Supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or had exercised, any rights to subscribe for shares (warrants or debentures, if applicable) of the Company or any of its associated corporation required to be disclosed pursuant to the Securities and Futures Ordinance.

Other than as disclosed herein, at no time during the Reporting Year was the Company, its subsidiaries or holding companies or fellow subsidiaries a party to any arrangements to enable the Directors or Supervisors to acquire benefits by means of acquisitions of shares in, or debt securities (including debentures) of the Company or any other body corporate.



Directors' Report

EMOLUMENT POLICY

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

EQUITY-LINKED AGREEMENTS

Save as disclosed herein, no equity-linked agreements were entered into during the Reporting Year or subsisted at the end of the Reporting Year.

SHARE OPTION SCHEME

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

RESTRICTED SHARE INCENTIVE SCHEME

On 28 September 2018, the Board passed a resolution in respect of the proposed adoption of the 2018 Restricted Share Incentive Scheme (the "2018 Incentive Scheme") and the respective grants, and also the approval of the draft of the 2018 Incentive Scheme and the draft proposal in respect of the grants. On 11 March 2019, the Board passed a resolution in respect of the proposed adoption of the amendment of the 2018 Incentive Scheme (i.e. the "2019 Incentive Scheme") and the respective grants, and also the approval of the draft of the 2019 Incentive Scheme and the draft proposal in respect of the grants. The 2019 Incentive Scheme became effective upon the approval at the extraordinary general meeting and class meetings of the Company held on 23 May 2019.

On 21 June 2019, the Board approved the first grant of 3,340,600 A Shares (the "Restricted Shares") to 84 participants of the Group after adjustments under the 2019 Incentive Scheme (the "First Grant"). "Application Materials for Completion of Registration of Equity Incentive Grant" was submitted to Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited on 27 June 2019 and the registration of the First Grant was completed on 12 July 2019. Among the 3,340,600 A Shares granted under the First Grant, 1,530,400 A Shares were granted to the Directors or the chief executive officers of the Company and certain subsidiaries of the Company and hence a connected person of the Company. The grant of Restricted Shares to such persons constitutes non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules.

The purpose of the 2019 Incentive Scheme is:

1. To establish and improve the long-term incentives mechanism of the Company, fully motivate the Directors, senior and middle management and core technical (business) personnel of the Company, effectively combine the interests of the shareholders, the Company and members of core teams and promote the sustainable, stable and rapid development of the Company; and
2. To attract and retain excellent management, business and technical talent to meet the huge demands for core business (technical) talent and management talent of the Company and establish the Company's advantages in human resources, thus further promoting the innovation of the Company and injecting new vitality into the sustainable and rapid development of the Company.

Directors' Report

Details of the grant of Restricted Shares to connected persons under the First Grant are as follows:

Name of the participants	Titles	Number of Restricted Shares granted	Approximate percentage of total issued A Shares	Approximate percentage in the issued share capital of the Company	Considerations received from the participants <i>(Note)</i>
Wang Guofu	Executive Director, deputy chairman and financial controller of the Company	483,000	0.31%	0.25%	RMB3,361,680
Chen Yuhai	Executive Director and general manager of the Company	375,000	0.24%	0.20%	RMB2,610,000
Zhang Qianyu	Executive Director, secretary to the Board, manager of the securities department and joint company secretary of the Company	108,000	0.07%	0.06%	RMB751,680
Ding Jianping	Chairman of a subsidiary of the Company	458,000	0.29%	0.24%	RMB3,187,680
Zhao Qinghua	Executive director of a subsidiary of the Company	106,400	0.07%	0.06%	RMB740,544
Total		1,530,400	0.98%	0.80%	RMB10,651,584

Note: The grant price per Restricted Share is RMB6.96.

For details, please refer to the announcements of the Company dated 28 September 2018, 11 March 2019 and 21 June 2019 and the circular of the Company dated 23 April 2019.



Directors' Report

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions of the Group (including those which constitute connected transactions and continuing connected transactions under the Listing Rules) are set out in Note X to the Financial Statements. Save as disclosed in the paragraph headed "Restricted Share Incentive Scheme", no matter is required to be disclosed and no connected transaction is noted pursuant to the requirements under Chapter 14A of the Listing Rules.

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

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

Save as disclosed in the paragraph headed "Restricted Share Incentive Scheme", as at 31 December 2019, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholders of the Company or any of its subsidiaries.



Directors' Report

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

As at 31 December 2019, the interests and short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares	Approximate percentage in the issued share capital of the Company
A Shares				
Ma Hongfu (<i>Note 2</i>)	Beneficial owner	32,197,400	20.70%	16.89%
	Interested in controlled corporation	45,894,700	29.50%	24.07%
Wang Guofu	Beneficial owner	483,000	0.31%	0.25%
Chen Yuhai	Beneficial owner	375,000	0.24%	0.20%
Zhang Qianyu	Beneficial owner	108,000	0.07%	0.06%
Ding Jianping	Beneficial owner	458,000	0.29%	0.24%
Zhao Qinghua	Beneficial owner	106,400	0.068%	0.056%

Notes:

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

Save as disclosed above, as at 31 December 2019, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Report

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

As at 31 December 2019, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued A Shares/H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
A Shares				
Lanzhou Zhuangyuan Investment Co., Ltd. (Note 3)	Beneficial owner	30,894,700 (L)	19.86%	16.20%
Gansu Lucky Cow Investment Co., Ltd. (Note 3)	Beneficial owner	15,000,000 (L)	9.64%	7.87%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	3,243,272 (L)	2.09%	1.70%
H Shares				
Hu Keliang	Beneficial owner	6,960,000 (L)	19.81%	3.65%
Li Yanling (Note 4)	Interests of spouse	6,960,000 (L)	19.81%	3.65%
Wang Wei (Note 5)	Beneficial owner	800,000 (L)	2.28%	0.42%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.47%
Li Qi (Note 5)	Interests of spouse	3,600,000 (L)	10.25%	1.89%
Venko Limited (Note 5)	Beneficial owner	2,800,000 (L)	7.97%	1.47%
Ren Qifeng (Note 6)	Interest of controlled corporation	3,523,000 (L)	10.03%	1.85%
	Interests of spouse	3,523,000 (L)	10.03%	1.85%
Ren Songliu (Note 6)	Interests of spouse	3,523,000 (L)	10.03%	1.85%
Technoart Investments Limited (Note 6)	Beneficial owner	3,523,000 (L)	10.03%	1.85%
Hu Jiawu	Beneficial owner	2,800,000 (L)	7.97%	1.47%
Xi Xin (Note 7)	Interests of spouse	2,800,000 (L)	7.97%	1.47%

Directors' Report

Notes:

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

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

SUFFICIENCY OF PUBLIC FLOAT

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



Directors' Report

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 were audited by KPMG and KPMG Huazhen LLP respectively. The consolidated financial statements for the year ended 31 December 2018 were audited by Ruihua Certified Public Accountants (Special General Partnership). The consolidated financial statements for the Reporting Year were audited by WUYIGE Certified Public Accountants LLP.

WUYIGE Certified Public Accountants LLP will retire at the AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of WUYIGE Certified Public Accountants LLP as auditors of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

蘭州莊園牧場股份有限公司

Lanzhou Zhuangyuan Pasture Co., Ltd.*

Ma Hongfu

Chairman

Lanzhou, the PRC, 23 April 2020



Auditor's Report

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

I. OPINIONS

We have audited the financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (hereinafter referred to as "Zhuangyuan Pasture Company" or "Company"), which comprise the consolidated and parent company balance sheets as at 31 December 2019, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in shareholders' equity for the year of 2019 and relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared in accordance with the provisions of Accounting Standards for Business Enterprises in all material respects and present fairly the consolidated and parent company financial position of Zhuangyuan Pasture Company as at 31 December 2019 and the consolidated and parent company operating results and cash flows for the year of 2019.

II. BASIS OF OUR OPINIONS

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

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



(I) Revenue Recognition

1. Description of matters

Please refer to note “III. Significant accounting policies and accounting estimate” (XXIII) and note “V. Notes to consolidated financial statements” (XXXVIII) to the financial statements.

The operating revenue of Zhuangyuan Pasture Company was RMB813,554,500 in 2019. We identified revenue recognition as a key audit matter as revenue is the main source of profit and is one of the key performance indicators, which gives rise to an inherent risk that the recognition points of revenue may be manipulated by the management for the purpose of achieving certain objectives.

2. How the matter was addressed in our audit

We mainly implemented the following audit procedures in the process of auditing key matters:

- (1) understanding and testing the effectiveness of the design and operation of internal controls related to operating revenue;
- (2) obtaining the agreements signed by and between the Company and the customer as well as inspecting key terms, and assessing whether the accounting policies for revenue recognition of Zhuangyuan Pasture Company comply with requirements of Accounting Standards of Business Enterprises and are implemented consistently;
- (3) distinguishing product and sale type, taking samples for inspection, respectively, selecting important samples to inspect the revenue and recognising related supporting documents (including financial documents, sales records, contracts, shipment documents, receipt documents, regular letters of reconciliation and records on signing in) to verify truthfulness and accuracy of revenue recognition;
- (4) sampling and recognising sale and settlement balance of payment for goods to the customer with letters of recognition;
- (5) cut-off test for sales revenue before and after the balance sheet date to evaluate whether the sales revenue is recorded in the proper accounting period.

Auditor's Report

(II) Valuation of Bearer Biological Assets

1. Description of matters

Please refer to note “III. Significant accounting policies and accounting estimate of the Company” XVI and note “V. Notes to the consolidated financial statements” XII and “IX. Fair value” to the financial statements. As at 31 December 2019, the balance of the the bearer biological assets of Zhuangyuan Pasture Company was RMB360,094,600, accounting for 14.45% of the total assets as at 31 December 2019.

Zhuangyuan Pasture Company's bearer biological assets comprise calves, heifers and milkable cows. Zhuangyuan Pasture Company's bearer biological assets are measured at fair value.

The fair value assessment of bearer biological assets involves the exercise of significant management judgment, particularly in respect of estimated culling and birth rates, future average milk production volumes, future raw milk market prices, breeding costs and the discount rate applied. As this will give rise to an inherent risk that the estimation of fair value may be manipulated by the management for the purpose of achieving certain objectives, we identified the valuation of bearer biological assets as a key audit matter.

2. How the matter was addressed in our audit

We mainly implemented the following audit procedures in the process of auditing key matters:

- (1) understanding and testing the effectiveness of the design and operation of the internal control of Zhuangyuan Pasture Company for recognition of the fair value of the bearer biological assets;
- (2) evaluating the competence, capabilities and objectivity of the external valuers engaged by Zhuangyuan Pasture Company;
- (3) assessing the reasonableness of the key assumptions adopted in the valuation of bearer biological assets, including the estimated culling and birth rates, future average milk production volumes, future market prices for raw milk, breeding costs and discount rate based on the work by external evaluation experts;
- (4) observing the physical count of bearer biological assets performed by Zhuangyuan Pasture Company and reviewing the quantity of bearer biological assets in the valuation model.



(III) Impairment of Goodwill

1. Description of matters

Please refer to the accounting policy (XVIII) stated in note “III. Significant accounting policies and accounting estimate of the Company” and note “V. Notes to the the consolidated financial statements” XV.

As at 31 December 2019, the original value, the provision for impairment and the balance of goodwill of Zhuangyuan Pasture Company were RMB58,690,500, RMB48,719,300 and RMB9,971,200, respectively. As the amount of the provision for impairment for the year was significant and the testing process of the impairment of goodwill was complex, which involves significant management judgement and estimates, we identified the impairment of goodwill as key audit matters.

2. How the matter was addressed in our audit

We mainly implemented the following audit procedures in the process of auditing key matters:

- (1) understanding and testing the internal control of the Management in respect of the impairment of goodwill and evaluating the effectiveness of its operation;
- (2) evaluating the competency, professionalism and objectiveness of the external experts engaged by the Management;
- (3) evaluating the appropriateness of the methods, key assumptions and the reasonableness of important metrics (such as growth rate and discount rate) adopted in the testing process of impairment of goodwill;
- (4) checking whether the relevant disclosure of goodwill is in compliance with the requirement of the “Accounting Standards for Business Enterprises”.

Auditor's Report

IV. OTHER INFORMATION

Zhuangyuan Pasture Company's management (the "Management") is responsible for the other information. The other information comprises all the information included in 2019 annual report of Zhuangyuan Pasture Company, other than the financial statements and our auditor's report thereon.

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

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

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

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

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

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

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



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

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

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

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

Auditor's Report

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

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

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

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

WUYIGE Certified Public Accountants LLP

Beijing, PRC

PRC Certified Public Accountant:
Wei Caixiang (Engagement Partner)
Certified Public Accountant:
Zhang Yingli
23 April 2020



Consolidated Income Statement

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
I. Operating income		813,554	657,732
Less: operating costs		559,656	445,395
Taxes and surcharges		6,267	5,009
Selling expenses		81,584	83,983
Administrative expenses		77,390	48,711
R&D expenses		9,462	4,372
Financial expenses		22,201	21,201
Including: interest expenses		20,996	24,136
Interest income		2,553	3,541
Add: other income		7,372	13,437
Investment income		(8,823)	
Including: investment income in joint ventures and cooperative enterprises			
Gain on derecognition of financial assets measured at amortised cost		(8,823)	
Net exposure hedge profits			
Gain from changes in fair value		47,252	175
Credit impairment loss		(992)	(205)
Asset impairment loss		(57,958)	(436)
Gain on disposal of assets		(2)	2,637
II. Operating profit		43,843	64,670
Add: non-operating income		24,828	3,059
Less: non-operating expenses		3,693	2,545
III. Total profits		64,979	65,185
Less: income tax expense		13,657	1,652

Consolidated Income Statement (Continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
IV. Net profit		51,321	63,533
(I) Classification according to business continuity			
1. Net profit from continuing operation		51,321	63,533
2. Net profit from discontinued operation			
(II) Classifying according to the attribution of the ownership			
1. Net profit attributable to the shareholders of parent company		51,321	63,533
2. Minority shareholders' profit and loss			
V. Net other comprehensive income after tax			
(I) Net other comprehensive income after tax attributable to shareholders of the parent company			
1. Other comprehensive income that cannot be reclassified into profits and losses afterwards			
(1) Change amount of defined benefit plans from the remeasurement			
(2) Other comprehensive income that cannot be transferred into the profits and losses under the equity method			
(3) Fair value change of other equity instrument investment			
(4) Fair value change of enterprise credit risk			
2. Other comprehensive income to be reclassified into profits and losses afterwards			
(1) Other comprehensive income that can be transferred into the profits and losses under the equity method			
(2) Fair value change of other creditor's investment			
(3) Amount of financial assets reclassified into other comprehensive income			
(4) Credit impairment allowance of other creditor's investment			
(5) Cash flow hedging reserve			
(6) Difference from translation of foreign currency financial statements			
(7) Others			
(II) Net other comprehensive income after tax attributable to minor shareholders			
VI. Total comprehensive income		51,321	63,533
(I) Total comprehensive income attributable to shareholders of the parent company		51,321	63,533
(II) Total comprehensive income attributable to shareholders of the parent company			
VII. Earnings per share			
(I) Basic earnings per share		0.27	0.34
(II) Diluted earnings per share		0.27	0.34

Consolidated Balance Sheet

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current assets:				
Cash at bank and on hand	V. (I)	413,742	403,091	403,091
Trading financial assets	V. (II)	20,412		
Derivative financial asset				
Bills receivable	V. (III)		200	200
Accounts receivable	V. (IV)	29,649	36,474	36,474
Receivables financing				
Prepayments	V. (V)	16,185	13,352	13,352
Other receivables	V. (VI)	17,694	12,860	12,860
Including: Interests receivable				
Dividends receivable				
Inventories	V. (VII)	94,832	88,921	88,921
Contract assets				
Held-for-sale assets				
Non-current assets due within one year				
Other current assets	V. (VIII)	17,595	2,732	2,732
Total current assets		610,110	557,630	557,630

Consolidated Balance Sheet (Continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Non-current assets:				
Creditor's investment				
Other creditor's investments				
Long-term receivables				
Long-term equity investments				
Other equity instrument investment	V. (IX)	44	44	44
Other non-current financial assets				
Investment property				
Fixed assets	V. (X)	1,247,639	924,350	939,221
Construction in progress	V. (XI)	59,188	37,670	37,670
Bearer biological assets	V. (XII)	360,095	270,304	270,304
Oil and gas assets				
Right-of-use assets	V. (XIII)	43,437	53,238	
Intangible assets	V. (XIV)	90,609	74,720	74,720
Development expenditures				
Goodwill	V. (XV)	9,971	58,691	58,691
Long-term deferred expenses	V. (XVI)	7,138	5,832	8,122
Deferred income tax assets	V. (XVII)	6,644	7,437	7,437
Other non-current assets	V. (XVIII)	57,852	94,270	94,270
Total non-current assets		1,882,617	1,526,557	1,490,480
Total assets		2,492,727	2,084,186	2,048,109



Consolidated Balance Sheet (Continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current liabilities:				
Short-term borrowings	V. (XIX)	315,184	437,359	437,359
Trading financial liabilities				
Derivative financial liabilities				
Bills payable	V. (XX)	283,014	30,545	30,545
Accounts payable	V. (XXI)	228,221	164,947	164,947
Advances from customers				
Contract liabilities	V. (XXII)	16,470	26,619	26,619
Employee benefits payable	V. (XXIII)	2,621	3,137	3,137
Taxes payable	V. (XXIV)	7,504	43,115	43,115
Other payables	V. (XXV)	50,725	41,232	41,232
Including: interest payable				
Dividends payable				
Held-for-sale liabilities				
Non-current liability due within one year	V. (XXVI)	56,249	28,382	28,382
Other current liabilities				
Total current liabilities		959,987	775,336	775,336
Non-current liabilities:				
Long-term borrowings	V. (XXVII)	227,327	39,568	39,568
Bonds payable				
Including: preferred shares				
Perpetual bonds				
Lease liabilities	V. (XXVIII)	30,946	38,078	
Long-term payables		2,361		
Long-term employee benefits payable				
Estimated liabilities	V. (XXX)	515	371	11
Deferred income	V. (XXXII)	39,518	40,129	40,129
Deferred income tax liabilities	V. (XVII)	9,027	6,298	6,298
Other non-current liabilities				
Total non-current liabilities		307,332	124,443	88,366
Total liabilities		1,267,320	899,779	863,702

Consolidated Balance Sheet (Continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Shareholders' equity:				
Share capital	V. (XXXIII)	190,681	187,340	187,340
Other equity instruments				
Including: preferred shares				
Perpetual bonds				
Capital reserves	V. (XXXIV)	531,119	508,791	508,791
Less: treasury shares	V. (XXXV)	23,251		
Other comprehensive income				
Special reserves				
Surplus reserves	V. (XXXVI)	43,387	37,194	37,194
Retained earnings	V. (XXXVII)	483,471	451,082	451,082
Total shareholders' equities				
attributable to the parent company		1,225,407	1,184,407	1,184,407
Minority shareholders' equity				
Total shareholders' equity		1,225,407	1,184,407	1,184,407
Total liabilities and/or shareholders' equities		2,492,727	2,084,186	2,048,109



Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
I. Cash flow from operating activities:			
Proceeds from sale of goods and rendering of services		896,830	708,776
Refund of taxes received			
Proceeds from other operating activities	V. (LIII)	41,347	36,207
Sub-total of cash inflows from operating activities		938,176	744,982
Payment for goods and services		576,476	487,287
Payment to and for employees		70,063	56,115
Payment of various taxes		61,896	35,013
Payment for other operating activities	V. (LIII)	89,465	71,398
Sub-total of cash outflows from operating activities		797,900	649,814
Net cash flow from operating activities		140,277	95,169
II. Cash flow from investment activities:			
Proceeds from the recovery of investment			
Cash receipt from investment income			
Net cash from disposal of fixed assets, intangible assets and other long-term assets		28,640	14,894
Net cash from disposal of subsidiaries and other business units			
Cash receipt from other investment activities	V. (LIII)	2,553	21,931
Sub-total of cash inflows from investing activities		31,194	36,825
Payment for acquisition of fixed assets, intangible assets and other long-term assets		459,895	212,546
Cash paid for investments		12,365	200,892
Net cash paid for acquisition of subsidiaries and other business units			
Payment for other investing activities	V. (LIII)		14,300
Sub-total of cash outflow from investing activities		472,260	427,738
Net cash flow from investing activities		(441,067)	(390,913)

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
III. Cash flow from financing activities:			
Cash received from investors		23,251	
Including: cash from subsidiary by absorbing minority shareholders' investments			
Cash received from borrowings		655,000	460,000
Cash receipt from other financing activities	V. (LIII)	266,583	
Sub-total of cash inflow from financing activities		944,834	460,000
Repayments of borrowings		562,863	469,488
Payment for dividends, appropriation of profits or interest		44,850	37,859
Including: dividends and profits paid by subsidiaries to minority shareholders			
Payment for other financing activities	V. (LIII)	176,902	4,750
Sub-total of cash outflows from financing activities		784,615	512,097
Net cash flow from financing activities		160,219	(52,097)
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
	V. (LIV)	14	(264)
V. Net increase in cash and cash equivalents		(140,556)	(348,105)
Add: Cash and cash equivalents at the beginning of the period	V. (LIV)	388,791	736,896
V I. Cash and cash equivalents at the end of the period		248,235	388,791



Consolidated Statement of Changes in Equity

As at 31 December 2019
(Expressed in Renminbi Yuan)

Item	For the current period													
	Attributable to shareholders of the parent company					Minority shareholders' equity								
	Share capital RMB'000	Preferred shares RMB'000	Perpetual bonds RMB'000	Other equity instruments	Others RMB'000	Capital reserves RMB'000	Less: treasury shares RMB'000	Other comprehensive income RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Minority shareholders' equity RMB'000	Total shareholders' equity RMB'000
I. Balance at the end of the previous year	187,340				508,791					37,194	451,082	1,184,407		1,184,407
Add: Change in accounting policies														
Pro-period error correction														
Business combination under the common control														
Others														
II. Balance at the beginning of the year	187,340				508,791					37,194	451,082	1,184,407		1,184,407
III. Increase/decrease amount during the period														
(I) Total comprehensive income	3,341				22,328	23,251				6,193	32,389	41,000		41,000
(II) Invested and reduced capitals of shareholders	3,341				22,328	23,251					51,321	51,321		51,321
1. Common share contributed by shareholders	3,341				19,910	23,251						2,418		2,418
2. Capital contributed by other equity instrument holders														
3. Amount of share-based payment included in shareholders' equities					2,418							2,418		2,418
4. Others														
(III) Appropriation of profits										6,193	(18,992)	(12,799)		(12,799)
1. Withdrawal of surplus reserve										6,193	(6,193)			
2. Distributions to shareholders											(12,799)	(12,799)		(12,799)
3. Others														
(IV) Internal carry-over of shareholders' equity														
1. Paid-in capitals (or share capital) transferred with capital reserves														
2. Surplus reserves (or share capital) transferred with capital reserves														
3. Surplus reserve to cover the losses														
4. Transferred the balance of defined benefits plan to retained earnings														
5. Transferred other comprehensive income to retained earnings														
6. Others														
(V) Special reserve														
1. Withdraw amount in the period														
2. Utilized amount in the period														
(VI) Others														
IV. 31 December 2019	190,681				531,119	23,251				43,387	483,471	1,225,407		1,225,407

Consolidated Statement of Changes in Equity (Continued)

As at 31 December 2019

(Expressed in Renminbi Yuan)

Item	For the previous period												
	Attributable to shareholders of the parent company					Other equity instruments							
	Share capital RMB'000	Preferred shares RMB'000	Perpetual bonds RMB'000	Others RMB'000	Capital reserves RMB'000	Less: treasury shares RMB'000	Other comprehensive income RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Minority shareholders' equity RMB'000	Total shareholders' equity RMB'000
I. Balance at the end of the previous year	187,340				508,791		6,884		32,051	399,483	1,127,665		1,127,665
Add: Change in accounting policies													
Prior-period error correction													
Business combination under the common control													
Others													
II. Balance at the beginning of the year	187,340				508,791		6,884		32,051	399,483	1,134,549		1,134,549
Increase/decrease amount during the period													
(I) Total comprehensive income													
(II) Invested and reduced capitals of shareholders													
1. Common share contributed by shareholders													
2. Capital contributed by other equity instrument holders													
3. Amount of state-based payment included in shareholders' equities													
4. Others													
(III) Appropriation of profits													
1. Withdrawal of surplus reserve									5,143	(18,819)	(13,676)		(13,676)
2. Distributions to shareholders									5,143	(5,143)			
3. Others													
(IV) Internal carry-over of shareholders' equity													
1. Paid-in capitals (or share capital) transferred with capital reserves													
2. Surplus reserves (or state capital) transferred with capital reserves													
3. Surplus reserve to cover the losses													
4. Transferred the balance of defined benefits plan to related earnings													
5. Transferred other comprehensive income to related earnings													
6. Others													
(V) Special reserve													
1. Withdraw amount in the period													
2. Utilized amount in the period													
(VI) Others										6,884			
IV. 31 December 2019	187,340				508,791		6,884	0	37,194	451,082	1,184,407		1,184,407

Income Statement

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
I. Operating income	XV. (IV)	501,789	482,025
Less: Operating costs	XV. (IV)	355,401	330,032
Taxes and surcharges		2,094	3,144
Selling expenses		52,897	53,245
Administrative expenses		36,688	27,553
R&D expenses		5,084	3,107
Financial expenses		19,509	18,663
Including: Interest expenses		18,184	20,967
Interest income		2,243	3,011
Add: Other incomes		1,806	6,142
Investment income		(2,592)	
Including: Investment income in joint ventures and cooperative enterprises			
Gain on derecognition of financial assets measured at amortised cost		(2,592)	
Net exposure hedge profits			
Gain from changes in fair value		20,412	
Credit impairment loss		(8)	(19)
Asset impairment loss			(197)
Gain on disposal of assets		(2)	2,603
II. Operating profit		49,731	54,809
Add: non-operating income		22,984	1,120
Less: non-operating expenses		270	1,197
III. Total profits		72,446	54,733
Less: income tax expense		10,516	3,300
IV. Net profit		61,930	51,433
(1) Net profit from continuing operation		61,930	51,433
(2) Net profit from discontinued operation			

Income Statement (continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
V. Net other comprehensive income after tax			
(I) Other comprehensive income that cannot be reclassified into profits and losses afterwards			
1. Change amount of defined benefit plans from the remeasurement			
2. Other comprehensive income that cannot be transferred into the profits and losses under the equity method			
3. Fair value change of other equity instrument investment			
4. Fair value change of enterprise credit risk			
(II) Other comprehensive income to be reclassified into profits and losses afterwards			
1. Other comprehensive income that can be transferred into the profits and losses under the equity method			
2. Fair value change of other creditor's investment			
3. Amount of financial assets reclassified into other comprehensive income			
4. Credit impairment reserves of other creditor's investment			
5. Cash flow hedging reserve			
6. Difference from translation of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		61,930	51,433
VII. Earnings per share			
(I) Basic earnings per share			
(II) Diluted earnings per share			



Balance Sheet

As at 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current assets:				
Cash at bank and on hand		359,427	302,153	302,153
Trading financial assets		20,412		
Derivative financial asset				
Bills receivable			200	200
Accounts receivable	XV.(I)	13,002	23,221	23,221
Receivables financing				
Prepayments		14,464	3,171	3,171
Other receivables	XV.(II)	593,144	493,110	493,110
Including: Interests receivable				
Dividends receivable				
Inventories		21,362	21,986	21,986
Contract assets				
Held-for-sale assets				
Non-current assets due within one year				
Other current assets		17,117	1,609	1,609
Total current assets		1,038,928	845,450	845,450

Balance Sheet (Continued)

As at 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Non-current assets:				
Creditor's investment				
Other creditor's investments				
Long-term receivables				
Long-term equity investments	XV.(III)	533,789	524,789	524,789
Other equity instrument investment		44	44	44
Other non-current financial assets				
Investment property				
Fixed assets		529,887	199,544	205,199
Construction in progress			16,629	16,629
Bearer biological assets				
Oil and gas assets				
Right-of-use assets		4,033	11,058	0
Intangible assets		56,927	58,119	58,119
Development expenditures				
Goodwill				
Long-term deferred expenses		6,946	5,243	5,243
Deferred income tax assets		2,933	3,226	3,226
Other non-current assets		29,735	60,400	60,400
Total non-current assets		1,164,294	879,051	873,649
Total assets		2,203,222	1,724,501	1,719,099



Balance Sheet (Continued)

As at 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current liabilities:				
Short-term borrowings		315,184	420,359	420,359
Trading financial liabilities				
Derivative financial liabilities				
Bills payable		283,014	27,600	27,600
Accounts payable		123,726	49,261	49,261
Advances from customers				
Contract liabilities		12,377	19,174	19,174
Employee benefits payable		2,013	2,018	2,018
Taxes payable		2,872	38,218	38,218
Other payables		61,442	57,188	57,188
Including: interest payable				
Dividends payable				
Held-for-sale liabilities				
Non-current liability due within one year		33,566	3,782	3,782
Other current liabilities				
Total current liabilities		834,193	617,600	617,600

Balance Sheet (Continued)

As at 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Non-current liabilities:				
Long-term borrowings		227,327	19,439	19,439
Bonds payable				
Including: preferred shares				
Perpetual bonds				
Lease liabilities		3,122	5,402	
Long-term payables				
Long-term employee benefits payable				
Estimated liabilities		44	7	7
Deferred income		16,598	14,787	14,787
Deferred income tax liabilities		4,277	1,215	1,215
Other non-current liabilities				
Total non-current liabilities		251,368	40,849	35,448
Total liabilities		1,085,561	658,449	653,047
Shareholders' equity:				
Share capital		190,681	187,340	187,340
Other equity instruments				
Including: preferred shares				
Perpetual bonds				
Capital reserves		553,631	531,302	531,302
Less: treasury shares		23,251		
Other comprehensive income				
Special reserves				
Surplus reserves		43,387	37,194	37,194
Retained earnings		353,213	310,215	310,215
Total shareholders' equity		1,117,662	1,066,052	1,066,052
Total liabilities and shareholders' equity		2,203,222	1,724,501	1,719,099



Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
I. Cash flow from operating activities:			
Proceeds from sale of goods and rendering of services		567,125	535,254
Refund of taxes received			
Proceeds from other operating activities		270,004	60,382
Sub-total of cash inflows from operating activities		837,129	595,635
Payment for goods and services		324,606	500,675
Payment to and for employees		29,051	30,820
Payment of various taxes		48,386	29,276
Payment for other operating activities		136,217	87,262
Sub-total of cash outflows from operating activities		538,260	648,033
Net cash flow from operating activities		298,868	(52,397)
II. Cash flow from investment activities:			
Proceeds from the recovery of investment			
Cash receipt from investment income			
Net cash from disposal of fixed assets, intangible assets and other long-term assets		10	8,345
Net cash from disposal of subsidiaries and other business units			
Cash from other investment activities			21,931
Sub-total of cash inflows from investing activities		10	30,276
Payment for acquisition of fixed assets, intangible assets and other long-term assets		327,395	170,618
Cash paid for investments		21,365	201,892
Net cash paid for acquisition of subsidiaries and other business units			
Payment for other investing activities			14,300
Sub-total of cash outflow from investing activities		348,759	386,811
Net cash flow from investing activities		(348,749)	(356,535)

Cash Flow Statement (Continued)

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

Item	Note	2019 RMB'000	2018 RMB'000
III. Cash flow from financing activities:			
Cash received from investors		23,251	
Cash received from borrowings		655,000	440,000
Cash receipt from other financing activities		15,446	
Sub-total of cash inflow from financing activities		693,697	440,000
Repayments of borrowings		522,243	380,178
Payment for dividends, appropriation of profits or interest		43,535	34,703
Payment for other financing activities		171,985	2,550
Sub-total of cash outflows from financing activities		737,763	417,431
Net cash flow from financing activities		(44,066)	22,569
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		14	(264)
V. Net increase in cash and cash equivalents		(93,933)	(386,627)
Add: Cash and cash equivalents at the beginning of the period		287,852	674,479
V I. Cash and cash equivalents at the end of the period		193,920	287,852



Statement of Changes in Equity

As at 31 December 2019
(Expressed in Renminbi Yuan)

Item	For the current period										
	Share capital RMB'000	Preferred shares RMB'000	Perpetual bonds RMB'000	Other equity instruments	Others RMB'000	Capital reserves RMB'000	Less: treasury shares RMB'000	Other comprehensive income RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Retained earnings RMB'000
I. Balance at the end of the previous year	187,340				531,302	37,194			37,194	310,215	1,066,052
Add: Change in accounting policies											
Prior-period error correction											
Others											
II. Balance at the beginning of the year	187,340				531,302	37,194			37,194	310,215	1,066,052
III. Increase/decrease amount during the period	3,341				22,328	23,251			6,193	42,998	51,009
(I) Total comprehensive income										61,930	61,930
(II) Invested and reduced capitals of shareholders	3,341				22,328	23,251					2,418
1. Common share contributed by shareholders	3,341				19,910	23,251					
2. Capital contributed by other equity instrument holders											
3. Amount of share-based payment included in shareholders' equities					2,418						2,418
4. Others											
(III) Appropriation of profits									6,193	(18,932)	(12,739)
1. Withdrawal of surplus reserve									6,193	(6,193)	
2. Distributions to shareholders										(12,739)	(12,739)
3. Others											
(IV) Internal carry-over of shareholders' equity											
1. Paid-in capitals (or share capital) transferred with capital reserves											
2. Surplus reserves(or share capital) transferred with capital reserves											
3. Surplus reserve to cover the losses											
4. Transferred the balance of defined benefits plan to retained earnings											
5. Transferred other comprehensive income to retained earnings											
6. Others											
(V) Special reserve											
1. Withdraw amount in the period											
2. Utilized amount in the period											
(VI) Others											
IV. 31 December 2019	190,681				553,631	23,251			43,387	353,213	1,117,662

Statement of Changes in Equity (Continued)

As at 31 December 2019

(Expressed in Renminbi Yuan)

Item	For the previous period										
	Share capital RMB'000	Preferred shares RMB'000	Perpetual bonds RMB'000	Others RMB'000	Capital reserves RMB'000	Less: treasury shares RMB'000	Other comprehensive income RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Retained earnings RMB'000	Total shareholders' equity RMB'000
I. Balance at the end of the previous year	187,340				531,302		6,884		32,051	270,717	1,021,411
Add: Change in accounting policies											
Prior-period error correction							6,884				6,884
Others											
II. Balance at the beginning of the year	187,340				531,302		6,884		32,051	270,717	1,028,295
III. Increase/decrease amount during the period											
(I) Total comprehensive income											
(II) Invested and reduced capitals of shareholders											
1. Common share contributed by shareholders											
2. Capital contributed by other equity instrument holders											
3. Amount of share-based payment included in shareholders' equities											
4. Others											
(III) Appropriation of profits											
1. Withdrawal of surplus reserve											
2. Distributions to shareholders											
3. Others											
(IV) Internal carry-over of shareholders' equity											
1. Paid-in capitals (or share capital) transferred with capital reserves											
2. Surplus reserves (or share capital) transferred with capital reserves											
3. Surplus reserve to cover the losses								0	5,143	(18,819)	(13,676)
4. Transferred the balance of defined benefits plan to retained earnings									5,143	(5,143)	
5. Transferred other comprehensive income to retained earnings											
6. Others											
(V) Special reserve											
1. Withdrawal amount in the period											
2. Utilized amount in the period											
(VI) Others							(6,884)			6,884	
IV. Balance at the end of the year	187,340				531,302			0	37,194	310,215	1,066,052

Notes to the Financial Statements

1 January 2019 - 31 December 2019

I. COMPANY STATUS

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

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

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

The Company has 11 subsidiaries incorporated into the consolidation scope in 2019. For details, please refer to Note VII. “Interests in other entities”.

The Company is primarily engaged in the manufacturing and selling of dairy products and breeding of dairy cows.

The financial statements have been approved by the Board of Directors of the Company on 30 March 2020. Pursuant to the Articles of Association of the Company, the financial statements will be submitted to and considered at the shareholders' meeting.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(I) Basis of Preparation

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Statements on compliance with accounting standards for business enterprises

These financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”) present truly and completely the financial position of the Company as at 31 December 2019, and financial performance and cash flows of the Company for the year of 2019. These financial statements, in all material aspects, comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2014. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and Hong Kong Listing Rules.

(II) Accounting period

Accounting year of the Company is the calendar year from 1 January to 31 December.

(III) Operating cycle

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

(VI) Functional currency

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination

Business combination refers to the transaction or events of two or more separate enterprises combining into a reporting entity. Business combination is divided into the business combination under the common control and business combination not under the common control.

1. Business combination under the common control

In case the consideration for the long-term equity investments resulted from the business combination under common control is paid by way of cash, transfer of non-cash assets or assumption of debts, the Company will, on the date of combination, recognize the acquiree's share in the carrying amount in the ultimate controlling party's consolidated financial statements being absorbed as initial investment cost of long-term equity investments. In case the acquirer pays the combination consideration by issuing equity instruments, the aggregate nominal value of shares issued will be recognized as share capital. The difference between the initial investment cost of long-term equity investments and the carrying amount of combination consideration (or aggregate nominal value of shares issued) shall be adjusted under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination (Continued)

2. Business combination not under the common control

A business combination not under the common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not under the common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

As for business combination not under the common control, the combination costs include the assets paid by the acquirer, the liabilities accrued and assumed, as well as the fair value of the equity security issued for obtaining control right on the acquiree on the purchase date; the intermediary fees, such as auditing, legal service and evaluation and consulting, and other related management fees for the business combination shall be included in the current profits and losses when occurred. The purchaser's transaction expenses of equity securities or debt securities issued as consolidation price shall be counted into the initially recognised amount of equity securities or debt securities. Contingent consideration involved shall be included in the combination costs according to the fair value at the purchase date; if new or further proofs appearing within 12 months after the purchase date show that the contingent consideration needs to be adjusted, the combination goodwill shall be adjusted correspondingly. The purchasing party's combination costs and obtained identifiable net assets during the merger shall be measured according to the fair value on the purchase date. If the combination cost is larger than difference of the fair value share of the acquiree's identifiable net assets obtained on the purchase date during combination, it shall be recognised as goodwill. If the merger cost is lower than the fair value share of the acquiree's identifiable net assets obtained during merging, the measurement of the various identifiable assets of the acquiree obtained, liabilities or fair value with contingent liabilities and the merger costs shall be re-examined firstly, and then if the merger cost is still lower than the fair value share of the acquiree's identifiable net assets obtained during merging, the difference shall be included in the current profits and losses.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(V) Business combination (Continued)

2. Business combination not under the common control (Continued)

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VI) Preparation method of the consolidated financial statements

1. Determination principles of consolidated financial statement

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

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

2. Preparation method of the consolidated financial statements

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(VII) Recognition standard for cash and cash equivalents

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

(VIII) Translation of foreign currency transactions and financial statements denominated in foreign currency

1. Translation of foreign currency transactions

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

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

(IX) Financial instruments

1. Classification and reclassification of financial instruments

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Classification, recognition and measurement of financial assets

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

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

① **Financial assets at amortized cost**

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Classification, recognition and measurement of financial assets (Continued)

② *financial assets measured at changes in fair value through other comprehensive income*

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

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

③ *Financial assets measured at changes in fair value through profits or losses*

The Company classifies financial assets except for above-mentioned financial assets measured at amortized cost and financial assets measured at changes in fair value through other comprehensive income into financial assets measured at changes in fair value through profits or losses.

