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

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

(Stock code: 1492)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			
	2019		2018	
	Results before biological fair value adjustments (unaudited) RMB'000	**Results after biological fair value adjustments (unaudited) RMB'000**	Results before biological fair value adjustments (unaudited) RMB'000	Results after biological fair value adjustments (unaudited) RMB'000
Revenue	**705,715**	**705,715**	667,283	667,283
Gross profit margin	**36%**	**4%**	36%	4%
Profit for the period attributable to owners of the parent	**109,919**	**50,075**	141,085	46,125
Basic and diluted earnings per share (RMB cents)		**2.3**		2.1

- Revenue increased by 6% as compared to the corresponding period in 2018.
- Profit for the period before biological fair value adjustments decreased by 22%, as compared to the corresponding period in 2018.
- Profit for the period after biological fair value adjustments increased by 9%, as compared to the corresponding period in 2018.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		2019			2018		
	Notes	**Results before biological fair value adjustments (Unaudited)** ***RMB'000***	**Biological fair value adjustments (Unaudited)** ***RMB'000***	**Total (Unaudited)** ***RMB'000***	Results before biological fair value adjustments (Unaudited) *RMB'000*	Biological fair value adjustments (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Revenue	*5*	**705,715**	**–**	**705,715**	667,283	–	667,283
Cost of sales	*7*	**(448,430)**	**(230,323)**	**(678,753)**	(428,739)	(212,810)	(641,549)
Gross profit		**257,285**	**(230,323)**	**26,962**	238,544	(212,810)	25,734
Losses arising from changes in fair value less costs to sell of biological assets		**–**	**(59,844)**	**(59,844)**	–	(94,960)	(94,960)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		**–**	**230,323**	**230,323**	–	212,810	212,810
Other income	*6*	**6,933**	**–**	**6,933**	17,033	–	17,033
Other gains and losses	*6*	**4,419**	**–**	**4,419**	3,356	–	3,356
Distribution costs		**(29,303)**	**–**	**(29,303)**	(28,031)	–	(28,031)
Administrative expenses		**(46,781)**	**–**	**(46,781)**	(34,007)	–	(34,007)
Other expenses	*7*	**(554)**	**–**	**(554)**	(232)	–	(232)
Finance costs	*8*	**(82,054)**	**–**	**(82,054)**	(55,578)	–	(55,578)
Share of profits and losses of Associates		**(26)**	**–**	**(26)**	**–**	–	–

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	Notes	**2019** Results before biological fair value adjustments (Unaudited) *RMB'000*	**2019** Biological fair value adjustments (Unaudited) *RMB'000*	**2019** Total (Unaudited) *RMB'000*	2018 Results before biological fair value adjustments (Unaudited) *RMB'000*	2018 Biological fair value adjustments (Unaudited) *RMB'000*	2018 Total (Unaudited) *RMB'000*
PROFIT/(LOSS) BEFORE TAX	*7*	**109,919**	**(59,844)**	**50,075**	141,085	(94,960)	46,125
Income tax expenses	*9*	**–**	**–**	**–**	–	–	–
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**109,919**	**(59,844)**	**50,075**	141,085	(94,960)	46,125
Profit/(loss) and total comprehensive income/(loss) attributable to the owners of the parent		**109,919**	**(59,844)**	**50,075**	141,085	(94,960)	46,125
Earnings per share attributable to ordinary equity holders of the parent:							
– Basic and diluted (RMB cents)	*11*			**2.3**			2.1

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	**30 June 2019 (Unaudited)** ***RMB'000***	31 December 2018 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,771,363**	1,814,500
Right-of-use assets		**576,380**	–
Prepayments for non-current assets		**163,270**	108,937
Long-term pledged deposits		**31,867**	31,160
Prepaid land lease payments		**–**	116,765
Biological assets	*12*	**1,656,260**	1,613,910
Investment in an associate		**10,257**	10,283
Total non-current assets		**4,209,397**	3,695,555
CURRENT ASSETS			
Inventories		**221,032**	332,752
Trade and other receivables	*13*	**189,957**	177,149
Prepaid land lease payments		**–**	4,127
Biological assets	*12*	**–**	780
Pledged bank deposits		**11,875**	7,859
Cash and bank balances		**382,957**	615,082
Total current assets		**805,821**	1,137,749
CURRENT LIABILITIES			
Trade and other payables	*14*	**393,478**	496,965
Contract liabilities		**4,491**	25,425
Interest-bearing bank and other borrowings	*15*	**1,106,090**	1,015,545
Total current liabilities		**1,504,059**	1,537,935
NET CURRENT LIABILITIES		**(698,238)**	(400,186)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,511,159**	3,295,369

