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

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

(Stock code: 1492)

# RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

## FINANCIAL HIGHLIGHTS

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Results before biological fair value adjustments RMB'000** | **Results after biological fair value adjustments RMB'000** | Results before biological fair value adjustments RMB'000 | Results after biological fair value adjustments RMB'000 |
| Revenue | **1,499,381** | **1,499,381** | 1,424,986 | 1,424,986 |
| Gross profit margin | **36.7%** | **4.3%** | 34.6% | 4.0% |
| Profit attributable to: | | | | |
| Owners of the parent | **239,390** | **104,335** | 256,312 | 63,190 |
| Non-controlling interests | **(1,962)** | **(1,962)** | – | – |
| | **237,428** | **102,373** | 256,312 | 63,190 |
| Basic and diluted earnings per share to owners of the parent (RMB cents) | | **4.8** | | 2.9 |

- Revenue increased by 5.2% as compared to 2018.
- As compared to the corresponding period of 2018, profit before biological fair value adjustments decreased by 7.4% and profit after biological fair value adjustments increased by 62.0% respectively.

The board (the "**Board**") of directors (the "**Directors**") of China ZhongDi Dairy Holdings Company Limited (the "**Company**", together with its subsidiaries, collectively referred to as the "**Group**") hereby announces the results of the Group for the year ended 31 December 2019 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2018, the details of which are set out as follows.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2019 Results before biological fair value adjustments RMB'000 | 2019 Biological fair value adjustments RMB'000 | 2019 Total RMB'000 | 2018 Results before biological fair value adjustments RMB'000 | 2018 Biological fair value adjustments RMB'000 | 2018 Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **REVENUE** | 5 | **1,499,381** | **–** | **1,499,381** | 1,424,986 | – | 1,424,986 |
| Cost of sales | 6 | **(948,771)** | **(486,353)** | **(1,435,124)** | (932,532) | (435,400) | (1,367,932) |
| Gross profit | | **550,610** | **(486,353)** | **64,257** | 492,454 | (435,400) | 57,054 |
| Losses arising from changes in fair value less costs to sell of biological assets | | **–** | **(135,055)** | **(135,055)** | – | (173,691) | (173,691) |
| Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest | | **–** | **486,353** | **486,353** | – | 415,969 | 415,969 |
| Other income | 5 | **15,424** | **–** | **15,424** | 34,661 | – | 34,661 |
| Other gains and losses | 5 | **8,179** | **–** | **8,179** | (1,495) | – | (1,495) |
| Distribution costs | | **(65,272)** | **–** | **(65,272)** | (59,716) | – | (59,716) |
| Administrative expenses | | **(109,877)** | **–** | **(109,877)** | (93,953) | – | (93,953) |
| Other expenses | | **(1,006)** | **–** | **(1,006)** | (1,110) | – | (1,110) |
| Finance costs | 7 | **(160,748)** | **–** | **(160,748)** | (114,543) | – | (114,543) |
| Share of profits and losses of an associate | | **118** | **–** | **118** | 14 | – | 14 |
| **PROFIT BEFORE TAX** | 6 | **237,428** | **(135,055)** | **102,373** | 256,312 | (193,122) | 63,190 |
| Income tax expenses | 8 | **–** | **–** | **–** | – | – | – |
| **PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **237,428** | **(135,055)** | **102,373** | 256,312 | (193,122) | 63,190 |
| Attributable to: | | | | | | | |
| Owners of the parent | | **239,390** | **(135,055)** | **104,335** | 256,312 | (193,122) | 63,190 |
| Non-controlling interests | | **(1,962)** | **–** | **(1,962)** | – | – | – |
| | | **237,428** | **(135,055)** | **102,373** | 256,312 | (193,122) | 63,190 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:** | | | | | | | |
| – Basic and diluted (RMB cents) | 10 | | | **4.8** | | | 2.9 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**31 December 2019**