3. Classification, recognition and measurement of financial liabilities

The financial liabilities of the Company are classified as financial liabilities measured at changes in fair value through profits or losses and other financial liabilities upon initial recognition. For financial liabilities measured at changes in fair value through profits or losses, relevant transaction expenses shall be included in current profits and losses directly; for other financial liabilities, relevant transaction expenses thereof shall be included in the amount of initial recognition.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

3. Classification, recognition and measurement of financial liabilities (Continued)

① *Financial liabilities measured at changes in fair value through profits or losses*

Financial liabilities measured at changes in fair value through profits or losses include trading financial liabilities (containing derivative instruments of financial liabilities) and financial liabilities measured at changes in fair value through profits or losses at the time of initial recognition.

Trading financial liabilities (including derivative instruments of financial liability) is subject to subsequent measurement at fair value. Except for related to hedge accounting, the change in fair value is included in current profits or losses.

② *Other financial liabilities*

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

4. Recognition basis and measurement method of financial assets transfer

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

5. Derecognition of financial liabilities

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

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

6. Offset of financial assets and liabilities

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

7. Determination methods of fair value of financial assets and liabilities

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

8. Equity instrument

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Impairment of financial assets

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

1. Recognition method of provision for impairment in value

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

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

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

2. Standard for judging whether credit risk has significantly increased after initial recognition

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(X) Impairment of financial assets (Continued)

3. Selection of simplified treatment method

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

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

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

4. Combinatorial method of appraising future credit risk based on combination

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories

Inventories of the Company include raw materials, goods in stock, goods in transit, consumable biological assets, etc.

1. Consumable biological assets

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

2. Other inventories

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

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XI) Inventories (Continued)

2. Other inventories (Continued)

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

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

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

The Company maintains a perpetual inventory system.

(XII) Long-term equity investment

The long-term equity investments refer to the long-term equity investments that the Company has control, joint control or significant impacts on the invested entity. The Company does not have long-term equity investments of controlling, common controlling or significant impacts on the invested entity. As for financial assets measured at changes in fair value through profits or losses, if such assets are not transactional, the Company may specify these capitals as financial assets which are measured at changes in fair value through current profits or losses upon initial recognition. Relevant accounting policies please see Note III. (IX) "Financial Instruments".

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

1. Determination of investment cost

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

2. Methods for the subsequent measurement and the profit and loss recognition

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

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

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

Under the equity method, the investment income and other comprehensive income are recognized in accordance with the proportion of the net profit or loss and other comprehensive income of the invested entity attributable to the investor, and adjusting the carrying value of long-term equity investment; it shall be decreased of the carrying value of long-term equity investment according to the portion of the declaration of dividend or cash dividends; it shall adjust the carrying value of long-term equity investment and recognize in capital reserve if there is any other changes besides net profit or loss, other comprehensive income and profit distribution of the shareholders' equity. The invested entity's profit or loss shall be adjusted on the basis of the fair value of all identifiable assets of the invested entity at the acquisition date and adjusted to comply with the accounting policies and accounting periods adopted by the investor. All inter-group unrealized profits from the jointly ventures and associates attributable to the Group shall be eliminated to recognize the investment income. If there are differences in the accounting policies and accounting period between the Company and the invested company, the financial statements shall be adjusted according to the Company, and the investment income and other comprehensive income shall be recognized. However, if the unrealized inter-group loss constitutes impairment of the transferred assets, the losses shall not be adjusted.

The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the company's net investment in the investee is reduced to zero, except to the extent that the company has an obligation to assume additional losses. Where net profits are subsequently made by the investee, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

③ *Acquisition of the minority equity*

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

④ *Disposal of the long-term equity investments*

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

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XII) Long-term equity investment (Continued)

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

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

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

(XIII) Fixed assets

1. Recognition of fixed assets

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

2. Classification and depreciation of fixed assets

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

Asset type	Estimated useful lives (year)	Estimated net residual value rate (%)	Annual depreciation rate (%)
Plant and buildings	30~50 years	3.00%	1.94%~3.23%
Machinery and equipment	5 ~ 10 years	5.00%	9.50% ~ 19.00%
Motor vehicles and transportation equipment	4 years	5.00%	23.75%
Other equipment	5 years	5.00%	19.00%

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

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

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

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

5. Other explanations

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIII) Fixed assets (Continued)

5. Other explanations (Continued)

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

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

(XIV) Construction in process

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XV) Borrowing costs

1. Recognition principle of borrowing costs capitalisation

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

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

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

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

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVI) Biological assets

The bearer biological assets of the Company are calves, heifers and milkable cows, which are raised or grown by the Company for the purposes of producing raw milk.

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

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

(XVII) Intangible assets

1. Measurement method of intangible assets

Intangible assets of the Company are initially measured at cost. The actual cost of a purchased intangible asset includes the considerations and relevant expenses paid. The actual cost of an intangible asset contributed by investors is the price contained in the investment contract or agreement. If the price contained in the investment contract or agreements is not a fair value, the fair value of the intangible asset is regarded as the actual cost. The cost of a self-developed intangible asset is the total expenditures incurred in bringing the asset to its intended use.

Subsequent measurement of the Company's intangible assets: intangible assets with finite useful lives are amortized on a straight-line basis over the useful lives of the intangible assets; at the end of each year, the useful lives and amortization policy are reviewed, and adjusted accordingly if there are variance with original estimates; intangible assets with indefinite useful lives are not amortized and the useful lives are reviewed at the end of each year. If there is objective evidence that the useful life of an intangible asset is finite, the intangible asset is amortized using the straight line method according to the estimated useful life.

Asset type	Useful lives (year)	Amortization method
Land Use Right	47-50 years	Straight-line method
Computer Software	10 years	Straight-line method

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XVII) Intangible assets (Continued)

2. Determination basis of infinite useful life

An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company or it has no definite useful life. The judgment basis of intangible assets with indefinite useful life: derived from the contractual rights or other legal rights but the contract or the law does not specify certain useful life; in light of the conditions of the competitors and the opinions of relevant experts, the specific period that intangible asset generating economic benefits to the Company still can not be determined.

At the end of each year, the useful life shall be reviewed for those intangible assets with indefinite useful life by mainly using the bottom-up method. The relevant department that uses intangible asset will perform the basic review and evaluate whether there are changes in the basis for judgments of the indefinite useful life, etc.

3. Basis for research and development phases for internal research and development project and basis for capitalization of expenditure incurred in development stage

Expenditure during the research stage of the internal research and development projects are charged to the current profit or loss as incurred. Expenditure during the development stage are transferred to intangible assets if the conditions for recognition of intangible assets are met.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued) (XVIII) Impairment of long-term assets

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

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

Goodwill separately presented on the financial statements is tested for impairment at least every year, irrespective of whether there is any indication that the asset may be impaired. For the purpose of impairment testing, the carrying amount of goodwill is allocated to asset groups or sets of asset groups expected to benefit from the synergy of business combination. The test result indicates that if the recoverable amount of the asset group or portfolio that includes the apportioned goodwill is less than its book value, corresponding impairment loss shall be recognized. The amount of the impairment loss shall firstly be deducted from the book value of the goodwill of the mentioned asset group or portfolio of asset group, then be deducted from the book value of various other assets in the book value in proportion of various other assets in the asset group or portfolio of asset group except goodwill.

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XIX) Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the benefit period. Long-term deferred expenses of the Company primarily represent decoration costs, with a amortization period of 10 years.

(XX) Employee benefits

Employee benefits are all forms of rewards or compensation provided by the Company in exchange for services rendered by employees or for the termination of employment. Employee benefits mainly include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits.

1. Short-term benefits

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

2. Post-employment benefits

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XX) Employee benefits (Continued)

3. Termination benefits

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

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

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

(XXI) Estimated liabilities

Estimated liabilities are recognised for obligations related to contingencies if the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments

1. Accounting treatment for share-based payments

Share-based payments are transactions that grant equity instruments or assume equity-instrument based liabilities for receiving services rendered by employees or other parties.

① *Equity-settled share-based payments*

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value on the date of grant of equity instruments granted to employees. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, the amount of such fair value, based on the best estimates of the number of equity instruments that can be vested during the pending period, is charged to relevant costs or expenses (computed using the straight-line method). Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and the capital reserve is credited accordingly.

At each balance sheet date during the pending period, the Company, based on the latest subsequent information such as the latest update on the change in the number of entitled employees, makes best estimates to adjust the expected number of equity instruments that can be vested. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly.

Equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of the services rendered by other parties on the receiving date if such fair value can be reliably measured. If the fair value of the services rendered by other parties cannot be reliably measured, equity-settled share-based payments in exchange for services rendered by other parties are measured at the fair value of equity instruments on the date of receiving services and charged to relevant costs or expenses and shareholders' equity is credited accordingly, provided that the fair value of equity instruments can be reliably measured.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments (Continued)

1. Accounting treatment for share-based payments (Continued)

② Cash-settled share-based payments

Cash-settled share-based payments are measured at the fair value of the liabilities (share-based or other equity instrument-based) assumed by the Company. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses on the date of grant and liabilities are increased accordingly. If vesting is conditional upon completion of services in the pending period or fulfillment of performance conditions, at each balance sheet date during the pending period, based on the best estimates of the vesting situation, according to the amount of fair value of the liabilities assumed by the Company, the services received for the period are charged to costs or expenses and liabilities are increased accordingly.

At each balance sheet date and settlement date before the relevant liabilities are settled, the fair value of liabilities are re-measured and the resulting changes are included in the profit and loss for the period.

2. Accounting treatment in relation to share-based payment plan modification and termination

When the Company modifies the share-based payment plan, and if such modification increases the fair value of the equity instruments granted, the increase in services received will be recognised accordingly following the increase in fair value of the equity instruments. The increase in fair value of the equity instruments refers to the difference in fair value on the date of modification before and after the modification in respect of the equity instruments. If the modification reduces the total fair value of the share-based payments or adopts any form that is unfavorable to employees, accounting treatment will be continued to be conducted in respect of the services received and the modification will be deemed to have never occurred, unless the Company had cancelled part or all of the equity instruments granted.

During the pending period, if the equity instruments granted are cancelled, the Company will undertake an accelerated vesting in respect of the cancelled equity instruments that had been granted, include the remaining amount that shall be recognised during the pending period in the profit and loss for the period immediately and recognise capital reserve accordingly. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, the Company will treat the granted equity instruments as cancelled.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXII) Share-based payments (Continued)

3. Accounting treatment for share-based payments involving the Company and the shareholders of the Company or the actual controller

For share-based payment transactions involving the Company and the shareholders of the Company or the actual controller, the settlement enterprise and the enterprise receiving services (one is with the combination scope of the Company while another is not) shall follow the requirements below to conduct accounting treatment in the Company's consolidated financial statements:

- ① For settlement enterprises settling through their own equity instruments, such share-based payment transaction will be treated as equity-settled share-based payment; except for this, such share-based payment transaction will be treated as cash-settled share-based payment.

Where a settlement enterprise is an investor of an enterprise receiving services, the fair value of the equity instruments on the date of grant or the fair value of the liabilities that shall be assumed are recognised as long-term equity investment in the enterprise receiving services, at the same time, capital reserve (other capital reserve) or liabilities are recognised.

- ② Where an enterprise receiving services has no settlement obligations or grants its own equity instruments to employees, such share-based payment transaction will be treated as equity-settled share-based payment; where an enterprise receiving services has settlement obligations and grants equity instruments (other than its own) to employees, such share-based payment transaction will be treated as cash-settled share-based payment.

For a share-based payment transaction occurring between each enterprise with the combination scope of the Company where the enterprise receiving services and the settlement enterprise are not the same enterprise, such share-based payment transaction shall be recognised and measured in each of the respective financial statements of the enterprise receiving services and the settlement enterprise (as compared with the above principles).



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

As for each individual performance obligation in the contract, if one of the following conditions are met, the Company recognises the transaction price which is amortized into the individual performance obligation based on the performance progress within a relevant performance period as the revenue: The client obtains and consumes the economic benefits while the Company fulfills the performance obligation. The client manages to control the assets under construction while the Company fulfills the performance obligation. Commodities produced during the performance period have irreplaceable purposes and the Company is entitled to charge money for the performance accumulated and has been finished until the current time within the whole contract period. The performance progress shall be recognised based on the property of the commodity transferred by virtue of the input method or the output method. When the performance progress cannot be recognised reasonably, if it is predicted that the incurred cost of the Company can be compensated, the income shall be recognised based on the incurred cost amount until the performance progress can be recognised reasonably. If one of the above conditions cannot be met, the Company recognises the transaction price amortized to the individual performance obligation at the time when the client obtains the control right of relevant commodities as the revenue. When judging whether the client has obtained the control right of the commodity, the Company can consider the following signs: The enterprise has the current collection right of the commodity, namely the client is responsible for current payment obligation of the commodity; The enterprise has transferred the legal ownership of the commodity to the client, namely the client has possessed the legal ownership of the commodity; The enterprise has transferred the real commodity to the client, namely the client has possessed the real commodity; The enterprise has transferred main risks and remuneration of the commodity to the client, namely the client has obtained the main risks and remuneration related to the ownership of the commodity; The client has accepted the commodity; Other signs indicating that the client has obtained the control right of the commodity.

The operating income of the Company mainly includes the sales revenue of the dairy products. The Company recognises the revenue at the time of performing the performance obligation in the contract, namely the client obtains the control right of relevant commodities.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIII) Revenue (Continued)

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXIV) Government grants

1. Types of government grants and accounting treatment

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

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

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

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

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

The government grants related to business activities are recognized as other income in the light of the nature of such business. The government grants non-related to business activities are recognized as non-operating income or expense.

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

2. Timing for recognition of government grants

Government grants shall be recognised when the enterprise fulfills the conditions attaching to the grant and the enterprise can receive the grant. The government grants measured at the amount receivable will be recognized when there is unambiguous evidence suggesting the conformance to related conditions as provided in financial support policies and financial support fund is expected to be received. Other government grants other than those measured at the amount receivable will be recognized at the actual time of receiving such grants.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXV) Income tax

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

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

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

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

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

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

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

The taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases

Lease is a contract in which the Company transfers or obtains the right of use of an identified asset or several identified assets under control for the exchange or payment of consideration within a certain period of time.

1. As lessee

The major category of lease assets of the Group is land, machinery and equipment.

① *Initial measurement*

At the commencement date, the Company recognizes an asset that represents its right to use an underlying asset for the lease term as the right-of-use asset and recognizes the lease liability at the present value of the lease payments that are not paid at that date, except for short-term lease and low-value lease. The lease payments are discounted using the interest rate implicit in the lease when calculating the present value of the lease payments. If that rate cannot be readily determined, the Company uses its incremental borrowing rate as the discount rate.

Lease term is the non-cancellable period for which the Company has the right to use an underlying asset, together with both: periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. The Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases (Continued)

1. As lessee (Continued)

② Subsequent measurement

The Company depreciates right-of-use assets using straight-line method. If the lease transfers ownership of the underlying asset to the Company by the end of the lease, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability and is recognized in profit or loss.

After the commencement date, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the in-substance fixed lease payments, a change in the amounts expected to be paid under residual value guarantees, a change in future lease payments arising from change in an index or rate, or a change in assessment or result to purchase the underlying asset, to extend the lease or to terminate the lease. The Company remeasures the lease liability to reflect changes to the lease payments, and recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the remeasurement in profit or loss.

For short-term leases and leases of low-value assets, the Company applies simplification method to account for the relevant asset costs or current profit and loss in each period during the lease term using the straight-line method or other systematic method.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVI) Leases (Continued)

2. As lessor

On the commencement date of the lease term, all leases with risks and rewards incident to the ownership of the leased assets are substantially transferred into finance leases, and all other leases are operating leases.

(XXVII) Held-for-sale assets and disposal group

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVII) Held-for-sale assets and disposal group (Continued)

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXVIII) Dividend distributions

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

(XXIX) Related parties

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

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

(XXX) Segment reporting

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

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXI) Key accounting estimates and judgments

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

Except for accounting estimates relating to depreciation and amortization of assets such as fixed assets, intangible assets, right-of-use assets and long-term deferred expenses (see Notes III(XIII), (XVII), (XXVI) and (XIX)), fair value estimates of biological assets and contingent consideration (see Note III (XVI) and (IX)) and provision for impairment of various types of assets (see Notes III(X), (XVIII), Notes V (III), (IV), (VI), (VII), (X), (XI), (XIV), (XV) and Notes XV (I), (II), (III) and (IV)) and recognition of deferred tax assets (see Note V.(XVII)), there are no other key accounting estimates.

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates

1. Changes in accounting policies and basis

(1) Change of accounting policies incurred in the application of New Lease Standard

MOF issued “Accounting Standards for Business Enterprises No. 21 — Leases (Amendments in 2018)” (Cai Kuai 2018 No. 35) (hereinafter referred to as “New Lease Standards”) on 7 December 2018, and required the enterprises that are listed in both domestic and overseas markets and the enterprises that are listed overseas and use International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare financial statements to implement such new standards from 1 January 2019.

Upon being resolved and passed by the 24th meeting of the third session of the Board of the Company on 15 August 2019, the Company implemented foregoing new lease standards from 1 January 2019 (hereinafter referred to as the “First Application Date”) based on the time required by MOF and made changes to relevant accounting policies in accordance with the requirements of new lease standards.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

1. Changes in accounting policies and basis (Continued)

(1) Change of accounting policies incurred in the application of New Lease Standard (Continued)

In accordance with the requirements of new lease standards, as for the contracts which have been existed before the first application date, the Company selects not to evaluate whether they are leases or include leases on the first application date. As for the lease contracts of which the Company acts as the lessee, the Company elects to only make adjustments to the accumulative impact amount from the lease contracts which have not been completed as of 1 January 2019. We have adjusted the amounts of retained earnings and other relevant items of the financial statements at the beginning of the initial implementation period (i.e. 1 January 2019) for the accumulative impact amount of the initial implementation, and the information for the comparative period has not been adjusted. The details are as follows:

- A. As for the finance lease as at the first application date, the Company measures the right-of-use assets and lease liabilities at the original carrying amounts of the assets under finance lease and the finance lease payable, respectively
- B. As for the operating lease as at the first application date, the Company measures the lease liabilities at the present value discounted at the incremental borrowing rate as at the first application date based on the amount of the remaining lease payment. The unpaid rents payable accrued based on the accrual system under the original lease standards shall be included in the amount of the remaining lease payment.