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	Notes	**30 June 2019 (Unaudited) *RMB'000***	31 December 2018 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*15*	**1,326,236**	1,166,210
Deferred income		**32,885**	27,196
Total non-current liabilities		**1,359,121**	1,193,406
Net assets		**2,152,038**	2,101,963
EQUITY			
Equity attributable to owners of the parent			
Share capital		**135**	135
Share premium and reserves		**2,151,903**	2,101,828
Total equity		**2,152,038**	2,101,963

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

1. CORPORATE AND GROUP INFORMATION

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

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

The interim condensed consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

Going concern

The Group had net current liabilities of RMB698,238,000 as at 30 June 2019. In view of the net current liabilities position, the board of directors (the "**Directors**") have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities available as at 30 June 2019 and the cash flow projections for the twelve-month period ending 30 June 2020, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the interim condensed consolidated financial statements on a going concern basis.

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 (the "**Reporting Period**") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and IAS 34 *Interim Financial Reporting* issued by the IASB.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised International Financial Reporting Standards ("**IFRSs**") effective as of 1 January 2019.

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

Other than as explained below regarding the impact of IFRS 16, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures,* IFRIC-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

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

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, land use rights and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets of RMB120,892,000 that were reclassified from prepaid land lease payments.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

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

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

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

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

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets				
	Land use right	**Land lease**	**Office lease**	**Sub Total**	**Lease liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	98,519	383,927	16,219	498,665	377,773
Additions	–	105,351	–	105,351	105,351
Depreciation charge	(1,456)	(22,380)	(3,504)	(27,340)	–
Interest expense	–	–	–	–	16,297
Payments	–	–	–	–	(15,692)
Termination	–	(222)	(74)	(296)	(74)
As at 30 June 2019	97,063	466,676	12,641	576,380	483,655

The Group recognised rental expense from short-term leases of RMB8,000 and leases of low-value assets of RMB8,000 for the six months ended 30 June 2019.

(b) Amendments to IAS28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance from part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment of the associate or joint venture. The Group assessed its business model for its long-term interests in associate and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(c) IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

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

- Dairy farming business: raising and breeding dairy cows, raw milk production and sale of reproduced heifers; and

- Import trading business: imports and sales of cows and feeds and provision of import agency services.

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

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

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

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

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

Six months ended 30 June 2019	**Dairy farming business** *RMB'000* (Unaudited)	**Import trading business** *RMB'000* (Unaudited)	**Total** *RMB'000* (Unaudited)
Segment revenue			
Sales to external customers	705,635	80	705,715
Intersegment sales	–	26,428	26,428
	705,635	26,508	732,143
Reconciliation:			
Elimination of intersegment sales			(26,428)
Revenue			705,715
Segment results	95,498	3,530	99,028
Reconciliation:			
Fair value adjustments of biological assets			53,807
Elimination of intersegment results			(2,378)
Finance costs			(82,054)
Corporate and other unallocated expenses			(18,328)
Profit before tax			50,075
30 June 2019			
Segment assets	5,280,139	530,155	5,810,294
Reconciliation:			
Elimination of intersegment receivables	(964,698)	(231,793)	(1,196,491)
	4,315,441	298,362	4,613,803
Fair value adjustments of biological assets			297,522
Corporate and other unallocated assets			103,893
Total assets			5,015,218
Segment liabilities	632,600	990,687	1,623,287
Reconciliation:			
Elimination of intersegment payables	(231,793)	(964,698)	(1,196,491)
	400,807	25,989	426,796
Interest-bearing bank and other borrowings			2,432,326
Corporate and other unallocated liabilities			4,058
Total liabilities			2,863,180

Six months ended 30 June 2018	Dairy farming business *RMB'000* (Unaudited)	Import trading business *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue			
Sales to external customers	667,283	–	667,283
Intersegment sales	–	11,544	11,544
	667,283	11,544	678,827
Reconciliation:			
Elimination of intersegment sales			(11,544)
Revenue			667,283
Segment results	118,950	1,574	120,524
Reconciliation:			
Fair value adjustments of biological assets			(3,128)
Elimination of intersegment results			(872)
Finance costs			(55,578)
Corporate and other unallocated expenses			(14,821)
Loss before tax			46,125
31 December 2018 (Audited)			
Segment assets	4,481,432	409,507	4,890,939
Reconciliation:			
Elimination of intersegment receivables	(359,044)	(148,608)	(507,652)
	4,122,388	260,899	4,383,287
Fair value adjustments of biological assets			243,406
Corporate and other unallocated assets			206,611
Total assets			4,833,304
Segment liabilities	659,437	388,587	1,048,024
Reconciliation:			
Elimination of intersegment payables	(148,162)	(359,044)	(507,206)
	511,275	29,543	540,818
Interest-bearing bank and other borrowings			2,181,755
Corporate and other unallocated liabilities			8,768
Total liabilities			2,731,341

5. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods		
– Raw milk	**705,635**	667,283
Rendering of agency services		
– Import agency services	**80**	–
	705,715	667,283

<u>Disaggregated revenue information for revenue from contracts with customers</u>

For the six months ended 30 June 2019

Segments	**Dairy farming business**	**Import trading business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Types of goods or services			
Sale of goods	**705,635**	**–**	**705,635**
Rendering of agency services	**–**	**80**	**80**
Total revenue from contracts with customers	**705,635**	**80**	**705,715**

For the six months ended 30 June 2018

Segments	**Dairy farming business**	**Import trading business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Types of goods or services			
Sale of goods	667,283	–	667,283
Rendering of agency services	–	–	–
Total revenue from contracts with customers	667,283	–	667,283

6. OTHER INCOME AND OTHER GAINS AND LOSSES

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income		
Government grants related to		
– Assets other than biological assets	**1,617**	1,760
– Income	**203**	13,376
	1,820	15,136
Interest income	**3,653**	1,746
Others	**1,460**	151
	6,933	17,033
Other gains and losses		
– Gains/(losses) on disposal of items of property, plant and equipment	**3,199**	(8)
– Exchange gain, net	**1,401**	2,224
– Others	**(181)**	1,140
	4,419	3,356

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of sales		
Feeds and other related costs for raw milk production	**448,430**	428,739
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**230,323**	212,810
Cost of sales of raw milk	**678,753**	641,549
Other expenses		
Bank charges	**549**	228
Others	**5**	4
	554	232
Staff costs (including the Directors' emoluments)		
Salaries, bonuses and allowances	**56,413**	50,210
Contributions to retirement benefit scheme	**6,626**	4,612
Total employee benefits	**63,039**	54,822
Less: Capitalised in biological assets	**(14,777)**	(13,886)
Employee benefits charged directly in profit or loss	**48,262**	40,936

8. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	**65,757**	55,578
Interest on lease liabilities	**16,297**	–
Less: Interest capitalised	**–**	–
	82,054	55,578

9. INCOME TAX

The income tax expenses for the six months ended 30 June 2019 can be reconciled to the loss before tax per the interim condensed consolidated statement of profit or loss and other comprehensive income as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before tax	**50,075**	46,125
Tax at corporate income tax rate at 25%	**12,519**	11,531
Effect of items that are not deductible in determining taxable profit	**15,411**	24,045
Effect of losses incurred for agricultural business	**4,319**	5,052
Tax losses not recognised	**5,304**	5,409
Effect of tax exemption granted to agricultural operations	**(37,553)**	(46,037)
Income tax	**–**	–

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

10. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

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

The earnings and weighted average number of ordinary shares used in the calculations of basic and diluted earnings per share are as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings used in the calculation of basic earnings per share	**50,075**	46,125

	Number of shares For the six months ended 30 June	
	2019	2018
	'000	*'000*
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the Reporting Period used in the basic earnings per share calculation	**2,174,078**	2,174,078

12. BIOLOGICAL ASSETS

During the six months ended 30 June 2019, the biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, heifers and calves) and cows held for sale. Dairy cows held to produce raw milk are categorised as bearer biological assets and cows held for sale are categorised as consumable biological assets.

(A) Quantity of biological assets

The Group's dairy cows include cows held for sale, milkable cows, heifers and calves. Heifers and calves are dairy cows that have not had their first calves. The quantity of cows owned by the Group is shown as follows:

	30 June 2019 (Unaudited) ***Heads***	31 December 2018 (Audited) *Heads*
Cows held for sale	**–**	71
Milkable cows	**34,589**	36,068
Heifers and calves	**28,365**	28,640
	62,954	64,779

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

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

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

(B) Value of biological assets

The amounts of the Group's biological assets are as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cows held for sale	**–**	780
Milkable cows	**1,161,050**	1,145,290
Heifers and calves	**495,210**	468,620
Total value of cows	**1,656,260**	1,614,690
Current portion	**–**	780
Non-current portion	**1,656,260**	1,613,910
	1,656,260	1,614,690

The fair value of the Group's dairy cows as at 30 June 2019 was estimated by using the same valuation techniques as adopted in note 16 to the Group's annual consolidated financial statements for the year ended 31 December 2018. As the fair value was determined using significant unobservable inputs, it falls in level 3 of fair value hierarchy.