| | Notes | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **1,905,714** | 1,814,500 |
| Prepayments | | **71,564** | 108,937 |
| Right-of-use assets | | **545,638** | – |
| Pledged deposits | | **32,590** | 31,160 |
| Prepaid land lease payments | | **–** | 116,765 |
| Biological assets | 11 | **1,693,560** | 1,613,910 |
| Investments in an associate | | **10,401** | 10,283 |
| Total non-current assets | | **4,259,467** | 3,695,555 |
| **CURRENT ASSETS** | | | |
| Inventories | | **465,326** | 332,752 |
| Trade and other receivables | 12 | **184,100** | 177,149 |
| Prepaid land lease payments | | **–** | 4,127 |
| Biological assets | 11 | **–** | 780 |
| Pledged bank deposits | | **23,852** | 7,859 |
| Cash and bank balances | | **390,765** | 615,082 |
| Total current assets | | **1,064,043** | 1,137,749 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 13 | **783,997** | 496,965 |
| Contract liabilities | | **6,405** | 25,425 |
| Interest-bearing bank and other borrowings | 14 | **1,146,449** | 1,015,545 |
| Total current liabilities | | **1,936,851** | 1,537,935 |
| **NET CURRENT LIABILITIES** | | **(872,808)** | (400,186) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,386,659** | 3,295,369 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 14 | **1,087,959** | 1,166,210 |
| Deferred income | | **34,364** | 27,196 |
| Total non-current liabilities | | **1,122,323** | 1,193,406 |
| Net assets | | **2,264,336** | 2,101,963 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | **135** | 135 |
| Share premium and reserves | | **2,206,163** | 2,101,828 |
| | | **2,206,298** | 2,101,963 |
| Non-controlling interests | | **58,038** | – |
| Total equity | | **2,264,336** | 2,101,963 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**31 December 2019**

## 1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 2 December 2015. The registered address of the Company is P.O. Box 309, 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 and animal husbandry-related products in the mainland of the People's Republic of China (the "**PRC**").

## 2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB872,808,000 as at 31 December 2019. In view of the net current liability position, the board of directors (the "Directors") has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the new borrowings raised subsequent to 31 December 2019, the unutilised banking facilities available as at the date of this announcement and cash flow projections for the year ending 31 December 2020, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

## 2.2 BASIS OF PREPARATION

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

## 2.2 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to 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 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

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

<u>New definition of a lease</u>

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

<u>As a lessee – Leases previously classified as operating leases</u>

*Nature of the effect of adoption of IFRS 16*

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

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*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:

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

Financial impacts at 1 January 2019

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

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

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

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

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

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance 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. The Group assessed its business model for its long-term interests in associate upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

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

## 4. OPERATING SEGMENT INFORMATION

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

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

- Import trading business: import and sales of cows and animal husbandry related products and provision of import agency services.

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

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

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

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

## 4. OPERATING SEGMENT INFORMATION (continued)

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

**Year ended 31 December 2019**

| | Dairy farming business RMB'000 | Import trading business RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue (note 5)** | | | |
| Sales to external customers | 1,498,727 | 654 | 1,499,381 |
| Intersegment sales | – | 47,136 | 47,136 |
| | 1,498,727 | 47,790 | 1,546,517 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | – | (47,136) | (47,136) |
| Revenue | 1,498,727 | 654 | 1,499,381 |
| **Segment results** | 245,641 | 9,612 | 255,253 |
| *Reconciliation:* | | | |
| Fair value adjustments of biological assets | | | 56,804 |
| Elimination of intersegment results | | | (8,540) |
| Finance costs (other than interest on lease liabilities) | | | (160,748) |
| Corporate and other unallocated expenses | | | (40,396) |
| Profit before tax | | | 102,373 |
| **Segment assets** | 5,183,178 | 307,889 | 5,491,067 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | (460,806) | (103,423) | (564,229) |
| | 4,722,372 | 204,466 | 4,926,838 |
| Fair value adjustments of biological assets | | | 300,672 |
| Corporate and other unallocated assets | | | 96,000 |
| Total assets | | | 5,323,510 |
| **Segment liabilities** | 873,726 | 506,559 | 1,380,285 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | (103,423) | (460,806) | (564,229) |
| | 770,303 | 45,753 | 816,056 |
| Borrowings | | | 2,234,408 |
| Corporate and other unallocated liabilities | | | 8,710 |
| Total liabilities | | | 3,059,174 |