The Company measures the right-of-use assets at the amount equal to the lease liabilities and makes necessary adjustments based on prepaid rents.

- C. As at the first application date, the Company made impairment testing on the right-of-use assets and made corresponding accounting treatments in accordance with the requirements of "Accounting Standards for Business Enterprises No. 8 — Assets Impairment".



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

1. Changes in accounting policies and basis (Continued)

(1) Change of accounting policies incurred in the application of New Lease Standard (Continued)

The impacts of implementing new lease standards on the Company are as follows:

The land assets of the villagers' committees in the regions where the pastures locate in Gansu, Qinghai and Shaanxi leased by the Company and other land assets with lease terms of 5 to 30 years, has been treated as operating lease originally. In accordance with new lease standards, we recognized right-of-use assets of RMB38,367,000 (including prepaid rent of RMB2,290,000 and rehabilitation fee of RMB360,000) and lease liabilities of RMB35,717,000 on 1 January 2019.

The machinery and equipment assets of other companies leased by the Company with lease terms of 3 to 5 years, has been treated as finance lease originally. In accordance with new lease standards, we reclassified the amount of RMB14,871,000 originally presented in fixed assets to right-of-use assets and reclassified the "finance lease payable" of RMB2,361,000 presented in long-term payables to lease liabilities on 1 January 2019.

Impact on consolidated and company financial statement:

① Consolidated balance sheet:

Contents of the changes	Items in the statement	Amounts as at	Amounts as at
		1 January 2019 (after the changes) RMB'000	31 December 2018 (before the changes) RMB'000
Fixed assets	Fixed assets	924,350	939,221
Right-of-use assets	Right-of-use assets	53,238	
Long-term deferred expenses	Long-term deferred expenses	5,832	8,122
Lease liabilities	Lease liabilities	38,078	
Long-term payables	Long-term payables		2,361
Estimated liabilities	Estimated liabilities	371	11

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

1. Changes in accounting policies and basis (Continued)

(1) Change of accounting policies incurred in the application of New Lease Standard (Continued)

② Balance sheet of the parent company:

Contents of the changes	Items in the statement	Amounts as at	Amounts as at
		1 January 2019 (after the changes) RMB'000	31 December 2018 (before the changes) RMB'000
Fixed assets	Fixed assets	199,544	205,199
Right-of-use assets	Right-of-use assets	11,058	
Lease liabilities	Lease liabilities	5,402	

③ The impacts on the consolidated profit statement and the profit statement of the Company for the Year 2019 are as follows:

Items of profit statement	Impacts on consolidated profit statement RMB'000	Impacts on profit statement of the Company RMB'000
Operating cost	(283)	(9)
Finance expense	795	117
Total	512	108

The present value discounted at 4.35%, 4.90%, 6.09% (the incremental borrowing rate as at the first application date) of the outstanding amount of minimum lease payment of the major operating lease of the Company at the end of 2018 amounts to RMB35,717,000, and the sum of the discounted amount and the long-term payables (finance lease) of RMB2,361,000 amounts to RMB38,078,000. And its difference from the lease liabilities as at the first application date is RMB0,000.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

1. Changes in accounting policies and basis (Continued)

(2) MOF issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for 2019 (Cai Kuai 2019 No. 6) on 30 April 2019:

- ① The portion with amortization period of only one year or less, or expected to be amortized within one year (including one year), under the item of “Deferred income”, shall not be classified as current liabilities and continues to be presented under the item, and shall not transfer to the item of “non-current liabilities due within one year”;
- ② To divide the “Bills receivable and accounts receivable” in the balance sheet into two items: “Bills receivable” and “Accounts receivable”; to divide the “Bills payable and accounts payable” into two items: “Bills payable” and “Accounts payable”;
- ③ Item of “other payables” shall be presented based on the “total” of “interest payable”, “dividend payable” and “other payable” as at 31 December 2019. Among which, the “interest payables” item should only reflect the interest payable on matured financial instruments that remains outstanding at the balance sheet date. The interest of financial instruments calculated on the basis of the effective interest rate method should be included in the carrying amounts of corresponding financial instruments.
- ④ The income statement adjusts “Less: Asset impairment loss” to “Add: Asset impairment loss (loss presented as “-”)", adjusts “Less: Credit impairment loss” to “Add: Credit impairment loss (loss presented as “-”)", and adjusts the location of the two items to after “Gains from changes in fair value”.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

1. Changes in accounting policies and basis (Continued)

(2) MOF issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for 2019 (Cai Kuai 2019 No. 6) on 30 April 2019: (Continued)

According to above requirements, the Company will adjust corresponding data. The impact of adopting new statement format on the Company is as follows:

A. Consolidated balance sheet:

Contents of the changes	Items in the statement	Amounts	Amounts
		as at 31 December 2018 (after the change) RMB'000	as at 31 December 2018 (before the change) RMB'000
Deferred income due within one year	Non-current liabilities due within one year	28,382	33,752
Deferred income	Deferred income	40,129	34,759
Bills receivable and accounts receivable	Bills receivable and accounts receivable		36,674
Including: Bills receivable	Including: Bills receivable		200
Accounts receivable	Accounts receivable		36,474
Bills receivable	Bills receivable	200	
Accounts receivable	Accounts receivable	36,474	
Bills payable and accounts payable	Bills payable and accounts payable		195,492
Bills payable	Bills payable	30,545	
Accounts payable	Accounts payable	164,947	
Other payables	Other payables	41,232	41,599
Including: interest payable	Including: interest payable		368
Short-term borrowings	Short-term borrowings	437,359	437,000
Long-term borrowings	Long-term borrowings	39,568	39,559

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(XXXII) Changes in key accounting policies and statement on changes of accounting estimates (Continued)

1. Changes in accounting policies and basis (Continued)

(2) MOF issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for 2019 (Cai Kuai 2019 No. 6) on 30 April 2019: (Continued)

B. Balance sheet of the parent company:

Contents of the changes	Items in the statement	Amounts	Amounts
		as at 31 December 2018 (after the change)	as at 31 December 2018 (before the change)
		RMB'000	RMB'000
Deferred income due within one year	Non-current liabilities due within one year	3,782	5,308
Deferred income	Deferred income	14,787	13,260
Bills receivable and accounts receivable	Bills receivable and accounts receivable		23,421
	Including: Bills receivable		200
	Accounts receivable		23,221
	Bills receivable	200	
	Accounts receivable	23,221	
Bills payable and accounts payable	Bills payable and accounts payable		76,861
	Bills payable	27,600	
	Accounts payable	49,261	
Other payables	Other payables	57,188	57,547
	Including: interest payable		359
Short-term borrowings	Short-term borrowings	420,359	420,000

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

IV. TAXATION

(I) Main types of taxes and corresponding tax rates

Tax type	Details of tax rates	Tax rate
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period	16%/10% · 13%/9%(Note 1)
Urban maintenance and construction tax	Based on VAT paid	7%/5%/1%
Education surcharges	Based on VAT paid	3%/2%
Enterprise income tax	Based on taxable profits	15%(Note 2)

Note 1: According to the announcement (Ministry of Finance, State Taxation Administration and General Administration of Customs 2019 No.39), VAT on sales or imported goods originally applicable to 16% and 10% will be adjusted to 13% and 9% respectively.

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

(II) Important tax preferences and approvals

(1) VAT

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



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

IV. TAXATION (Continued)

(II) Important tax preferences and approvals (Continued)

(2) Enterprise income tax

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(I) Cash at bank and on hand

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Cash on hand	16	43
Bank deposits	248,218	388,263
Other cash at bank and on hand	165,507	14,785
Including: earnest money	165,507	14,300
Total	413,742	403,091
Including: total amount deposited overseas	649	5,831

Note: Other cash at banks and on hand include bank acceptance bill and bank deposit, whose usage was restricted.

(II) Trading financial assets

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
1. Classified as financial assets measured at changes in fair value through profits or losses	20,412	
Including: financial assets arising from contingent consideration recognized during the business combination not under common control	20,412	
2. Designated as financial assets measured at changes in fair value through profits or losses		
Total	20,412	

Note: For the details of the recognition of trading financial assets please refer to Note IX.(III).



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Bills receivable

Item	31 December	31 December
	2019	2018
	RMB'000	RMB'000
Bank acceptance bills		200
Commercial acceptance bills		
Less: provision for bad and doubtful debts		
Total		200

(IV) Accounts receivable

1. Category of accounts receivable

Item	31 December 2019			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount	Percentage (%)	Amount	Percentage (%)
	RMB'000		RMB'000	
Accounts receivable with single provision for bad and doubtful debts				
Accounts receivable with provision for bad and doubtful debts on a group basis				
Including: aging group	30,527	100.00	878	2.87
Total	30,527	100.00	878	2.87

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

Item	31 December 2018			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Accounts receivable with single provision for bad and doubtful debts	101	0.27	101	100.00
Accounts receivable with provision for bad and doubtful debts on a group basis				
Including: aging group	37,186	99.73	711	1.91
Total	37,287	100.00	813	2.18

(1) Accounts receivable with provision for bad and doubtful debts on a group basis

Aging	31 December 2019			31 December 2018		
	Balance of carrying value RMB'000	expected credit loss(%)	Provision for bad and doubtful debts RMB'000	Balance of carrying value RMB'000	expected credit loss(%)	Provision for bad and doubtful debts RMB'000
Within one year	29,261			36,031	0.01	5
Including: 0-6 months	29,261			35,939		
7-12 months	0			93	5.00	5
1 to 2 years	237	20.00	47	493	20.00	99
2 to 3 years	397	50.00	199	106	50.00	53
Over 3 years	632	100.00	632	555	100.00	555
Total	30,527		878	37,186		711



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

(1) Accounts receivable with provision for bad and doubtful debts on a group basis (Continued)

Note: the sales model of the Company includes direct selling, reselling and distribution. Under the model of direct selling, the revenue was recognized and the aging was calculated when the goods were delivered to customers and the receipt was obtained. Under the model of reselling and distribution, the revenue was recognized and the aging was calculated after the signature of delivery list by customers.

2. Provision for bad debts made, recovered or reversed during this period:

The provision for bad and doubtful debts made during the period was RMB210,000; the provision for bad and doubtful debts recovered during the period was RMB44,000.

3. Important information on receivables actually written off during the reporting period

Name of entity	Nature	Amount (RMB'000)	Reason	Model	Whether rising from related transactions
Qinghai Department Store Co.,Ltd. (chain store)	Amount from goods	101	discontinued operation	approval process	No
Total		101			

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Accounts receivable (Continued)

4. Five largest accounts receivable by debtor at 31 December 2019

Name of entity	31 December 2019 RMB'000	Percentage of total closing balance of the accounts receivable (%)	Closing balance of the provision for bad and doubtful debts RMB'000
Entity 1	7,667	25.12	239
Entity 2	3,443	11.28	52
Entity 3	1,889	6.19	
Entity 4	1,243	4.07	
Entity 5	1,023	3.35	
Total	15,267	50.01	291

(V) Prepayments

1. Prepayments by ageing

Ageing	31 December 2019		31 December 2018	
	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Within 1 year	16,185	100.00	13,352	100.00
Total	16,185	100.00	13,352	100.00



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(V) Prepayments (Continued)

2. Five largest accounts receivable by prepayments

Name of entity	31 December 2019 RMB'000	Percentage of the total prepayments (%)
Entity 1	6,994	43.22
Entity 2	5,446	33.65
Entity 3	3,223	19.91
Entity 4	151	0.93
Entity 5	89	0.55
Total	15,903	98.26

(VI) Other receivables

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Other receivables	19,386	13,650
Less: provisions for bad and doubtful debts	1,691	791
Total	17,694	12,860

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VI) Other receivables (Continued)

1. Other receivables

(1) Category of other receivables by nature

Nature of accounts	31 December	31 December
	2019	2018
	RMB'000	RMB'000
Amounts due from disposal of cows	648	2,635
Deposit and earnest money	2,647	3,673
Loans to employees	2,433	1,885
Performance compensation	8,702	
Current accounts and others	4,956	5,458
Subtotal	19,386	13,650
Less: provisions for bad and doubtful debts	1,691	791
Total	17,694	12,860

(2) Aging analysis on other receivables

Aging	31 December 2019		31 December 2018	
	Balance of carrying value	Percentage (%)	Balance of carrying value	Percentage (%)
	RMB'000		RMB'000	
Within one year	16,499	85.11	12,498	91.56
1 to 2 years	2,263	11.68	436	3.19
2 to 3 years	20	0.10	341	2.50
Over 3 years	604	3.11	375	2.75
Total	19,386	100.00	13,650	100.00



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VI) Other receivables (Continued)

1. Other receivables

(3) Provisions for bad and doubtful debts

	Stage 1 ECL over the next 12 months	Stage 2 Lifetime ECL — not credit- impaired	Stage 3 Lifetime ECL — credit- impaired	Total
Provisions for bad and doubtful debts	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018	29	129	634	791
After reassessment as at 31 December 2018	29	129	634	791
Provision during the period		1,053	48	1,101
Reversal during the period	95	93	53	174
Written off during the period			26	26
Other changes				
31 December 2019		1,088	603	1,691

(4) The provision for bad and doubtful debts recovered during the period was RMB174,000.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VI) Other receivables (Continued)

1. Other receivables

(5) Five largest other receivables by debtor at 31 December 2019

Name of debtor	Nature of amount	31 December 2019 RMB'000	Ageing	Percentage of total other receivables as at 31 December 2019(%)	Provision for bad and doubtful debts RMB'000
Entity 1	Performance compensation	7,015	0-6months	36.19	
Entity2	Proceeds from disposal of equipment	2,000	1-2years	10.32	1,000
Entity3	Performance compensation	1,687	0-6months	8.70	
Entity4	Margin wages of migrant workers	1,382	0-6months	7.13	
Entity5	Loan receivable from farmers	420	0-6months	2.17	
Total		12,504		64.51	1,000



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VII) Inventories

1. Category of inventories

Item	31 December 2019			31 December 2018		
	Balance of	Provision for	Carrying value	Balance of	Provision for	Carrying value
	carrying value	depreciation		carrying value	depreciation	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	83,424		83,424	76,893	436	76,456
Commodities in stock (finished goods)	10,822		10,822	10,402		10,402
Commodities shipped	552		552	2,057		2,057
Consumable biological assets	34		34	5		5
Total	94,832		94,832	89,357	436	88,921

2. Provision for depreciation of inventories

Item	31 December 2018 RMB'000	Provision for the period RMB'000	Decrease for the year		31 December 2019 RMB'000
			Reversals	Write-off	
			RMB'000	RMB'000	
Raw materials	436			436	
Total	436			436	

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(VIII) Other current assets

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Input tax to be deducted and without invoice	17,544	2,721
Cost of return receivable	51	11
Total	17,595	2,732

(IX) Other equity instrument investment

Item	Investment cost RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	Dividend income recognised during the period RMB'000	Accumulative profit or loss during the year transferred from other comprehensive income to retained earnings RMB'000	Reason for transferring RMB'000
Gansu Yuzhong Rural Cooperative Bank		44	44			
Total		44	44			



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(X) Fixed assets

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Fixed assets	1,256,878	924,350
Less: impairment provision	9,239	
Total	1,247,639	924,350

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(X) Fixed assets

1. Fixed assets

(1) Fixed assets

Item	Houses and buildings RMB'000	Mechanical equipments RMB'000	Transportation equipments RMB'000	Other RMB'000	Total RMB'000
I. Original carrying value					
1. 31 December 2018	832,440	458,364	10,169	31,715	1,332,687
2. Increase for the year	268,228	136,496	967	1,948	407,639
(1) acquisition	2,832	13,579	967	1,948	19,326
(2) transferred from construction in progress	265,396	115,935			381,330
(3) increase from business combination					
(4) Other		6,982			6,982
3. Decrease for the year	2,361	3,776	1,408		7,544
(1) Disposal or scrapping	2,361	3,776	1,408		7,544
(2) Other					
4. 31 December 2019	1,098,306	591,085	9,728	33,662	1,732,782
II. Accumulated depreciation					
1. 31 December 2018	153,330	227,283	7,730	19,995	408,337
2. Increase for the year	27,476	38,111	766	5,843	72,196
(1) provisions	27,476	36,275	766	5,843	70,360
(2) Other		1,836			1,836
3. Decrease for the year	467	2,825	1,337		4,629
(1) Disposal or scrapping	467	2,825	1,337		4,629
(2) Other					
4. 31 December 2019	180,339	262,569	7,159	25,837	475,904
III. Impairment provision					
1. 31 December 2018					
2. Increase for the year	9,239				9,239
(1) Provisions	9,239				9,239
3. Decrease for the year					
(1) Disposal or scrapping					
4. 31 December 2019	9,239				9,239
IV. Carrying value					
1. Closing balance of carrying value	908,729	328,516	2,570	7,825	1,247,639
2. Opening balance of carrying	679,110	231,082	2,438	11,720	924,350



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(X) Fixed assets (Continued)

1. Fixed assets (Continued)

(2) Details of fixed assets without the certificate of title

Item	Carrying value RMB'000	Reasons for failure of obtaining the certificate of title
Lanzhou Zhuangyuan Office Building	52,027	In progress
9 Apartments at Qinghai Lake	3,289	In progress
Total	55,315	

(3) Impairment on fixed assets

As disclosed in Note XIV. 3, the Company expects that there exists impairment on the fixed assets of Ningxia Zhuangyuan Pasture and Qinghai Shengyuan Pasture, therefore the Company has made provision for the impairment on fixed assets of RMB9,239,000.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XI) Construction in progress

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Construction in progress	59,188	37,670
Total	59,188	37,670

1. Construction in progress

(1) Details of construction in progress

Item	31 December 2019			31 December 2018		
	Balance of carrying value RMB'000	Impairment provision RMB'000	Carrying value RMB'000	Balance of carrying value RMB'000	Impairment provision RMB'000	Carrying value RMB'000
Dongfang Duoxian Pasture Construction project	804		804	804		804
Construction project with the daily processing capacity of 600 tons of raw milk				14,492		14,492
Prepack automatic case packer				590		590
Equipment for project with the daily processing capacity of 2,000 tons of sewage				1,548		1,548
Lanzhou Ruixing Pasture cow house project	8,623		8,623	6,594		6,594
Lanzhou Ruixing Pasture methane project	744		744			
Ruida Pasture renovation and expansion project				8,500		8,500
Linxia Ruiyuan Pasture renovation and expansion project				2,093		2,093
Gansu Ruijia Pasture construction project	49,017		49,017	170		170
Duoxian Pasture sewage treatment project stage II				2,880		2,880
Total	59,188		59,188	37,670		37,670

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XI) Construction in progress