The carrying amount of cows pledged for interest-bearing bank and other borrowings at the end of the reporting period are as follows (note 15):

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bank loans	**73,500**	73,500
Other borrowings	**982,063**	941,203
	1,055,563	1,014,703

13. TRADE AND OTHER RECEIVABLES

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

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables:		
Within 1 month	**164,599**	124,094
1 to 2 months	**–**	854
2 to 3 months	**–**	–
Over 3 months	**662**	–
	165,261	124,948
Other receivables:		
– Advances to suppliers	**18,254**	41,624
– Others	**6,442**	10,577
	24,696	52,201
	189,957	177,149

14. TRADE AND OTHER PAYABLES

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

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Trade payables:		
– 0 to 90 days	**184,986**	306,939
– 91 to 180 days	**64,640**	77,116
– Over 181 days	**89,627**	43,890
	339,253	427,945
Payable for acquisition of items of property, plant and equipment	**6,006**	9,974
Accrued staff costs	**11,874**	15,513
Land lease payables	**–**	4,543
Interest payables	**9,744**	10,604
Deposits	**14,613**	12,356
Others	**11,988**	16,030
	54,225	69,020
	393,478	496,965

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Lease liabilities		**483,655**	–
Unsecured bank borrowings		**453,040**	667,600
Guaranteed and unsecured bank borrowings	*(i.a)*	**365,000**	290,000
Secured bank borrowings	*(i.b)*	**65,000**	50,000
Secured other borrowings	*(i.c)*	**150,714**	194,775
Guaranteed and secured bank borrowings	*(i.d)*	**185,714**	200,000
Guaranteed and secured other borrowings	*(i.e)*	**729,203**	779,380
		2,432,326	2,181,755
Bank and other borrowings repayable:			
Within one year		**1,106,090**	1,015,545
Between one and two years		**406,819**	389,193
Between two and five years		**704,547**	747,358
Over five years		**214,870**	29,659
		2,432,326	2,181,755
Bank and other borrowings comprise:			
Fixed-rate bank and other borrowings		**1,028,694**	1,093,755
Variable-rate bank and other borrowings		**1,403,632**	1,088,000
		2,432,326	2,181,755

Notes:

(i) (a) As at 30 June 2019, a bank loan of RMB290,000,000 (31 December 2018: RMB290,000,000) were guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao, and a bank loan of RMB75,000,000 (31 December 2018: nil) were guaranteed by Mr. Zhang Jianshe.

(b) As at 30 June 2019, no bank borrowings (31 December 2018: RMB50,000,000) were secured by prepaid land lease payments (31 December 2018: RMB7,260,000). As at 30 June 2019, bank borrowings of RMB65,000,000 were secured by dairy cows of RMB73,500,000 (31 December 2018: RMB73,500,000).

(c) As at 30 June 2019, other borrowings of RMB150,714,000 (31 December 2018: RMB194,775,000) were secured by dairy cows of RMB433,374,000 (31 December 2018: RMB409,337,000) and certain of the Group's long-term pledged deposits amounting to approximately of RMB9,000,000 (31 December 2018: RMB9,000,000) with present value of RMB8,788,000 (31 December 2018: RMB8,585,000).

(d) As at 30 June 2019, bank borrowings of RMB185,714,000 (31 December 2018: RMB200,000,000) were guaranteed by Mr. Zhang Jianshe and China United SME Guarantee Corporation Company, an independent third party and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB158,208,000 (31 December 2018: RMB174,367,000).

(e) As at 30 June 2019, other borrowings of RMB499,196,000 (31 December 2018: RMB500,000,000) were secured by trade receivables of RMB10,467,000 (31 December 2018: RMB12,419,000) and dairy cows of RMB323,342,000 (31 December 2018: RMB310,342,000) under factoring agreements and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 30 June 2019, other borrowings of RMB168,348,000 (31 December 2018: RMB198,748,000) were secured by dairy cows with a carrying amount of RMB225,347,000 (31 December 2018: RMB221,524,000) and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 30 June 2019, other borrowings of RMB61,659,000 (31 December 2018: RMB80,632,000) was secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB140,473,000 (31 December 2018: RMB144,166,000), prepayment for non-current assets of the Group of RMB2,603,000 (31 December 2018: RMB2,603,000) and certain of the Group's long-term pledged deposits amounting to approximately RMB25,400,000 (31 December 2018: RMB25,400,000) with present value of RMB23,079,000 (31 December 2018: RMB22,575,000), and guaranteed by Mr. Zhang Jianshe.

(ii) As at 30 June 2019, the contracted interest rates of the above bank and other borrowings ranged from 4.65% to 6.84% (31 December 2018: 3.45% - 6.84%).