1. Construction in progress

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

Name of Project	Amount of Budget RMB'000	31	Increase of the period RMB'000	Amount of	Other decrease during the year RMB'000	31
		December 2018 RMB'000		fixed assets transferred during the year RMB'000		December 2019 RMB'000
Ruida Pasture renovation and expansion project	25,000	8,500	16,594	25,094		
Linxia Ruiyuan Pasture renovation and expansion project	17,000	2,093	14,721	16,814		
Ruijia Jinchang construction project	290,000	170	48,847			49,017
Construction project with the daily processing capacity of 600 tons of raw milk	305,000	14,492	316,689	331,181		
Prepack automatic case packer		590		590		
Equipment for project with the daily processing capacity of 2,000 tons of sewage		1,548	3,224	4,772		
Pasture sewage treatment project stage II		2,880		2,880		
Total	637,000	30,272	400,075	381,330		49,017

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XI) Construction in progress (Continued)

1. Construction in progress (Continued)

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

Name of Project	Percentage of accumulative project investment accounting for the budget (%)	Project progress (%)	Accumulative amount of interests capitalization RMB'000	Including:		Source of funds
				amount of interests capitalization of the year RMB'000	Interests capitalization rate of the year (%)	
Ruida Pasture technical reform project	100.38	100.00				
Linxia Ruiyuan Pasture renovation and expansion project	98.91	100.00				
Ruijia Jinchang construction project	16.84	16.84				
Construction project with the daily processing capacity of 600 tons of raw milk	110.00	100.00	9,742	9,742	5.70	Bank loan and own capital
Prepack automatic case packer Equipment for project with the daily processing capacity of 2,000 tons of sewage						
Pasture sewage treatment project stage II						
Total			9,742	9,742	5.70	



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XII) Bearer biological assets

1. Biological assets carried at fair value

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

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

Unit: Heads

Category	31 December 2019	Opening balance
Calves	1,380	2,069
Heifers	6,472	2,839
Milkable cows	5,560	5,196
Total	13,412	10,104

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XII) Bearer biological assets (Continued)

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

① Regulatory and environmental risks

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

② Climate, disease and other natural risks

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

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

31 December 2018		Milkable			Total RMB'000
		Calves RMB'000	Heifers RMB'000	Cows RMB'000	
		21,021	68,662	180,621	270,304
	Plus: cows purchasing costs	448	58,670	5,346	64,464
	Breeding costs	Note 1	15,159	38,232	163,173
	Transfer among group of cows				
	Transfer-in		13,251	38,515	51,766
	Transfer-out	(13,251)	(38,515)		(51,766)
	Transferred to inventories at the time of milking			(163,173)	(163,173)
	Decrease due to elimination and sales	(2,595)	(14,596)	(37,713)	(54,905)
	Profit and loss from fair value change	Note 2	(5,071)	29,414	2,497
	31 December 2019	15,712	155,117	189,266	360,095



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XII) Bearer biological assets (Continued)

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

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

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

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

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XIII) Right-of-use assets

Item	Machinery and equipment RMB'000	Land use right RMB'000	Total RMB'000
I. Original carrying value			
1. 31 December 2018	16,840	38,367	55,208
2. Increase for the period			
(1) new lease			
3. Decrease for the period	6,982	9	6,992
(1) disposal			
(2) others	6,982	9	6,992
4. 31 December 2019	9,858	38,358	48,216
II. Accumulated depreciation			
1. 31 December 2018	1,969		1,969
2. Increase for the period	1,313	3,333	4,646
(1) provisions	1,313	3,333	4,646
(2) others			
3. Decrease for the period	1,836		1,836
(1) disposal			
(2) others	1,836		1,836
4. 31 December 2019	1,446	3,333	4,779
III. Impairment provision			
1. 31 December 2018			
2. Increase for the period			
(1) provisions			
3. Decrease for the period			
(1) disposal			
4. 31 December 2019			
IV. Carrying value			
1. Closing balance of carrying value	8,411	35,026	43,437
2. Opening balance of carrying value	14,871	38,367	53,238



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XIV) Intangible assets

1. Conditions of intangible assets

Item	Land use right RMB'000	Computer software RMB'000	Total RMB'000
I. Original carrying value			
1. 31 December 2018	74,185	4,303	78,488
2. Increase for the period	17,601	326	17,927
(1) acquisition	17,601	326	17,927
3. Decrease for the period			
(1) disposal			
4. 31 December 2019	91,786	4,629	96,414
II. Accumulated amortization			
1. 31 December 2018	2,465	1,302	3,767
2. Increase for the period	1,479	559	2,038
(1) provisions	1,479	559	2,038
3. Decrease for the period			
(1) disposal			
4. 31 December 2019	3,944	1,861	5,805
III. Impairment provision			
1. 31 December 2018			
2. Increase for the period			
(1) provisions			
3. Decrease for the period			
(1) Disposal			
4. 31 December 2019			
IV. Carrying value			
1. Closing balance of carrying value	87,842	2,768	90,609
2. Opening balance of carrying value	71,719	3,001	74,720

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XV) Goodwill

1. Original carrying value of goodwill

Item	31 December 2018 RMB'000	Increase for the period Resulting		Decrease for the period		31 December 2019 RMB'000
		from business combination RMB'000	Others RMB'000	Disposal RMB'000	Others RMB'000	
Xi'an Dongfang Dairy Company Limited	58,691					58,691
Total	58,691					58,691

2. Impairment provisions for goodwill

Item	31 December 2018	Increase for the period		Decrease for the period		31 December 2019
		provisions	Others	Disposal	Others	
Xi'an Dongfang Dairy Company Limited		48,719				48,719
Total		48,719				48,719



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XV) Goodwill (Continued)

3. Conditions of goodwill impairment

Item	Asset group RMB'000
Balance of carrying value for goodwill ①	58,691
Balance of impairment provisions for goodwill ②	
Carrying value of goodwill ③ ① - ②	58,691
Goodwill value not recognized as attributable to minority equity ④	
Carrying value of overall goodwill after adjustment ⑤ = ④ + ③	58,691
Carrying value of the asset group ⑥	253,328
Carrying value of the asset group that contains overall goodwill ⑦ = ⑤ + ⑥	312,018
Present value of expected future cash flow of the asset group (recoverable amount) ⑧	263,299
Impairment loss of goodwill (when it is greater than 0) ⑨ = ⑦ - ⑧	48,719
Total	48,719

(1) Information on the asset group or the portfolio of asset groups to which the goodwill is attributable

On 31 October 2018, the Company acquired 82% equity of Xi'an Dongfang Dairy Company Limited (hereafter referred to as "Dongfang Dairy Co.,") and made it become a wholly-owned subsidiary of the Company. This acquisition generated goodwill of RMB58,691,000.

The identification of asset groups by the Company is consistent with that of the previous years.

In accordance with the requirements of No. 8 Accounting Standards for Business Enterprises — Impairment of Asset, when conducting impairment test on goodwill, the Company shall first conduct impairment test on the asset group that does not contain goodwill, confirm the corresponding impairment loss, and then conduct impairment test on the asset group that contains goodwill.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XV) Goodwill (Continued)

3. Conditions of goodwill impairment (Continued)

(2) Process and method of goodwill impairment test

The Company engaged Beijing Yatai Lianhua Assets Appraisal Co., Ltd. to conduct impairment test on goodwill. The Present Value Asset Appraisal Report on the Expected Future Cash Flow of the Asset Group of Xi'an Dongfang Dairy Company Limited involved by the Goodwill Impairment Test Contemplated by Lanzhou Zhuangyuan Pasture Co., Ltd. issued on 22 March 2020 (Ya Ping Bao Zi (2020) No. 29) took the conclusion of income approach as the recoverable amount of the asset group.

The measurement process and key parameters of goodwill impairment are as follows:

The present value of the future cash flow of the asset group to which the goodwill is attributable is determined based on the financial budget for 2020 to 2024 approved by the management, and the cash flow for over 5 years of the asset group is calculated on a perpetual basis at the budget amount of 2024. Due to the impact of the epidemic, the Company expects that the revenue in 2020 will decline by 7.00% compared with that in 2019, there will be a restorative growth in 2021 and the revenue will increase by 4.57% compared with that in 2020, the average growth rate from 2022 to 2024 will be 8.55%, the discount rate in 2020 will be 11.33%, and the discount rate in 2021 to the perpetual period will be 13.21%. The proportion of the net cash flow before tax accounting for the operating revenue is 12.98%-17.68%.

Based on prudent consideration, the impact of COVID-19 epidemic in 2020 and the unsatisfactory current status of the response measures of the management against the market changes after the acquisition, the management of the Company reduced the cash flow of the asset group for the future forecast period.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XV) Goodwill (Continued)

3. Conditions of goodwill impairment (Continued)

(3) The impact of goodwill impairment test

On 31 October 2018, the Company acquired 82% equity of Dongfang Dairy Company and made it become a wholly-owned subsidiary of the Company. The original shareholders undertook to the Company that the net profit in 2018, 2019 and 2020 (the net profit attributable to the owners of the parent company after deducting non-recurring gain or loss shall prevail) would be no less than RMB18,000,000, RMB22,000,000 and RMB250,000,000. During the undertaking period, the performance promissory shall compensate the Company in the form of cash if the accumulative net profit of Dongfang Dairy Company as of the end of the current period is less than the accumulative undertaken net profit as of the end of the current period. When the performance undertaking period expires, the Company will engage an accountant firm with related business license of securities and futures which is recognized by both parties to conduct impairment test on the underlying assets and issue an Impairment Test Report. If the ending impairment amount of the underlying assets is greater than the compensated amount, the performance promissory shall separately compensate the Company in the form of cash.

In 2018, Dongfang Dairy Company realized a net profit after deducting non-recurring profit or loss of RMB18,456,000; in 2019, Dongfang Dairy Company failed to fulfill the performance undertaking and realized a net profit after deducting non-recurring profit or loss of RMB12,519,000; the Company forecasted that Xi'an Dongfang would be still unable to fulfill the performance undertaking in 2020 and it was expected to realize a net profit of RMB16,359,000.

During the current period, the Company confirmed that the performance compensation income for 2019 due from the original shareholders of Dongfang Dairy Company of RMB22,333,000 was included in the non-operating income of the current period in accordance with the performance compensation agreement at the time of acquisition. Meanwhile, according to the compensation receivable of RMB21,382,000 calculated based on the conditions about whether the performance of Dongfang Dairy Company in 2020 would be able to fulfill the forecast, which shall be discounted at 4.75% of the most recent financing cost of the Company, we recognized the gain or loss of the trading financial assets in the end of the current period and the change in the fair value for the current period of RMB20,412,000.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XVI) Long-term deferred expenses

Type	31 December 2018 RMB'000	Increase for the period RMB'000	Amount of amortization of the period RMB'000	Other decrease RMB'000	31 December 2019 RMB'000
Office building renovation expenses	5,243		583		4,660
Warehouse under short-term lease		284	65		220
Sewage treatment fee		210	18		192
Amortization of guarantee expenses		4,775	2,709		2,066
Others	589		589		
Total	5,832	5,269	3,963		7,138



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XVII) Deferred income tax assets, deferred income tax liabilities

1. **Deferred income tax assets and deferred income tax liabilities are not shown as net after set-off**

Item	31 December 2019		31 December 2018	
	Deferred income tax assets/liabilities RMB'000	Deductible/taxable temporary differences RMB'000	Deferred income tax assets/liabilities RMB'000	Deductible/taxable temporary differences RMB'000
Deferred income tax assets:				
Impairment provisions on assets	360	2,402	231	1,539
Accumulated depreciation of fixed assets			408	2,722
Deferred income	3,296	21,972	3,873	25,821
Deductible losses	2,625	17,500	2,925	19,500
Expenses of restricted shares	363	2,418		
Sub-total	6,644	44,293	7,437	49,582
Deferred income tax liabilities:				
Changes in the fair value of trading financial instruments and derivative financial instruments	3,062	20,412		
Changes in the fair value of financial assets included in other comprehensive income	1,215	8,099	1,215	8,099
Asset appraisal appreciation arising from the business combination not under common control	4,750	31,669	5,083	33,885
Sub-total	9,027	60,180	6,298	41,984

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XVIII) Other non-current assets

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Prepayment for long-term asset purchased	10,234	
Prepayment for cows purchased	27,418	74,070
Purchase of land	20,200	20,200
Total	57,852	94,270

(XIX) Short-term borrowings

1. Category of short-term borrowings

Conditions of loans	31 December 2019 RMB'000	31 December 2018 RMB'000
Pledged loan		
Mortgaged loan	180,000	220,000
Guaranteed loan	115,000	17,000
Credit loan	20,000	200,000
Plus: interest payable	184	359
Total	315,184	437,359

Note: For details of the mortgage of short-term borrowings, please refer to this Note V. XXXXXV.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XX) Bills payable

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank acceptance bill	283,014	30,545
Total	283,014	30,545

(XXI) Accounts payable

1. Classifying by ageing

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Within 1 year (inclusive of 1 year)	213,499	158,659
1-2 years (inclusive of 2 years)	12,618	3,149
2-3 years (inclusive of 3 years)	1,106	2,589
Over 3 years	997	551
Total	228,221	164,947

Note: After the Company confirmed the completion of purchase (if the goods were placed into the warehouse for acceptance or met the acceptance conditions), the unpaid purchase amount was included in the accounts payable and we started to calculate the ageing at the same time.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXI) Accounts payable (Continued)

2. Large amount of accounts payable with ageing of over 1 year

Name of entity with creditor's rights	31 December 2019 RMB'000	Reasons for outstanding payment
Entity 1	288	Final payment of equipments
Entity 2	226	Final payment of equipments
Entity 3	146	Final payment of equipments
Entity 4	112	Final payment of equipments
Entity 5	108	Final payment of equipments
Total	880	

(XXII) Contractual liabilities

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Within 1 year (inclusive of 1 year)	16,470	26,619
Total	16,470	26,619

Note: The income recognized in the current period which was included in the carrying value of the contractual liabilities at the beginning of the reporting period amounted to RMB15,186,000.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXIII) Employee benefits payable

1. List of employee benefits payable

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000
Short-term benefits	3,137	62,921	63,437	2,621
Post-employment benefits — defined benefits plan		5,372	5,372	
Dismissal benefit		1,254	1,254	
Other benefits due within one year				
Total	3,137	69,547	70,063	2,621

2. Conditions of short-term employee benefits

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000
Wages, bonus, subsidies and allowances	3,100	57,187	57,705	2,581
Employees benefits		1,335	1,335	
Social insurance fees Including: medical insurance fees		2,648	2,648	
Injuries insurance fees		2,243	2,243	
Maternity insurance fees		181	181	
Housing provident fund		224	224	
Trade union funds and employees education funds	38	1,318	1,318	40
Total	3,137	62,921	63,437	2,621

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXIII) Employee benefits payable (Continued)

3. Conditions of defined benefit plan

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000
Basic pension insurance		5,093	5,093	
Unemployment insurance fees		280	280	
Total		5,372	5,372	

(XXIV) Taxes payable

Categories of taxes	31 December 2019 RMB'000	31 December 2018 RMB'000
VAT	2,748	6,330
Environmental protection tax	94	169
Enterprise income tax	4,163	5,497
Individual income tax	87	30,699
Urban maintenance and construction tax	134	188
Education surcharges	59	116
Local education surcharges	38	37
Stamp tax	20	50
Other taxes and fees	161	29
Total	7,504	43,115

Note: The decrease in individual income tax was due to the fact that the individual income tax of natural person shareholders withheld in the previous period for the acquisition of the equity of Xi'an Dongfang Dairy Company Limited was paid in the current period.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXV) Other payables

Category	31 December 2019 RMB'000	31 December 2018 RMB'000
Other payables	50,725	41,232
Total	50,725	41,232

1. Other payables

(1) Classifications by nature of amount

Nature of amount	31 December 2019 RMB'000	31 December 2018 RMB'000
Government grants charged but not satisfying the ancillary conditions	3,982	3,882
Deposit due to the third party	19,132	13,964
Professional service fee payable	800	1,631
Equity acquisition price payable		17,454
Restricted share repurchase business(see Note XI for details)	23,251	
Others	3,560	4,301
Total	50,725	41,232

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXV) Other payables (Continued)

1. Other payables (Continued)

(2) Explanation on the conditions of large amount of other payables with the ageing of over 1 year

Name of entity	31 December 2019 RMB'000	Reasons for outstanding payment
Entity 1	216	Deposit
Entity 2	216	Deposit
Entity 3	200	Earnest money
Entity 4	200	Earnest money
Entity 5	200	Earnest money
Total	1,032	

(XXVI) Non-current liabilities due within one year

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Long-term borrowings due within 1 year	50,863	24,240
Lease liabilities due within 1 year	5,386	4,142
Total	56,249	28,382



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXVII) Long-term borrowings

1. Classification of long-term borrowings

Conditions of borrowings	31 December 2019 RMB'000	31 December 2018 RMB'000	Range of interest rate RMB'000
Pledged loan			
Mortgaged loan	277,937	21,560	4.75%-5.70%
Guaranteed loan		42,240	4.90%
Credit loan			
Plus: interest payable	253	8	
Less: long-term borrowings due within 1 year (Note V. XXVI)	50,863	24,240	
Total	227,327	39,568	

Note: For details of the mortgage conditions of long-term borrowings, please refer to the Note "V.(XXXXXV)".

2. Repayment term of the long-term borrowings of over 1 year

Term of repayment	31 December 2019 RMB'000	31 December 2018 RMB'000
1 to 2 years	42,243	22,363
2 to 5 years	176,729	2,243
Over 5 years	8,103	14,954
Plus: interest payable	253	8
Total	227,327	39,568

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXVIII) Lease liabilities

Item	31 December 2019 RMB'000	1 January 2019 RMB'000	Maturity RMB'000
Operating lease	33,802	35,717	2040年
Finance lease	2,529	6,502	2020年
Less: lease liabilities due within 1 year (Note V. XXVI)	5,386	4,142	
Total	30,946	38,078	

(XXIX) Leases

1. The Company as the lessee

(1) Please refer to this Note V. (XIII), (XXVIII) for the conditions of right-of-use assets and lease liabilities.

(2) Conditions of being included in gain or loss and related asset costs for the year

Item	Being included in gain or loss for the period		Being included in related asset costs	
	Presented item	Amount	Presented item	Amount
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of right-of-use assets	Operating cost	4,646		
Interest	Financial expenses	1,777		



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXIX) Leases (Continued)

1. The Company as the lessee (Continued)

(3) Cash outflow associated with leases

Item	Category of cash flow RMB'000	Amount for the period RMB'000
Cash paid for repayment of principal and interest of lease liabilities	Cash outflow from financing activities	6,620
Total		6,620

(4) Other information

A. Nature of lease activities

Category	Leased property	Volume (acre/unit)	Lease term (year)	Original lease classification
Zhuangyuan Pasture	Land	9.28	5-6	Operating lease
Dongfang Dairy	Land	93.60	30	Operating lease
Duoxian Dairy	Land	212.91	30	Operating lease
Shengya Pasture	Land	461.75	24-30	Operating lease
Ruiyuan Pasture	Land	309.28	24-30	Operating lease
Ruida Pasture	Land	396.89	20-30	Operating lease
Ruian Pasture	Land	220.13	23-30	Operating lease
Ruifeng Pasture	Land	308.46	30	Operating lease
Shengyuan Pasture	Land	160.00	30	Operating lease
Zhuangyuan Pasture	Machinery equipment	270	3	Finance lease
Dongfang Dairy	Machinery equipment	2	3-5	Finance lease

Note 1 The lease term of the lands of the Company is relatively long, and it is generally agreed in the contracts to renew the lease at fair value. The management reasonably judges that the lease will not be renewed when it expires, so as far as the lease term is concerned, the option of renewal is not considered.

Note 2 There is variable lease consideration in a part of the land lease of the Company, and the rent is determined by "the price of wheat for the current month of payment and the price of spring wheat on 15 August in the current year" and belongs to the index and rate-linked rent under the lease standards. The Company will consider the importance of the amount and adjust the lease liabilities and lease assets when there are relevant price changes during the lease execution period.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXX) Estimated liabilities

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000	Reasons for formation RMB'000
Returns payment payable	11	51	11	51	Accrued returns payment
Reclamation expense	360	104		464	Reclamation expense for lease lands
Total	371	155	11	515	

(XXXI) Government grants

1. General information of government grants

Category	Amounts RMB'000	Presented item RMB'000	Amount included in profit or loss of the period RMB'000
Dairy farming project	200	Deferred income	18
Fund grants for special integration of informatization and industrialization	400	Deferred income	23
Special fund for provincial industrial transformation and upgrading and information industry development	3,000	Deferred income	25
Grant payment for the reform from grain to adding feed	1,889	Other income	1,889
Discount interest for the loans of civilian trade and civilian goods	2,000	Financial expenses	2,000
Cooperation expenses for Xining Animal Epidemic Disease Prevention and Control Centre	112	Non-operating income	112
Consolation Payments for the enterprises of Xi'an Federation of Industry and Commerce	400	Non-operating income	400
Others	1,273	Other income	1,273
Total	9,274		5,740



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXXI) Government grants (Continued)

2. Conditions on the refund of government grants

Nil

(XXXII) Deferred income

1. Deferred income listed by category

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000	Reasons for formation RMB'000
Government grants	40,129	3,600	4,210	39,518	Government grants
Total	40,129	3,600	4,210	39,518	

2. Conditions of projects of government grants

Item	31 December 2018 RMB'000	Increase of grants for the period RMB'000	Amount included in gain or loss for the period RMB'000	Other changes RMB'000	31 December 2019 RMB'000	Related to assets/ revenue RMB'000
Dairy farming project	22,819	200	1,087		21,932	Related to assets
Dairy product production project	6,876			1,671	5,205	Related to assets
Biogas engineering project	4,574			447	4,127	Related to assets
Others	5,860	3,400	1,005		8,254	Related to assets
Total	40,129	3,600	4,210		39,518	

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (XXXIII) Share capital

Item	Increase and decrease for this time (+, -)						31 December 2019 RMB'000
	31 December 2018 RMB'000	Issuing new shares RMB'000	Grant of shares RMB'000	Conversion of reserve funds into shares RMB'000	Others RMB'000	Subtotal RMB'000	
RMB ordinary shares	105,370						105,370
RMB social public shares	46,840	3,341				3,341	50,181
H shares	35,130						35,130
Total	187,340	3,341				3,341	190,681

In 2019, the Company directionally issued 3,341,000 restricted shares to 84 share incentive targets at a grant price of RMB6.96 per share, thus share capital was increased by RMB3,341,000 and the balance of RMB19,910,000 was included in capital reserve. For the details of this equity incentive plan, please see Note XI "Share-base payment".

(XXXIV) Capital reserve

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000
I. Capital premium	508,791	19,910		528,701
II. Other capital reserve		2,418		2,418
其中：股權激勵成本攤銷		2,418		2,418
Total	508,791	22,328		531,119

Note 1: For the details of the changes in capital reserve for the period, please refer to Note XI "Share-based payment".



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXXV) Treasury share

Item	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000	Reasons for the change
Restricted share scheme		23,251		23,251	The equity incentive conditions have not been completed
Total		23,251		23,251	

As described in this Note V. (XXXIII) Share capital, for the Company's obligation to repurchase the restricted shares, the treasury share and other payable recognized at the agreed repurchase price were RMB23,251,000 respectively.

(XXXVI) Surplus reserve

Category	31 December 2018 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	31 December 2019 RMB'000
Statutory surplus reserve	37,194	6,193		43,387
Total	37,194	6,193		43,387

Note: In accordance with the Company Law and the Articles of Association, the Company withdrew 10% of its net profit as the statutory surplus reserve. Where the accumulative amount of statutory surplus reserve reaches more than 50% of the Company's registered capital, no profit shall be withdrawn.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (XXXVII) Retained earnings

Item	31 December 2019	
	Amount RMB'000	Proportion of withdrawal or allocation
Retained earnings at the end of the previous period prior to the adjustments	451,082	
Total amount of retained earnings at the beginning of the period of adjustment (“+” for increase, “-” for decrease)		
Retained earnings at the beginning of the period after the adjustment	451,082	
Add: net profit attributable to the owners of the parent company during the period	51,321	
Less: withdrawal of statutory surplus reserve	6,193	10%
Withdrawal of discretionary surplus reserve		
Ordinary share dividends payable	12,739	
Ordinary share dividends changed into share capital		
Other decreases		
Retained earnings at the end of the period	483,471	

Note: On 27 June 2019, the Company passed the resolutions at the general meeting of 2018 that on the basis of the total share capital of 187,340,000 shares as of 31 December 2018, cash dividend of RMB0.68 (including tax) for every 10 shares are paid to all shareholders with the distributable profit realized in 2018, being cash distribution of RMB12,739,000 in total.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XXXVIII) Operating income and costs

Item	2019		2018	
	Income RMB'000	Costs RMB'000	Income RMB'000	Costs RMB'000
I. Subtotal of principal business	792,315	547,090	631,744	428,573
II. Subtotal of other business	21,240	12,566	25,988	16,822
Total	813,554	559,656	657,732	445,395

(XXXIX) Taxes and surcharges

Item	2019 RMB'000	2018 RMB'000
Property tax	1,371	978
Environmental protection tax	1,320	589
Urban maintenance and construction tax	1,088	1,256
Stamp tax	796	734
Land use tax	571	240
Education surcharges	518	706
Local education surcharges	346	470
Charges for water resources	135	0
Water conservancy construction funds	123	36
Total	6,267	5,009

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XL) Selling expenses

Item	2019	2018
	RMB'000	RMB'000
Staff cost	19,160	16,954
Freight and miscellaneous charges	23,358	23,936
Low cost and short-lived consumable items	11,875	10,963
Travel expenses	2,646	3,135
Promotional fees	12,734	6,746
Rents and property management fees	2,324	2,622
Depreciation and amortization	2,843	2,371
Others	6,645	17,256
Total	81,584	83,983



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XLI) Administrative expenses

Item	2019 RMB'000	2018 RMB'000
Staff cost	24,575	14,727
Maintenance fees	11,162	11,187
Professional service fees	7,678	6,839
Travel expenses	2,019	2,155
Depreciation and amortization	9,267	4,866
Administrative expenses	4,683	3,391
Environmental protection and discharge fees	3,941	1,439
Business entertainment expenses	732	519
Water, electricity and heat expenses	2,459	1,711
Test fees	1,375	204
Property insurance expenses	1,477	272
Freight and miscellaneous charges	1,258	1,097
Equity incentive expenses	2,418	
Others	4,347	304
Total	77,390	48,711

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XLII) Research and development expenses

Item	2019 RMB'000	2018 RMB'000
Research and development of new products	9,462	4,372
Total	9,462	4,372

(XLIII) Financial expenses

Item	2019 RMB'000	2018 RMB'000
Interest expenses from loans and payables	30,738	23,556
Including: interest expenses	32,738	24,136
Interest subsidies for policy-related preferential loans	(2,000)	(581)
Less: borrowing costs capitalized	9,742	
Interest income from deposits	2,553	3,541
Net exchange losses/(gains)	57	(264)
Others	3,702	1,450
Total	22,201	21,201



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XLIV) Other income

Item	2019 RMB'000	2018 RMB'000	Related to assets/income
Amortization of deferred income	4,210	7,168	Related to assets
Government grants received during the year	3,162	6,269	Related to income
Total	7,372	13,437	

Note: See Note V.(XXXI) for details of government grants.

(XLV) Investment income

Type	2019 RMB'000	2018 RMB'000
Gains from derecognition of financial assets at amortized cost	(8,823)	
Total	(8,823)	



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XLVI) Gains from changes in fair value

Source of gains from changes in fair value	2019 RMB'000	2018 RMB'000
1. Bearer biological assets	26,840	175
Including: loss from changes in fair value less costs to sell of bearer biological assets	10,721	(9,037)
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	16,119	9,212
2. Trading financial assets	20,412	
Including: Profits and losses of changes in fair value arising from contingent consideration	20,412	
Total	47,252	175

The Company's bearer biological assets are the cows. On the balance sheet date, the Company hired certain qualified and professional assets valuer to determine the fair value of these cows. Any change over each period is included in the profit or loss of the current period.

The agricultural products received by the Company from the bearer biological assets are the raw milk. At the time of harvest, the fair value of such agricultural products less the selling expenses (subject to the quotation in the local market) is recognized as the initial costs of the inventory. Any profit or loss (that is, the fair value of agricultural products at the time of harvest less the selling expenses and farming costs) generated from the recognition based on such fair value on the date of harvest shall be recognized in the income statement. Thereafter, during the sales, the inventory amount initially recognized based on such fair value is transferred to selling costs.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XLVII) Credit impairment loss

Item	2019 RMB'000	2018 RMB'000
Credit impairment loss of accounts receivable	(65)	(159)
Credit impairment loss of other receivables	(927)	(45)
Total	(992)	(205)

(XLVIII) Asset impairment loss

Item	2019 RMB'000	2018 RMB'000
Loss on inventories depreciation		(436)
Impairment loss of fixed assets	(9,239)	
Impairment loss of goodwill	(48,719)	
Total	(57,958)	(436)

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(XLIX) Gains from disposal of assets

Item	2019 RMB'000	2018 RMB'000
Gains from disposal of fixed assets	(2)	2,637
Total	(2)	2,637

(L) Non-operating income

1. Non-operating income presented by items

Item	2019 RMB'000	2018 RMB'000	Amounts included in the non-recurring profit or loss of the current period RMB'000
Government grants irrelevant to the daily activities	512	205	512
Income from selling cow dung	212	726	212
Performance compensation	22,333		22,333
Gains on destruction and scrapping of non-current assets	4		4
Others	1,767	2,129	1,767
Total	24,828	3,059	24,828

Note: See Note V. (XV) for details of performance compensation.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(L) Non-operating income (Continued)

2. Government grants included in non-operating income

Item	2019 RMB'000	2018 RMB'000	Related to assets/income RMB'000
Corporate condolences	300		Related to income
Famous brand rewards	100		Related to income
Subsidy for cooperation with Xining Animal Disease Prevention and Control Center	112		Related to income
Subsidy for converting grains into feeds		205	Related to income
Total	512	205	

(LI) Non-operating expenses

Item	2019 RMB'000	2018 RMB'000	Amounts included in the non-recurring profit or loss of the current period RMB'000
External donations	155	1,314	155
Loss on destruction and scrapping of non-current assets	2,861	1,069	2,861
Fines expenses	149	49	149
Other expenses	528	113	528
Total	3,693	2,545	3,693

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(LII) Income tax expenses

1. Breakdown of income tax expense

Item	2019 RMB'000	2018 RMB'000
Income tax expenses for the current period calculated in accordance with tax laws and relevant regulations	10,135	(872)
Deferred income tax expenses	3,523	2,523
Total	13,657	1,652

2. Reconciliation of accounting profit and income tax expenses

Item	Amount RMB'000
Total amount of profit	64,979
Income tax expenses calculated based on statutory/applicable tax rate	9,747
Effect of application of different tax rates on subsidiaries	(1,568)
Effect of adjustment of income tax for the prior period	
Effect of non-taxable income	(1,925)
Effect of non-deductible costs, expenses and losses	7,403
Effect of using deductible temporary difference or deductible losses on unrecognized deferred income tax assets for the prior period	
Effect of deductible temporary difference or deductible losses of unrecognized deferred income tax assets at the end of the period	
Income tax expenses	13,657



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(LIII) Cash flow statement

1. Cash received or paid from/for other operating activities

Item	2019 RMB'000	2018 RMB'000
Cash received from other operating activities	41,347	36,207
Including: Earnest money	4,518	3,843
Accounts payable received from E-commerce platform	16,581	6,168
Government grants	9,239	9,233
Others	11,008	16,962
Cash paid for other operating activities	89,465	71,398
Including: Office travelling expenses	7,695	3,602
Maintenance fees	13,524	5,175
Freight and miscellaneous charges	23,305	16,199
Professional service fees	6,791	4,480
Promotional fees	5,419	2,960
Others	32,730	38,982

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(LIII) Cash flow statement (Continued)

2. Cash received or paid from/for other investing activities

Item	2019 RMB'000	2018 RMB'000
Cash received from other investing activities	2,553	21,931
Including: Recovery of earnest money		10,746
Interests income from bank deposits	2,553	2,631
Proceeds from repayment of advances by related parties and third parties		8,554
Cash paid for other investing activities		14,300
Including: Increase in pledged deposit		14,300

3. Cash received or paid from/for other financing activities

Item	2019 RMB'000	2018 RMB'000
Cash received from other financing activities	266,583	
Including: Restricted shares	1,146	
Recovery of earnest money	14,300	
Bill discount	251,137	
Cash paid for other financing activities	176,902	4,750
Including: Cash paid relating to leases	6,620	4,750
Guarantee fees paid	4,775	
Increase in pledged deposit	165,507	



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(LIV) Supporting information about cash flow statement

1. Supporting information about cash flow statement

Item	2019 RMB'000	2018 RMB'000
1. Adjustment of net profit to cash flow of operating activities		
Net profit	51,321	63,533
Plus: Credit impairment loss	992	205
Asset impairment loss	57,958	436
Fixed assets and right-of-use assets depreciation	75,006	51,822
Intangible assets amortization	2,038	1,285
Long-term deferred expenses amortization	3,963	1,918
Loss on disposal of fixed assets, intangible assets and other long-term assets (“—” for gains)	2	(2,637)
Loss on scrapping of fixed assets (“—” for gains)	2,857	1,069
Loss on changes to the fair value (“—” for gains)	(31,133)	9,037
Financial expenses (“—” for gains)	20,996	23,556
Loss on investment (“—” for gains)	8,823	
Decrease of deferred income tax assets (“—” for increase)	793	(2,560)
Increase of deferred income tax liabilities (“—” for decrease)	2,729	6,298
Decrease of inventories (“—” for increase)	(5,911)	(17,842)
Decrease of operating items receivable (“—” for increase)	(643)	(19,061)
Increase of operating items payable (“—” for decrease)	(49,515)	(21,889)
Others		
Net amount of cash flow generated from operating activities	140,277	95,169
2. Major investing and financing activities irrelevant to cash income and expenses		
Conversion of debts into capital		
Convertible corporate bonds to become due within one year		
Acquisition of fixed assets under finance leases		
3. Net changes to cash and cash equivalents		
Balance of cash at 31 December 2019	248,235	388,791
Less: balance of cash at 31 December 2018	388,791	736,896
Plus: balance of cash equivalents at 31 December 2019		
Less: balance of cash equivalents at 31 December 2018		
Net increase of cash and cash equivalents	(140,556)	(348,105)

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(LIV) Supporting information about cash flow statement (Continued)

2. Cash and cash equivalents

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
I. Cash		
Including: cash on hand	16	43
Bank deposits immediately available for payment	248,218	388,263
Other cash at bank and on hand as immediately available for payment		485
Amount available for payment and deposited in the Central Bank		
Deposit in other financial Institutions		
Loans to other financial Institutions		
II. Cash equivalents		
Including: debenture investment to become due within 3 months		
III. Balance of cash and cash equivalents at the end of the year	248,235	388,791
IV. Use of restricted cash and cash equivalents by the Parent Company or the subsidiaries of the Company	165,507	14,300



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

V. IMPORTANT NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(LV) Assets with restricted ownership or use right

Item	Carrying value at 31 December 2019 RMB'000	Reasons for restriction RMB'000
Cash at bank and on hand	161,507	Bills earnest money
Cash at bank and on hand	4,000	Mortgage loan earnest money
Fixed assets	346,139	Long-term and short- term mortgage loan
Intangible assets	54,779	Long-term mortgage loan
Long-term equity investment — Xi'an Dongfang Dairy Co., Ltd.	35,300	Long-term mortgage loan
Total	601,725	

VI. CHANGES OF SCOPE OF CONSOLIDATION

(I) Business combination not under the common control occurred during the period

None

(II) Business combination under the common control occurred during the period

None

(III) Disposal of equity in subsidiaries during the period

None

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

VII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Composition of group members

Name of Subsidiary	Principal Place of Business	Place of Registration	Nature of Business	Shareholding Percentage (%)		Mode of Acquisition	Registered capital (RMB0'000)	Type of enterprise
				Direct	Indirect			
Qinghai Qinghai Lake Dairy Co., Ltd.	Xining City, Qinghai Province	Xining City, Qinghai Province	Dairy products production and sales	100.00		Establishment through investment	3,000	Limited liability company (sole proprietorship of a legal person invested or controlled by a non-natural person)
Xi'an Dongfang Dairy Co., Ltd.	Xi'an City, Shaanxi Province	Xi'an City, Shaanxi Province	Dairy products production and sales	100.00		Acquisition	3,530	Limited liability company (sole proprietorship of a legal person invested or controlled by a natural person)
Qinghai Shengyuan Pasture Co., Ltd.	Huangyuan County, Xining City, Qinghai Province	Huangyuan County, Xining City, Qinghai Province	Cows farming	100.00		Establishment through investment	3,000	Limited liability company
Qinghai Shengya Plateau Pasture Co., Ltd.	Huangzhong County, Xining City, Qinghai Province	Huangzhong County, Xining City, Qinghai Province	Cows farming	100.00		Establishment through investment	3,000	Limited liability company
Yuzhong Ruifeng Pasture Co., Ltd.	Yuzhong County, Lanzhou City, Gansu Province	Yuzhong County, Lanzhou City, Gansu Province	Cows farming	100.00		Establishment through investment	2,000	Limited liability company (sole proprietorship of a legal person invested or controlled by a natural person)
Linxia County Ruiyuan Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province	Linxia County, Linxia Prefecture, Gansu Province	Cows farming	100.00		Establishment through investment	3,000	Limited liability company (sole proprietorship of a legal person invested or controlled by a natural person)
Linxia County Ruian Pasture Co., Ltd.	Linxia County, Linxia Prefecture, Gansu Province	Linxia County, Linxia Prefecture, Gansu Province	Cows farming	100.00		Establishment through investment	2,000	Limited liability company (sole proprietorship of a legal person invested or controlled by a natural person)
Wuwei Ruida Pasture Co., Ltd.	Wuwei City, Gansu Province	Wuwei City, Gansu Province	Cows farming	100.00		Establishment through investment	2,000	One-person company with limited liability
Ningxia Zhuangyuan Pasture Co., Ltd.	Wuzhong City, Hui Autonomous Region, Ningxia	Wuzhong City, Hui Autonomous Region, Ningxia	Cows farming	100.00		Establishment through investment	2,000	One-person company with limited liability (private legal person sole proprietorship)
Lanzhou Ruixing Animal Husbandry Co., Ltd.	Yongdeng County, Lanzhou City, Gansu Province	Yongdeng County, Lanzhou City, Gansu Province	Cows farming	100.00		Establishment through investment	1,000	one-person company with limited liability
Gansu Ruijia Animal Husbandry Co., Ltd.	Jinchang City, Gansu Province	Jinchang City, Gansu Province	Cows farming	100.00		Establishment through investment	1,000	Limited liability company (sole proprietorship of a legal person invested or controlled by a natural person)

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company's financial instruments mainly include borrowings, accounts receivable and accounts payable, for details of these financial instruments please refer to Note V. For risks related to these financial instruments and the risk management policies adopted by the Company for the purpose of mitigating such risks, please see below. The Company's management shall manage and monitor these risk exposures to ensure that the aforesaid risks may be controlled within the restricted scope.