(iii) The Group's bank borrowings were denominated in the following currencies:

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
USD	**–**	69,540
RMB	**2,432,326**	2,112,215
	2,432,326	2,181,755

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and Market Review

The Chinese government has always attached great importance to the development of the dairy industry, put forward clear requirements, and placed high hopes on the development of the dairy industry. No. 1 Document of the Central Government for 2019 clearly advocated "the Implementation of the Invigoration of Dairy Industry", and the Ministry of Agriculture and Rural Affairs and other ministries successively issued documents, requiring further implementation of "the Opinions on Promoting the Invigoration of the Dairy Industry and Ensuring the Quality and Safety of Dairy Products" issued by the General Office of the State Council and "the Several Opinions on Further Promoting the Invigoration of the Dairy Industry" jointly issued by nine ministries (including the Ministry of Agriculture and Rural Affairs and the National Development and Reform Commission). These documents call for strengthening the construction of high-quality milk source bases, promoting the farming and breeding industry pivot to scale-oriented, brand-oriented and sustainability-oriented development, supporting and guiding dairy farmers to develop dairy products processing, tilting the focus of profit distribution towards the upstream industry chain, and constantly improving quality, efficiency and competitiveness. The introduction of these policy guidelines brings new historical opportunities for the future development of the industry.

Affected by factors such as climate change and economic instability in the first half of 2019, milk production of major milk producing countries witnessed either moderate decrease or less-than-expected increase and the tight supply led to the rise of international milk prices. In addition, the devaluation of RMB further increased the prices of imported dairy raw materials. The conversion prices of imported milk powder were close to the price of domestically produced fresh milk of the same period, and the price edge of imported dairy products was weakened during the Reporting Period, resulting in the increase of domestic dairy companies' demand for domestic raw milk during the Reporting Period. The average purchase price in 10 major fresh milk production provinces (regions) including Inner Mongolia and Hebei was higher than that in the same period last year.

However, domestic breeding enterprises still faced severe challenges from the market and bore pressure from both upstream and downstream industry chains. The price of feed raw materials in the upstream industry fluctuated dramatically. Especially affected by factors such as repeated Sino-US trade negotiation disputes and the devaluation of RMB, the import cost of imported equipment, materials and feed which are required for enterprise production and operation, increased significantly, resulting in a clear rise in the production cost of dairy farm raw milk during the Reporting Period. In addition, environmental policies related to breeding were still strictly implemented, and the increasing environmental protection pressure in various regions had a direct influence on breeding enterprises, further increasing enterprises' breeding cost. Furthermore, the irrationality of price formation mechanism of fresh milk led to uneven distribution of benefits within the dairy products industry chain. The breeding link bore the major risks arising from market fluctuations, but its profit margin was constantly squeezed by downstream enterprises and its allocation status was low.

Therefore, even though the market demand space has increased and the price of imported dairy products has become less competitive, breeding enterprises still face challenges from various factors including rising production cost, increasing environmental protection pressure, irrationality of industry chain's profit distribution mechanism and low allocation status for the breeding link, resulting in continuous decline of industry profit margin.

Business Review

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

In the first half of 2019, the Group aimed at the goal of improving management capacity and enhancing operation efficiency, focused on strengthening internal system and process management, and made continuous adjustment and improvement based on external competition and the Company's actual situation. Meanwhile, the Group continued to enhance dairy farm facilities and refine management, conducted constant improvement and optimization on technical procedure links such as breeding, healthcare, calves raising, feeding, equipment and milking, and carried forward measures including precise feeding and improving breeding, reducing dairy farm feeding cost and improving production efficiency.

Benefiting from the Group's scientific management measures and efficient operation capacity, ZhongDi Dairy's major business continued to remain profit and achieved hard-won results during the Reporting Period.

Dairy Farming Business

The raw milk produced by the Group maintained its consistently high quality through scientific management featuring high standard, datail orientation and strict compliance. In the first half of 2019, the Group's sales of raw milk was 184,588 tonnes and the average unit selling price of the raw milk was approximately RMB3,823 per tonne. The revenue generated from the dairy farming business, which is the core business of the Group, reached RMB705.6 million, representing 99.9% of the Group's total revenue. The Group believes that the increasing health awareness and the strong demand for high quality dairy products from domestic consumers will help the Group maintain its strong competitiveness in the supply of premium raw milk.

1. *Scale of dairy farms*

Focusing on the development status and market demand of various regions in China, the Group strategically planned the presence of its dairy farms to cover seven provinces or regions in Northern China. As at 30 June 2019, the Group operated the following eight modern dairy farms: Beijing ZhongDi Farm, Inner Mongolia ZhongDi Dairy, Helan ZhongDi Farm, Ningxia ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm.

2. *Herd size*

	30 June 2019	31 December 2018
	Heads	*Heads*
Milkable dairy cows	**34,589**	36,068
Heifers and calves	**28,365**	28,640
	62,954	64,708

As at 30 June 2019, the Group's herd size was 62,954 heads, a decrease of 1,754 heads as compared to that as at 31 December 2018.