(I) Risk management objectives and policies

The Company implements risk management to keep proper balance between the risks and gains and attempt to reduce the adverse impacts of these financial risks on its financial performance. Based on such risk management objective, the Company has already worked out the risk management policy to identify and analyze its risk, set appropriate acceptable level of risk and design corresponding internal control process to monitor its risk level. The Company will also regularly review these risk management policies and internal control system so as to adapt to the market situations or changes to its business activities. The Company's internal auditing department will also regularly or at any time check whether the implementation of its internal control system is in compliance with the risk management policy.

1. Credit risk

On 31 December 2019, the biggest credit risk exposure resulting in the Company's financial loss mainly results from the failure by the other party to the contract to perform the obligations, thus, the Company suffers from any loss on the financial assets and has to provide the financial guarantee, specifically including the cash at bank and on hand and the accounts receivable.

In order to reduce the credit risk, the Company's management will continuously monitor these credit risk exposures.

The Company's cash at bank and on hand other than the cash is mainly deposited in the banks with higher credit rating, therefore, the management considers that there is no existence of higher credit risk and expects no loss to the Company arising from the default of the other party.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

1. Credit risk (Continued)

As for the accounts receivable, the Company's management has already worked out the credit policy based on the actual situations and conduct credit evaluation on the customers to determine the credit limit and period. The credit evaluation depends on the customer's financial status. The accounts receivable will become due 30 days after the statement of accounts is issued or no later than 1 year. The debtor with overdue accounts receivable will be required to first repay any and all of the outstanding balance and then can obtain the further credit limit. Generally, the Company will not request the customer for provision of any mortgaged item. In addition, the Company will review the recovery of each accounts receivable on the date of each balance sheet to ensure the sufficient provision for bad and doubtful debts based on the estimated credit loss on such assets. Therefore, the Company's management considers that its credit risk has already been significantly reduced.

The Company's credit risk is mainly affected by the characteristic of each customer but not the industry or country and region of such customer. Therefore, the significant credit risk mainly results from the significant accounts receivable by the Company from the individual customer. On the balance sheet date, the accounts receivable from the Company's top 5 customers account for 50.01% (54.6% in 2018) of the total amount of accounts receivable by the Company; in addition, those accounts receivable by the Company that have not become overdue or been impaired mainly involve multiple customers without default records in recent times.

As for other receivables, the Company's management will implement management based on the nature of the receivables. With respect to the credit risk in connection with other receivables, the Company has already taken the net amount after loss on impairment into consideration and listed in the balance sheet.

The Company's largest credit risk exposure is the book amount of each financial asset listed in the balance sheet.

The Company has adopted the necessary policy to ensure that all the sale customers keep good credit records.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

2. Liquidity risk

Liquidity risk means while performing the obligations by way of settlement in cash or other financial assets, the enterprise suffers from the risk of lack of funds. The Company and each of its subsidiaries are responsible for their respective cash management work, including the cash surplus short-term investment and loan financing to meet the requirements for projected cash payable (if the amount of loan exceeds the upper limit authorized by certain presupposition, approval should be obtained from the Company's Board of Directors). The Company's policy is to regularly monitor short-term and long-term liquidity requirements and whether it meets the requirements of the loan agreement to ensure that sufficient cash reserves are maintained. Meanwhile, it obtains the commitments from major financial institutions for provision of sufficient reserve funds so as to satisfy the short- and long-term requirements for the current funds.

The following tables set out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December) and the earliest date the Group can be required to pay:

Contractual undiscounted cash flow at 31 December 2019

Item	Within 1 year RMB'000	Over 1 year	Over 2 years	Over 5 years RMB'000	Total RMB'000	Carrying
		but within 2 years RMB'000	but within 5 years RMB'000			value on the balance sheet date RMB'000
Short-term borrowings	319,156				319,156	315,184
Bills payable	283,014				283,014	283,014
Accounts payable	228,221				228,221	228,221
Other payables	34,449	16,275			50,725	50,725
Long-term borrowings	65,810	53,950	190,875	8,325	318,960	278,190
Lease liabilities	2,773	4,887	7,897	29,778	45,335	30,946
Total	933,423	75,112	198,772	38,104	1,245,411	1,186,278

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

IX. FAIR VALUE

The following table includes the fair value information of the Company's assets and liabilities sustainably measured by the fair value on each balance sheet date at the end of the period of such report and the level of such measurement. The level of fair value measurement results depends on the input at the lowest level that significantly affects the fair value in general. Three levels of input are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3 inputs are unobservable inputs for the asset or liability.

(I) Fair value of assets and liabilities measured by fair value at the end of the year

Item	Fair Value at the end of the year			Total RMB'000
	Fair value measurement at Level 1	Fair value measurement at Level 2	Fair value measurement at Level 3	
	RMB'000	RMB'000	RMB'000	
Sustainable fair value measurement			380,507	380,507
Bearer biological assets			360,095	360,095
Trading financial assets			20,412	20,412

(CONTINUED)

Item	Fair Value at the beginning of the year			Total RMB'000
	Fair value measurement at Level 1	Fair value measurement at Level 2	Fair value measurement at Level 3	
	RMB'000	RMB'000	RMB'000	
Sustainable fair value measurement			270,304	270,304
Bearer biological assets			270,304	270,304
Trading financial assets				

The carrying value of consumable biological assets on each balance sheet date during the report period is relatively minor, which is approximate to the fair value.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

IX. FAIR VALUE (Continued)

(II) Qualitative and quantitative information over the valuation technology and important parameters adopted by the evaluation on fair value of bearer biological assets

1. Quantitative information over fair value measurement at Level 3:

Category	Methods for valuation	Key unobservable inputs	Relationship between the key unobservable inputs and fair value measurement
Calves and heifers	The fair value of 14-month old heifer is calculated by reference to the market price of the active transaction market.	The average market price of 14-month old domestic heifer this year is RMB18,300 (RMB18,800 in 2018); and the average market price of 14-month old imported heifer is RMB21,400 (RMB20,400 in 2018).	When the market price is increased, it is estimated that the fair value will be increased.
Milkable cows	The fair value of milkable cows is determined according to the multi period-excess-earnings and based on the discounted future cash flow generated by the milkable cows.	As for the quantity of milkable cows, it is assumed that the existing number of milkable cows is decreased at the end of the related period arising from the rejection rate due to natural or unnatural factors (including disease, difficult delivery, low milk production or end of all the gestation periods), it is estimated that the overall rejection rate this year will be 5.0%~100% as increase of the gestation period (5%~100% in 2018). Each milkable cow has 5~6 gestation periods to the maximum extent. It is estimated that in the self-operated pastures of 5 wholly-owned subsidiaries, within each gestation period of this year, each cow will averagely produce 5.04~10.21 tons of raw milk (the output of raw milk of the five self-operated pastures varies, namely Shengya (5.04~8.754 tons); Ruiyuan (7.64~10.21 tons); Ruixing (8.68~10.14 tons); Wuwei Ruida (9.20~9.45 tons); and Shaanxi Duoxian (8.99~9.85 tons) (5.61~10.95 tons in 2018), depending on the number of times during the gestation period and the individual health status. It is estimated in this year that the future local market price of each ton of the raw milk is RMB4,046/ton(the price of the five self-operated pastures varies, namely Shengya (RMB4,036/ton); Ruiyuan (RMB4,038/ton); Ruixing (RMB4,088/ton); Wuwei Ruida (RMB4,056/ton); and Shaanxi Duoxian (RMB4,011/ton)) (RMB3,994/ton in 2018). Calculated as per the capital asset pricing model, the discount rate of this year is 12.01% (11.38% in 2018).	It is estimated that when the rejection rate is increased, the fair value will be decreased. It is estimated that when the production volume of raw milk is increased, the fair value will be increased. It is estimated that when the future local market price of the raw milk is increased, the fair value will be increased. When the discount rate is increased, it is estimated that the fair value will be decreased.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

IX. FAIR VALUE (Continued)

(III) Contingent considerations arising from business combinations not under the common control and qualitative and quantitative information over the valuation technology and significant inputs adopted for it.

The contingent consideration arrangement for acquisition of Xi'an Dongfang Dairy Co., Ltd. ("Dongfang Dairy Company") by Zhuangyuan Pasture Company is a cash settlement arrangement. According to the profitability of the target company after the acquisition date, Zhuangyuan Pasture Company, as the acquirer, may request the transferor to pay performance compensation, and this contingent consideration arrangement forms a financial asset of Zhuangyuan Pasture Company. According to the relevant provisions of the Accounting Standards for Business Enterprises in respect of contingent consideration, the contingent consideration should be initially and subsequently measured at changes in fair value through profit or loss of the Company. The contingent consideration arrangement uses the net profit of Dongfang Dairy Company (subject to the net profit attributable to owners of the parent company after deducting non-recurring profit or loss) as the variable. The fair value of contingent consideration belongs to the Level 3, and its fair value is determined by using valuation techniques. The valuation model used is mainly a cash flow discount model. The inputs of the valuation model mainly include expected return, period of expected return, discount rate and others.

2. The basis for the recognition of profits or losses of changes in fair value of contingent consideration in profit or loss for 2019

The former shareholders of Dongfang Dairy Company guaranteed to Zhuangyuan Pasture Company that the net profit in 2018, 2019 and 2020 (subject to the net profit attributable to owners of the parent company after deducting non-recurring profit or loss) shall not be less than RMB18,000,000, RMB22,000,000 and RMB25,000,000. During the guarantee period, if the cumulative net profit of Dongfang Dairy Company at the end of the current period is lower than the guaranteed cumulative net profit at the end of the current period, the guarantor shall compensate Zhuangyuan Pasture Company in cash.

In 2018, Xi'an Dongfang realized net profit after deducting non-recurring profits or losses of RMB18,456,000; in 2019, Xi'an Dongfang failed to fulfill its performance commitments and realized net profit after deducting non-recurring profits or losses of RMB12,519,000. The Company expects that Xi'an Dongfang will still fail to fulfill its performance commitments and is expected to realize a net profit of RMB16,359,000.

According to the performance compensation agreement at the date of acquisition, the Company recognized the performance compensation income receivable from former shareholders of Xi'an Dongfang Dairy of RMB22,333,000 in the non-operating income of current period. Meanwhile, compensation receivable of RMB21,382,000 calculated according to the expected results of Xi'an Dongfang Dairy in 2020 was discounted at the Company's recent financing cost of 4.75%, and trading financial assets at the end of the period and profits or losses of changes in fair value of the period of RMB20,412,000 was recognized.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

IX. FAIR VALUE (Continued)

(III) Contingent considerations arising from business combinations not under the common control and qualitative and quantitative information over the valuation technology and significant inputs adopted for it. (Continued)

3. All key assumptions applied by the management of Zhuangyuan Pasture Company in the valuation of the contingent consideration

The management applied the following key assumptions in the valuation of the contingent consideration of Dongfang Dairy Company:

- ① In 2020, the Company predicts that due to the epidemic, sales of acquiree will decrease by 7.00% as compared with 2019;
- ② The management plans to reduce management expenses and sales expenses moderately in 2020 by 4.49% and 8.62% respectively as compared with 2019.
- ③ The gross margin products remains stable in general;
- ④ The discount rate applies the recent financing rate of 4.75%.

X. RELATED PARTIES AND RELATED TRANSACTIONS

(I) Parent company of the Company

The Company has no parent company, and its ultimate controlling party is a natural person, Mr. Ma Hongfu.

(II) Subsidiary of the Company

For details please refer to "Note VII. Interest in the Subsidiaries".

(III) Other related parties of the Company

Name of other related parties	Relationship between other related parties and the Company
Linxia County Ruihua Pasture Co., Ltd.	Entity under the common control of spouses of family members of the controlling shareholder, Ma Hongfu

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

X. RELATED PARTIES AND RELATED TRANSACTIONS (Continued)

(IV) Related transactions

1. **Related transactions such as purchase and sales of commodities and provision and acceptance of labor service**

None

2. **Related trust management/contracting and entrusted management/outsourcing**

None

3. **Related leases**

None

4. **Affiliated guarantee**

None

5. **Loans to related parties**

None

6. **Remuneration of key management personnel**

	2019	2018
Remuneration of key management personnel	RMB'000	RMB'000
Total	2,523	2,835

7. **Other related transactions**

None



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT

(1) Overall Conditions of Share-based Payment

① According to the “Proposal on the 2019 Restricted Share Incentive Scheme (Draft) of Lanzhou Zhuangyuan Pasture Co., Ltd. and its Summary” considered and passed at the first extraordinary general meeting of the Company held on 23 May 2019 and the “Proposal on Adjusting Matters Related to the 2019 Restricted Share Incentive Scheme” and the “Proposal on the First Grant of Restricted Stock to Incentive Targets” considered and passed at the 21th meeting of the third session of the Board of the Company held on 21 June 2019, the number of restricted shares granted under the adjusted 2019 Restricted Share Incentive Scheme was 3,940,600 shares, including 3,340,600 shares in the first grant and 600,000 shares reserved, the total number of the incentive targets in the first grant was 84 individuals, and the price of grant was RMB6.96 per share. The targets of the incentive scheme included the Directors, senior management, middle-level management and core technicians (sales staff) of the Company. Source of shares: RMB common A-shares of Lanzhou Zhuangyuan Pasture Co., Ltd. issued to the incentive targets of the Company; date of grant: 21 June 2019; price of the grant: RMB6.96 per share; number of the grant: 3,340,600 shares; number of grantees: 84 individuals.

② Lock-up Arrangement

The unlocking arrangement under the first grant of the restricted shares is set out in the table below:

Unlocking arrangement	Unlocking time	Unlocking proportion
First unlocking period	Commencing on the first trading day after expiry of the 18-month period from the record date and ending on the last trading day of the 30-month period from the record date	30%
Second unlocking period	Commencing on the first trading day after expiry of the 30-month period from the record date and ending on the last trading day of the 42-month period from the record date	30%
Third unlocking period	Commencing on the first trading day after expiry of the 42-month period from the record date and ending on the last trading day of the 54-month period from the record date	40%

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions

During the unlocking period, the restricted shares granted to the incentive targets if the following conditions of grant are satisfied:

A. *There is no occurrence of any of the following events on the part of the Company*

- ① issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
- ② issue of an auditors' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control of the financial report of the Company for its most recent accounting year;
- ③ failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
- ④ prohibition from implementation of a share incentive scheme by laws and regulations;
- ⑤ any other circumstances as determined by the CSRC.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

B. There is no occurrence of any of the following events on the part of the Incentive Participants:

- ① being subject to any identification as an ineligible personnel by a stock exchange in the last 12 months;
- ② being subject to any identification as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;
- ③ imposition of administrative penalties or measures prohibiting the Incentive Participants from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;
- ④ circumstances under which the Incentive Participant is prohibited from acting as a director and a member of the senior management of the Company pursuant to the Company Law;
- ⑤ circumstances under which the Incentive Participants are not allowed by the laws and regulations to participate in share incentive schemes of a listed company;
- ⑥ any other circumstances as determined by the CSRC.

In case the Company has any of the circumstances specified in the above sub-paragraph (1) during the implementation of the Incentive Scheme, all the restricted shares that have been granted to the Incentive Participants under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company and the repurchase price shall be the sum of the grant price and the interests on the bank deposits of the same term; in case any Incentive Participant has any of the circumstances specified in the above sub-paragraph (2), the Company will terminate its right to participate in the Incentive Scheme, and the restricted shares that have been granted to the Incentive Participant under the Incentive Scheme but have not been unlocked shall be repurchased and cancelled by the Company and the repurchase price shall be the grant price.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

C. Performance appraisal targets at the Company level

The Incentive Scheme is subject to evaluation once an accounting year. The performance appraisal targets of the First Grant are as follows:

Unlocking period	Performance appraisal targets
First unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2019 shall not be lower than 10%
Second unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2020 shall not be lower than 20%
Third unlocking period	On the basis of the operating income after reasonable adjustments in 2018, the growth rate of the operating income for 2021 shall not be lower than 30%

In the event the Company fails to meet the performance appraisal targets above, all restricted shares which can be unlocked by the Incentive Participants in the respective assessment year shall not be unlocked and shall be repurchased and cancelled by the Company at the grant price plus the interest rate of bank deposits of the same term.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT (Continued)

(1) Overall Conditions of Share-based Payment (Continued)

③ Unlocking conditions (Continued)

D. Performance appraisal requirements at the Incentive Participant level

Incentive Participants can only unlock restricted shares if the Company achieved the abovementioned performance appraisal targets and individuals' post performance appraisal standards in the previous year. The specific unlocking ratio shall be determined based on the individual performance appraisal results of the Incentive Participants.

The individual performance appraisal of the Incentive Participants shall be conducted annually in accordance with the Assessment Management Measures for Implementation of the 2019 Incentive Scheme for Restricted Shares of Lanzhou Zhuangyuan Pasture Co., Ltd. (《蘭州莊園牧場股份有限公司2019年限制性股票激勵計劃實施考核管理辦法》). The assessment results shall be determined in accordance with individuals' performance appraisal and evaluation indicators. In principle, the performance evaluation results are classified into four grades, i.e. excellent (A), good (B), general (C), and poor (D), of which, A/B/C are qualified and D is unqualified. The appraisal and evaluation form is applicable to the assessment objects.

Appraisal results	Qualified		Unqualified	
Standard grade	Excellent (A)	Good (B)	General (C)	Poor (D)
Standard coefficient	1.0	1.0	0.8	0

Individuals' actual unlock limit for the current year = standard coefficient × limit planned to be unlocked by individuals in the current year. The restricted shares which cannot be unlocked by the Incentive Participants in the year of appraisal shall be repurchased and cancelled by the Company.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT (Continued)

(2) Equity-settled share-based payment

Basis of the determination of the number of equity instruments expected to vest: At each balance sheet date during the vesting period, the Group makes the best estimation according to the latest information of the number of employees who are granted to vest and revises the number of equity instruments expected to vest. On vesting date, the estimate shall be equal to the number of equity instruments that ultimately vested.