3. *Milk yield and sales*

The Group's dairy cows are of Holstein breed, which is the breed with the highest average milk production. The average annual milk yield of each lactation cow of the Group for the first half of 2019 was 12.2 tonnes, a slight increase as compared to that of the corresponding period of the previous year. Resulting from the culling of lactating cows with low milk yields, the milk yield of the period decreased by 0.4% as compared to that of the prerious year. The sales of raw milk amounted to 184,588 tonnes during the Reporting Period, representing a decrease of 0.3% as compared to that of the corresponding period of the previous year.

4. *Raw milk quality*

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

Standard	Protein Content *(Unit: %)*	Fat Content *(Unit: %)*	Aerobic plate count *(Unit:/ml)*	Somatic cell count *(Unit:/ml)*
The Company[1]	3.34	3.97	23,100	166,400
EU Standard[2]	N/A	N/A	<100,000	<400,000
US Standard[3]	≧3.2	≧3.5	<100,000	<750,000
PRC Standard[4]	≧2.8	≧3.1	<2,000,000	N/A

Notes:

1. Calculated according to the statistical data of the Group's raw milk quality for the first half of 2019.

2. Please refer to the Council Directive 92/46/EEC adopted by the EU.

3. Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.

4. Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.

Import Trading Business

The Group's import trading business mainly involves the import of dairy cows, alfalfa hay and other animal husbandry-related products. The import trading business is divided into the import principal trading business and the import agency business. In the first half of 2019, revenue generated from the Group's import trading business amounted to RMB0.08 million, accounting for 0.1% of the Group's total revenue and representing an increase of 100% as compared to that of the corresponding period of last year.

Prospects

In the first half of 2019, severely impacted by external risks, China's economy witnessed dramatic fluctuations, domestic consumption growth was below expectation, and per capita consumption expenditure growth began to slow down. However, the growth of the disposable income of Chinese households has remained stable year-to-date, the trend of general consumption willingness and consumption upgrade has not been significantly impacted by external risks in terms of total volume, rather, it has shifted the focus of consumption upgrade downward. Basically, consumption structure has shifted from high-level and large consumption to middle-level and daily consumption. Consumption momentum has shifted from tier-one and tier-two cities to ordinary towns and rural areas. As for the selection of dairy products, consumers focus on not only their quality and taste, but also their place of origin and the quality of supplied raw materials.

According to the "Chinese Dairy Index Report in 2018" jointly released by China Dairy Industry Association and other institutions, Chinese people's average annual consumption of dairy products is 7 kilograms in 2000 and 36.9 kilograms in 2017. The average daily consumption is 100 grams, which is far below the daily standard of 300 grams recommended by "Chinese Dietary Guidelines" and is short of one half of Asian average consumption of dairy products and one third of developed countries' average level. Especially rural residents, who account for a half of the national population, have rarely consumed dairy products as living habits. There is a huge potential for dairy products consumption growth.

Consumption growth, consumption upgrade and diversified needs will constantly promote the increasing demand for locally-sourced high-end quality raw milk. The Group, as a leading large-scale dairy farming enterprise in the PRC and a premium raw milk producer and supplier, will stick to the corporate mission of "Innovating technological and ecological dairy farm, and producing high-quality and healthy dairy products", adhere to the core values of "pragmatic, innovative, precise and efficient", and breed the cows well and produce quality milk, making full use of the Group's professional advantages on dairy farm management and operation. While consolidating its advantageous status in the existing raw milk market, the Group will follow the market demand, explore and develop downstream market, gradually develop R&D and processing business of dairy products, promote the enterprise's coordinated development of the full industry chain business of dairy products, and continue to expand the enterprise' prospective development space.

Financial Highlights

Revenue

The table below sets forth the revenue of each business segment for the six months ended 30 June 2019 and 2018, respectively:

	Six months ended 30 June					
	2019			2018		
	External Sale	**Internal Sale**	**Total**	External Sale	Internal Sale	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Dairy farming business	**705,635**	**–**	**705,635**	667,283	–	667,283
Import trading business	**80**	**26,428**	**26,508**	–	11,544	11,544
Total	**705,715**	**26,428**	**732,143**	667,283	11,544	678,827

The Group's revenue for the six months ended 30 June 2019 amounted to RMB705.7 million as compared with RMB667.3 million for the six months ended 30 June 2018, representing a year-on-year increase of 5.8%. The increase was mainly attributed to an increase in the unit selling price of raw milk.

Dairy Farming Business

Revenue from the Group's dairy farming business for the six months ended 30 June 2019 amounted to RMB705.6 million as compared with RMB667.3 million for the six months ended 30 June 2018, representing a year-on-year increase of 5.7%.

The revenue for the period indicated is set out in the table below:

	Six months ended 30 June					
	2019			2018		
Dairy farming business	**Revenue**	**Sales Volume**	**Unit Selling Price**	Revenue	Sales Volume	Unit Selling Price
	RMB'000		***RMB***	*RMB'000*		*RMB*
Raw milk (tonne)	**705,635**	**184,588**	**3,823**	667,283	185,062	3,606

In 2019, the unit selling price of milk increased due to market conditions. The unit selling price of raw milk increased by 6.0% as compared with that for the six months ended 30 June 2018.

Import Trading Business

Revenue from the Group's import principal trading business and import agency business for the periods indicated is set out in the table below:

	Six months ended 30 June			
	2019		2018	
	Revenue	**Percentage**	Revenue	Percentage
	RMB'000		*RMB'000*	
Import principal trading	**–**	**–**	–	–
Import agency business	**80**	**100%**	–	–
Total	**80**	**100%**	–	–

Revenue from the Group's import trading business for the six months ended 30 June 2019 amounted to RMB0.08 million, which was mainly attributed to an increase in the volume of import agency business.

Gross Profit and Gross Profit Margin

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

	Six months ended 30 June			
	2019		2018	
	Gross Profit	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	RMB'000		*RMB'000*	
Dairy farming business	**257,205**	**36.4%**	238,544	35.8%
Import trading business	**80**	**100%**	–	–
Total	**257,285**	**36.4%**	238,544	35.8%

The gross profit from the sale of raw milk, being a major part of the Group's dairy farming business, amounted to RMB257.2 million, representing a year-on-year increase of 7.8%. The gross profit margin of the dairy farming business was 36.4%, which saw a slight increase as compared with that of the corresponding period last year. The increase was mainly attributed to an increase in the unit selling price of raw milk.

Cost of Sales

Cost of sales of the Group's dairy farming business is set out below:

	Six months ended 30 June			
	2019		2018	
	RMB'000	***Percentage***	*RMB'000*	*Percentage*
Feed	**347,077**	**77.4%**	334,125	77.9%
Labour costs	**26,561**	**5.9%**	24,436	5.7%
Others	**74,792**	**16.7%**	70,178	16.4%
Total	**448,430**	**100.0%**	428,739	100.0%

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

Net losses from changes in the fair value less costs to sell of biological assets for the six months ended 30 June 2019 amounted to RMB59.8 million, representing a year-on-year decrease of RMB35.2 million as compared with net losses of RMB95.0 million for the corresponding period last year. During the Reporting Period, the rebounce of the average selling price of raw milk had a positive impact on the fair value of biological assets and partially offset the loss from systematic culling of lactating cows with low milk yields in economic efficiency as compared with feeding costs.

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

The Group's gains arising from initial recognition of agricultural produce at fair value less costs to sell upon harvest for the six months ended 30 June 2019 amounted to RMB230.3 million, with an increase of RMB17.5 million as compared to RMB212.8 million for the six months ended 30 June 2018.

Other Income

Other income includes government grants, bank interest income and others. Income from government grants recognized for the six months ended 30 June 2019 amounted to RMB1.8 million, representing a decrease of 88.0% as compared with RMB15.1 million for the six months ended 30 June 2018.

Operating Expenses

	Six months ended 30 June		
	2019	**2018**	Rate of
	RMB'000	*RMB'000*	Change
Distribution cost	**29,303**	**28,031**	4.5%
Administrative expenses	**46,781**	**34,007**	37.6%
Other expenses	**554**	**232**	138.8%
Total	**76,638**	**62,270**	23.1%

The amount of operating expenses increased from RMB62.3 million for the six months ended 30 June 2018 to RMB76.6 million for the six months ended 30 June 2019, representing a year-on-year increase of 23.1%. The increase was mainly attributed to an increase in wage and social insurance expenses.

Financing Costs

Financing costs increased by 47.7% from RMB55.6 million for the six months ended 30 June 2018 to RMB82.1 million for the six months ended 30 June 2019, which was due to the growth in financing scale as a result of business expansion and the impact of unwinding of discount of lease liabilities.

Liquidity and Sources of Funds

The Group's funding policy aims at ensuring sufficient capital to meet the working capital requirements and increasing capital efficiency and capital gains. The working capital of the Group was mainly derived from cash inflow generated from daily operating activities, bank borrowings and other debt instruments. As at 30 June 2019, the gearing ratio of the Company was 57.1% (31 December 2018: 56.5%). The gearing ratio was calculated by total liabilities divided by total assets. As at 30 June 2019, the bank and cash balances amounted to RMB383.0 million (31 December 2018: RMB615.1 million).

Indebtedness

Borrowings of the Group were denominated in RMB. As at 30 June 2019, the balance of short-term borrowings including long-term borrowings due within one year amounted to RMB1,106.1 million. As at 30 June 2019, the balance of long-term borrowings, lease liabilities and long-term payables after deducting the portion due within one year amounted to RMB1,326.2 million. In particular, borrowings with fixed interest rate amounted to approximately RMB1,028.7 million.

Contingent Liabilities

As at 30 June 2019, there were no material contingent liabilities (31 December 2018: Nil).