Method to determine the fair value of equity instruments at the date of grant: the Company selected the closing price on the date of granting the restrictive Shares (RMB13.14 per Share) to determine the fair value of the restrictive Shares, and the total fair value of the equity instruments at the date of grant was RMB20,645,000, details of which are set out in the table below:

Item	Phase I	Phase II	Phase III	Total
Fair value per restrictive shares (RMB)	6.18	6.18	6.18	
Unlocked shares (RMB)	1,002,180.00	1,002,180.00	1,336,240.00	3,340,600.00
Total cost of restrictive shares for the current period (RMB'000)	6,193	6,193	8,258	20,645



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XI. SHARE-BASED PAYMENT (Continued)

(3) Cost of equity-settled share-based payment actually recognized during the year

Based on the above calculation, the fair value of the equity instruments granted to the incentive targets by the Company on 21 June 2019 was RMB20,645,000, the total fair value of which will be accounted for as the total cost of the Share Incentive Scheme and recognized in phases according to the proportion unlocked in the process of implementing the Share Incentive Scheme. As of 31 December 2019, the Share Incentive Scheme failed to meet the performance assessment objective for 2019, the restrictive shares of the incentive targets that can be released from lock-up for that assessment year shall not be released from lock-up, and the Company will repurchase the restrictive shares at the grant price plus the interest at the bank deposit interest rate for the same period for cancellation in the future. Therefore, the amortization of the costs of the restrictive shares for 2019 to 2022 is set out in the table below:

Unit: RMB

Item	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	Total RMB'000
Costs of the restrictive shares	2,418	4,837	4,837	2,359	14,451

As of 31 December 2019, the Company expected that the equity incentive would meet the performance requirements in the future. It was expected the number of equity instruments would be 2,338,420 shares in the future and the accumulated amount of the equity-settled share-based payment included in the capital reserve for the current period was 22,328,000.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XII. COMMITMENTS AND CONTINGENT MATTERS

(I) Commitments Matters

(1) Capital Commitments

Item	31 December 2019 RMB'000	31 December 2018 RMB'000
Capital commitments contracted but not recognized in the financial statement	25,874	56,873
— Commitment to the construction of long-term assets	25,874	56,873
Total	25,874	56,873

(II) Contingency

XIII. EVENTS AFTER THE BALANCE SHEET DATE

- (I) The Company has announced the estimated results for the first quarter of 2020 on 15 April 2020. The net profit attributable to the shareholders of the parent company in the first quarter of 2020 is approximately RMB-12,375,000 to RMB-9,146,700.
- (II) The Company passed the resolution at the 38th meeting of the third Board of Directors held on 23 April 2020, pursuant to which, based on 190,680,600 shares as of 31 December 2019, cash dividend of RMB0.55 (tax-inclusive) for every 10 shares is distributed to all shareholders with the distributable profit realized in 2019, being cash distribution of RMB10,487,433.00 in total.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XIV. OTHER IMPORTANT MATTERS

(I) Segment reporting

Considering the framework of internal organization, management requirements and internal reporting system, the Company has determined two reportable segments, which are dairy farming and dairy products production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they acquire different technology and market strategies. The financial information of the different segments is regularly reviewed by the Company's management to determine the allocation of resources and assess the performance.

Name of segment	Principal activities of segments
Dairy farming	Breeding dairy cows to produce and sell raw milk
Dairy products production	Production and sales of Pasteurized Milk, UHT Milk, Modified Milk, Yogurt and Other Dairy Products

1. Profit or loss, assets and liabilities of reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Company's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other long-term assets and current assets, such as receivable, with the exception of deferred tax assets and other unallocated corporate assets (if any). Segment liabilities include current and non-current liabilities, such as payables, bank borrowings, attributable to the individual segments, but exclude deferred tax liabilities (if any).

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Segment reporting (Continued)

1. Profit or loss, assets and liabilities of reportable segments (Continued)

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting operating costs, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and non-operating income and expenses attributable to the individual segments but exclude unallocated corporate expenses (if any). Transfer pricing of income among reportable segments is in accordance with the similar terms of transaction with external parties.

Information regarding the Company's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the Company's management or is otherwise regularly provided to the Company's management, even if not included in the measurement of segment profit or loss and segment assets and liabilities:

Item	Dairy farming Segment		Dairy Products Production Segment		Elimination among Segments		Total	
	Incurring	Incurring	Incurring	Incurring	Incurring	Incurring	Incurring	Incurring
	in the year	in previous year	in the year	in previous year	in the year	in previous year	in the year	in previous year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating income from external customers	40,936	21,997	772,619	635,735			813,554	657,732
Inter-segment operating income	216,971	143,147		9,289	(216,971)	(152,435)		
Depreciation and amortization	24,501	15,029	52,542	27,848			77,043	42,877
Interests income	187	477	2,366	3,064			2,553	3,541
Interests expense	3,158	121	17,838	23,435			20,996	23,556
Total amount of profit/(losses)	(10,452)	26,125	75,430	39,059			64,979	65,185
Income tax expense		0	13,657	1,652			13,657	1,652
Net profit/(losses)	(10,452)	26,125	61,773	37,408			51,321	63,533
Total assets	970,763	732,379	2,189,997	1,866,161	(668,033)	(550,431)	2,492,727	2,048,109
Total liabilities	775,821	757,550	1,159,532	656,584	(668,033)	(550,431)	1,267,320	863,702
Additions on non-current assets	57,489	324,822	334,649	234,031			392,138	558,853



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Segment reporting (Continued)

2. Geographic information

As the Company's revenue is derived from customers located in the Mainland of China and non-current assets are mainly taken from and wholly located in Mainland China and all the branches are managed on a national basis due to their similar customer classifications or classification and similar regulatory environment in all regions, no information has been provided to the management of the Group by geographical area in mainland China.

3. Major customers

In 2019 and 2018, there is no case in which revenue to a single customer exceeds 10% of the total revenue of the Company.

(II) Remuneration of directors, supervisors and employees

1. Remuneration of directors and supervisors

Remuneration of directors and supervisors	2019 RMB'000	2018 RMB'000
Executive directors:		
Ma Hongfu	360	360
Wang Guofu	360	360
Chen Yuhai	372	364
Zhang Qianyu	184	180
Yanbin (resigned at the time of director re-election)		120
Non-executive directors:		
Song Xianpeng		
Ye Jiancong		
Independent directors:		
Liu Zhijun	30	27
Zhao Xinmin	30	23
Huang Chuheng	105	102
Xin Shihua (resigned at the time of director re-election)		5
Supervisors:		
Wei Lin	30	27
Sun Chuang		
Du Wei	152	146
Total	1,623	1,714

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XIV. OTHER IMPORTANT MATTERS (Continued)

2. Five Highest Paid Individuals

The five highest paid individuals of the Company during the year are shown as follows:

No.	Name	2019 RMB'000
1	Chen Yuhai	372
2	Ma Hongfu	360
3	Wang Guofu	360
4	Feng Jun	355
5	Ding Jianping	300

(III) Legal proceedings

- On 13 February 2018, according to the Notice on the Closing and Relocation of Livestock Farms in the Livestock and Poultry Prohibited Area (《關於畜禽禁養區內養殖場關閉搬遷的通告》) issued by the People's Government of Litong District of Wuzhong City, Ningxia Zhuangyuan Pasture Co., Ltd. a wholly-owned subsidiary of the Company, was listed in the livestock farms planned to be closed and relocated, and the Company responded positively to the government's work arrangement and carried out the closure work. The Company has been actively negotiating compensation matters with the Litong District People's Government, but has not yet signed a compensation agreement with the People's Government of Litong District till the date of this report. The Company filed a lawsuit with the Intermediate People's Court of Wuzhong City and requested the People's Court to order the People's Government of Litong District of Wuzhong City to fulfil statutory obligations in accordance with the requirements of the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and make compensation for the loss caused by the closure and relocation of the Company's farms. On 5 March 2020, Ningxia Zhuangyuan received the Notice of Acceptance of Cases by the Intermediate People's Court of Wuzhong City of Ningxia Hui Autonomous Region ((2020) Ning 03 Xingchu No. 6) served by the Intermediate People's Court of Wuzhong City of Ningxia Hui Autonomous Region, and the case has been accepted by the People's Court.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XIV. OTHER IMPORTANT MATTERS (Continued)

(III) Legal proceedings (Continued)

- On 25 July 2017, according to the notice on the Plan for Delineation of the Prohibited Area and Restricted Area of Livestock and Poultry in Xining City (Trial) (Ningzhengban 2017 No. 143) (《西寧市畜禽養殖禁養區限養區劃定方案(試行)》) issued by the General Office of the People's Government of Xining City, Qinghai Shengyuan Plateau Pasture Co., Ltd. a subsidiary of the Company, was included in the scope of the prohibited area. The Company respected environmental protection work arrangements and responded actively to close the relevant farm. The Company has requested the People's Government of Huangyuan County of Xining City to compensate for the relocation losses but has not yet received any response. To this end, the Company submitted an administrative complaint to the Intermediate People's Court of Xining City in Qinghai Province in accordance with the requirements of the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》), requesting the People's Government of Huangyuan County of Xining City to make compensation. On 11 March 2020, Qinghai Shengyuan received the Notice of Acceptance of Cases by the Intermediate People's Court of Xining City ((2020) Qing 01 Xingchu No. 16) served by the Intermediate People's Court of Xining City of Qinghai Province, and the case has been accepted by the People's Court.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY

(I) Accounts receivable

1. Category of accounts receivable

Category	31 December 2019			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Accounts receivable with provision for bad and doubtful debts on an individual basis				
Accounts receivable with provision for bad and doubtful debts on a group basis	13,054	100.00	52	0.40
Total	13,054	100.00	52	0.40

Category	31 December 2018			
	Balance of carrying value		Provision for bad and doubtful debts	
	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Accounts receivable with provision for bad and doubtful debts on an individual basis				
Accounts receivable with provision for bad and doubtful debts on a group basis	23,250	100.00	30	0.13
Total	23,250	100.00	30	0.13



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

1. Category of accounts receivable (Continued)

(1) Accounts receivable with provision for bad and doubtful debts on a group basis

Aging	31 December 2019			31 December 2018		
	Balance of carrying value RMB'000	Expected credit loss rate (%)	Provision for bad and doubtful debts RMB'000	Balance of carrying value RMB'000	Expected credit loss rate (%)	Provision for bad and doubtful debts RMB'000
Within 1 year	12,950			23,102		
Over 1 year but within 2 years				149	20.00	30
Over 2 years but within 3 years	104	50.00	52			
Over 3 years						
Total	13,054	0.40	52	23,250	0.13	30

2. Provision for bad and doubtful debts made, recovered or reversed in the current period

The amount of provision for bad and doubtful debts made in the current period was RMB29,000; the amount of provision for bad and doubtful debts recovered or reversed in the current period was RMB6,000.

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

3. Five largest accounts receivable by debtor as of 31 December 2019

Name of entity	31 December 2019 RMB'000	Percentage of total accounts receivable (%)	Balance of provision for bad and doubtful debts RMB'000
Entity 1	2,721	20.84	52
Entity 2	1,870	14.32	
Entity 3	1,023	7.84	
Entity 4	954	7.31	
Entity 5	911	6.98	
Total	7,479	57.29	52

(II) Other receivables

Category	31 December 2019 RMB'000	31 December 2018 RMB'000
Other receivables	593,626	493,607
Less: provision for bad and doubtful debts	483	497
Total	593,144	493,110



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(1) Category of other receivables by nature

Nature of accounts	31 December 2019 RMB'000	31 December 2018 RMB'000
Amounts due from disposal of cows	648	1,297
Deposit and earnest money	2,066	958
Reserve funds for employees	878	1,065
Current accounts from related parties	580,282	488,267
Performance compensation	8,702	
Current accounts and others	1,050	2,019
Subtotal	593,626	493,607
Less: provision for bad and doubtful debts	483	497
Total	593,144	493,110

(2) Aging analysis of other receivables

Aging	31 December 2019		31 December 2018	
	Balance of carrying value RMB'000	Percentage (%)	Balance of carrying value RMB'000	Percentage (%)
Within 1 year	593,025	99.9	493,057	99.89
Over 1 year but within 2 years	148	0.02	67	0.01
Over 2 years but within 3 years				
Over 3 years	453	0.08	483	0.10
Total	593,626	100.00	493,607	100.00

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(3) Provision for bad and doubtful debts

Provision for bad and doubtful debts	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses over the next 12 months	Lifetime ECL (no credit impairment occurred)	Lifetime ECL (credit impairment occurred)	
	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance of 2019		13	483	497
Opening balance of 2019 reassessed in the current period		13	483	497
Provided in the current period		30		30
Reversed in the current period		13	30	43
Written-off in the current period				
Other changes				
31 December 2019		30	453	483

(4) Material provision for bad and doubtful debts recovered or reversed in the current period

Name of entity	Amount reversed or recovered	Method of recovery
	RMB'000	RMB'000
Entity 1	13	accounts receivable recovered
Entity 2	30	accounts receivable recovered
Total	43	



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

(5) Other receivables with top five closing balance by debtor

Name of debtor	Nature of accounts	Closing balance	Aging	Percentage of the total closing balance of other receivables (%)	Balance of provision for bad and doubtful debts
Linxia Ruiyuan Pasture Co., Ltd.	Current accounts	125,788	within one year	21.19	
Gansu Ruijia Animal Husbandry Co., Ltd.	Current accounts	113,703	within one year	19.15	
Qinghai Shengya Plateau Pasture Co., Ltd.	Current accounts	95,555	within one year	16.1	
Wuwei Ruida Pasture Co., Ltd.	Current accounts	78,572	within one year	13.24	
Lanzhou Ruixing Pasture Co., Ltd.	Current accounts	55,400	within one year	9.33	
Total	—	469,018	—	79.01	

(III) Long-term equity investment

Item	31 December 2019			31 December 2018		
	Balance of carrying value RMB'000	Provision for impairment RMB'000	Carrying value RMB'000	Balance of carrying value RMB'000	Provision for impairment RMB'000	Carrying value RMB'000
Investment in subsidiaries	533,789		533,789	524,789		524,789
Total	533,789		533,789	524,789		524,789

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investment (Continued)

1. Investment in subsidiaries

Invested Entity	31	Increase in	Decrease in	31	Provision	Impairment
	December	the current	the current	December	for	provision
	2018	period	period	2019	in the	as at 31
	RMB'000	RMB'000	RMB'000	RMB'000	current	December
					period	2019
					RMB'000	RMB'000
Qinghai Qinghai Lake Dairy Co., Ltd.	53,014			53,014		
Qinghai Shengya Plateau Pasture Co., Ltd.	30,000			30,000		
Qinghai Shengyuan Pasture Co., Ltd.	30,000			30,000		
Linxia Ruiyuan Pasture Co., Ltd.	30,000			30,000		
Yuzhong Ruifeng Pasture Co., Ltd.	20,000			20,000		
Linxia County Ruian Pasture Co., Ltd.	20,000			20,000		
Wuwei Ruida Pasture Co., Ltd.	20,000			20,000		
Ningxia Zhuangyuan Pasture Co., Ltd.	20,000			20,000		
Lanzhou Ruixing Pasture Co., Ltd.	10,000			10,000		
Xi'an Dongfang Dairy Co., Ltd.	290,775			290,775		
Gansu Ruijia Animal Husbandry Co., Ltd.	1,000	9,000		10,000		
Total	524,789	9,000		533,789		



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XV. NOTES TO FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operation cost

1. Operating income and operation cost by main category

Item	2019		2018	
	Income RMB'000	Cost RMB'000	Income RMB'000	Cost RMB'000
I. subtotal of principal business	496,971	353,374	480,311	328,877
II. subtotal of other business	4,819	2,027	1,714	1,155
Total	501,789	355,401	482,025	330,032

Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XVI. SUPPORTING INFORMATION

(I) Statement of non-recurring profit or loss of the current period

Item	Amount RMB'000	Remark
1. Profit or loss from disposal of non-current assets, including the write-off portion for which provision for impairment of assets is made	(2,859)	mainly represents the loss on scrapping of fixed assets
2. Tax rebates and deductions exceeding the approval, or without formal approval or incidentally incurred		
3. Government grants included in the current profit or loss, however, except for those which are closely related to the enterprise's business and are granted with specific quota or amount according to the national unified standards	9,884	mainly represents the government grants received by the Company
4. Funds occupation fees included in the current profit or loss and charged from non-financial enterprises		
5. Profit or loss when the investment cost of the enterprise for the purpose of acquisition of the subsidiaries, associates and joint ventures is lower than the fair value of net identifiable assets of the invested entity as entitled at the time of receipt of the investment		
6. Profit or loss from exchange of non-monetary assets		
7. Profit or loss from investment or management of assets by the others		
8. Provision for asset impairment due to force majeure factors, such as natural disasters		
9. Profit or loss from debts restructuring		
10. Enterprise restructuring fees, such as the expenses for employees settlement and the integration fees		
11. Profit or loss exceeding the fair value and generated from the transaction of which the transaction price is obviously unfair		
12. Net profit or loss in the current period of the subsidiaries generated from business combination under the same control from the beginning of the year to the date of consolidation		
13. Profit or loss from contingent issues irrelevant to the Group's normal business		
14. Except for the efficient hedging related to the Company's normal business, profit or loss from changes in fair value as generated from financial assets held-for-trading and financial liabilities held-for-trading and profit or loss from investment arising from disposal of financial assets held-for-trading, other non-current financial assets and financial liabilities held-for-trading	20,412	mainly represents the gain from change in fair value of contingent consideration
15. Reversals of provision for impairment of receivables that is tested separately for impairment		
16. Profit or loss from entrusted loans		
17. Profit or loss from changes in fair value of the investment property that is subsequently measured by adopting the fair value mode		
18. Impacts on the current profit or loss by the one-time adjustments to profit or loss over the current period under the tax, accounting and other laws and regulations		
19. Trusteeship fees income from entrusted operation		
20. Other non-operating income and expenses other than the aforesaid items	23,481	mainly represents the performance compensation and profit or loss on the disposal of wastes
21. Other profit or loss items as defined by the non-recurring profit or loss		
22. Amount of impact on income tax	(7,442)	
23. Amount of impact on minority shareholders		
Total	43,476	

Note: As for the figures in the non-recurring profit or loss column, "+" represents the gains and income, "-" represents the loss or expense.



Notes to the Financial Statements (Continued)

1 January 2019 - 31 December 2019

XVI. SUPPORTING INFORMATION (Continued)

(I) Statement of non-recurring profit or loss of the current period (Continued)

The Company recognizes non-recurring profit or loss items according to the Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public- Non-recurring Gains and Losses (ZJHGG 2008 No. 43).

(II) Rate of return on net assets and earnings per share

Profit during the report period	Rate of return on weighted average net assets (%)		Earnings per share			
	The current year	The previous year	Basic earnings per share		Diluted earnings per share	
			The current year	The previous year	The current year	The previous year
Net profit attributable to the Company's ordinary shareholders	4.24	5.46	0.27	0.34	0.27	0.34
Net profit attributable to the ordinary shareholders of the Company after a deduction of non-recurring profit or loss	0.65	4.36	0.04	0.27	0.04	0.27

Financial Summary

Financial summary of audited financial statements of the Group for the respective years are set out below.

	Years ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Operating income	813,554	657,732	628,374	665,823	626,153
Profit for the year	51,321	63,533	68,352	75,910	73,246
Attributable to equity shareholders of the Company	51,321	63,533	68,352	75,910	73,246
Earnings per share (RMB) ⁽¹⁾	0.27	0.34	0.46	0.54	0.65
Proposed dividend per share (RMB)	5.50 cents	6.80 cents	7.30 cents	7.42 cents	7.12 cents
Total assets	2,492,727	2,048,109	1,803,718	1,341,588	1,340,782
Total liabilities	1,267,320	863,702	676,053	581,353	646,454
Total equity attributable to equity shareholders of the Company	1,225,407	1,184,407	1,127,665	760,235	694,328

(1) Please refer to Note VI.(XLII) on page 153 for calculation of earnings per share.