Foreign Exchange Risk

As at 30 June 2019, save for bank and cash balances of RMB189.0 million which were USD-denominated assets and RMB0.5 million which were HKD-denominated assets, other assets and liabilities of the Group were settled in RMB (The exchange rates of RMB against USD and HKD were calculated based on the bid prices announced by the bank on 30 June.). For the six months ended 30 June 2019, the Group did not enter into any foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk.

Significant Investment, Acquisition and Disposal of Assets

Save as disclosed in this announcement, the Group had no significant investment during the Reporting Period. During the Reporting Period, there was no significant acquisition or disposal relating to the subsidiaries, associated companies and joint ventures of the Group.

Pledge of Assets

Save for the amounts disclosed in note 15 to the interim condensed consolidated financial statements and the amounts recorded in the item of pledged bank deposits in the interim condensed consolidated statement of financial position in this announcement, there was no other pledge of assets of the Group.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

Use of Proceeds from Global Offering

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

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

Human Resources

The Group had approximately 1,344 formal employees in the PRC and Hong Kong as at 30 June 2019 (30 June 2018: approximately 1,328). For the six months ended 30 June 2019, the total staff costs including independent non-executive Directors' remuneration, amounted to approximately RMB63.0 million (corresponding period of 2018: approximately RMB54.8 million).

Employee remuneration of the Group is determined with reference to prevailing market standards and individual employees' performance, qualifications and experience. The Group strictly complies with the legal requirements and company policies concerning employee remuneration, benefits, working hours and rest periods, treating all employees equally.

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

The Group introduced a number of focused and diversified skill training programmes during the first half of 2019 based on our annual development strategy, business plans as well as the actual management needs, so as to support employees' continuous learning and promote sustainable development of the Group.

On 28 October 2015, the Company adopted a share option scheme (the "**Post-IPO Share Option Scheme**") as part of the motivation and incentive schemes of the Company, further details of which are set out in the section headed "Statutory and General Information – Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company dated 20 November 2015. As at the date of this announcement, the Company has not granted any share options pursuant to the Post-IPO Share Option Scheme.

OTHER INFORMATION

Corporate Governance

The Company is committed to maintaining good corporate governance to protect the interest of the shareholders for the Company (the "**Shareholders**") and to enhance the confidence of investors for establishing a sound foundation for corporate development. For the six months ended 30 June 2019, save as disclosed below, the Company has complied with the requirements of the code provisions as set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhang Jianshe ("**Mr. Zhang**") is the Chairman and Chief Executive Officer of the Company. He is also the founder of the Group. The Board believes that vesting the roles of both the Chairman and Chief Executive Officer of the Company in Mr. Zhang would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Zhang's extensive industrial experience and significant role in the historical development of the Group, the Board believes that it is beneficial to the business prospects of the Group if Mr. Zhang continues to act as both the Chairman and Chief Executive Officer of the Company, and the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Directors' Securities Transactions

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

Specific enquiries have been made of all the Directors and the Directors have confirmed that they have complied with the Company's Securities Dealings Code throughout the Reporting Period.

The Company's Securities Dealings Code also applies to employees of the Group who may obtain or possess inside information (as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) of the Company. The Company is not aware of any incidence of non-compliance with the Company's Securities Dealings Code by the employees of the Group.

Purchase, Sale or Redemption of Listed Securities of the Company

For the six months ended 30 June 2019, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

Material Events after the Reporting Period

Subsequent to 30 June 2019, the Group did not have any material events which would cause material impact on the Group.

Review by the Audit Committee

The audit committee of the Company, comprising Mr. Joseph Chow (Chairman) and Prof. Li Shengli, independent non-executive Directors, and Ms. Yu Tianhua, non-executive Director, has reviewed the accounting principles and practices adopted by the Group, and has reviewed issues relating to internal control and risk management systems and financial reporting with the management of the Company. The audit committee has reviewed the unaudited interim financial results of the Company for the six months ended 30 June 2019 and is of the opinion that the unaudited interim financial results comply with all applicable accounting standards, legal requirements and requirements of the Listing Rules and adequate disclosures have been made.

Review of Interim Financial Results

The unaudited interim condensed consolidated financial results of the Group for the six months ended 30 June 2019 have been reviewed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the 2019 interim report of the Company to be sent to the Shareholders.

Publication of Interim Results Announcement and Interim Report

This interim results announcement is published on the websites of the Company (http://www.zhongdidairy.hk) and Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk). The 2019 interim report of the Company will be despatched to the Shareholders and published on the above-mentioned websites in accordance with the Listing Rules.

Acknowledgement

The Board would like to take this opportunity to express our sincere gratitude to the Shareholders and various sectors of the community for their constant support to the Group and to all our staff for their diligence and dedicated services.

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 30 August 2019

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