4. **OPERATING SEGMENT INFORMATION (continued)**

**Year ended 31 December 2018**

| | Dairy farming business RMB'000 | Import trading business RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue (note 5)** | | | |
| Sales to external customers | 1,335,839 | 89,147 | 1,424,986 |
| Intersegment sales | – | 27,035 | 27,035 |
| | 1,335,839 | 116,182 | 1,452,021 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | – | (27,035) | (27,035) |
| Revenue | 1,335,839 | 89,147 | 1,424,986 |
| **Segment results** | 165,765 | 26,364 | 192,129 |
| *Reconciliation:* | | | |
| Fair value adjustments of biological assets | | | 23,279 |
| Elimination of intersegment results | | | (428) |
| Finance costs | | | (114,543) |
| Corporate and other unallocated expenses | | | (37,247) |
| Profit before tax | | | 63,190 |
| **Segment assets** | 4,481,432 | 409,507 | 4,890,939 |
| *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 |
| Borrowings | | | 2,181,755 |
| Corporate and other unallocated liabilities | | | 8,768 |
| Total liabilities | | | 2,731,341 |

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(a) Disaggregated revenue information

**For the year ended 31 December 2019**

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

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

(a) Disaggregated revenue information (continued)

**For the year ended 31 December 2018**

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

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

**For the year ended 31 December 2019**

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

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

(a) Disaggregated revenue information (continued)

**For the year ended 31 December 2018**

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

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

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

(b) Performance obligations

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

*Sale of goods*

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

*Rendering of agency services*

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

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

(b) Performance obligations (continued)

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

*Notes:*

i. These government grants are released from deferred income.

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

## 6. PROFIT BEFORE TAX

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

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

## 7. FINANCE COSTS

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

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

## 8. INCOME TAX

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

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

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

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

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

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

## 9. DIVIDEND

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

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

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

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

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

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | **104,335** | 63,190 |

| | **Number of shares** | |
|---|---|---|
| | **2019** | 2018 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year | **2,174,078,000** | 2,174,078,000 |

## 11. BIOLOGICAL ASSETS

**A – Nature of activities**

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

## 11. BIOLOGICAL ASSETS (continued)

### A – Nature of activities (continued)

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

| | **2019**<br>**Heads** | 2018<br>Heads |
|---|---|---|
| Cows held for sale | **–** | 71 |
| Milkable cows | **37,880** | 36,068 |
| Heifers and calves | **27,549** | 28,640 |
| | **65,429** | 64,779 |

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

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

### B – Value of biological assets

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

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

## 11. BIOLOGICAL ASSETS (continued)

### B – Value of biological assets (continued)

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

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

As at 31 December 2019, the Group pledged certain dairy cows to secure certain bank and other borrowings of the Group (note 14).

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

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

## 12. TRADE AND OTHER RECEIVABLES

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

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

## 13. TRADE AND OTHER PAYABLES

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

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

## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

*Notes:*

(i) (a) As at 31 December 2019, Mr. Zhang Jianshe guaranteed bank borrowings of RMB450,000,000 (2018: RMB290,000,000), among which bank borrowings of RMB275,000,000 (2018: RMB290,000,000) were also guaranteed by Mrs. Li Jingtao.

(b) As at 31 December 2019, nil (2018: RMB15,000,000) bank borrowings were secured by prepaid land lease payments (2018: RMB7,260,000), and bank borrowings of RMB65,000,000 (2018: RMB35,000,000) were secured by dairy cows of RMB73,500,000 (2018: RMB73,500,000).

(c) As at 31 December 2019, other borrowings of RMB97,937,000 (2018: RMB194,775,000) were secured by dairy cows of RMB426,736,000 (2018: RMB409,337,000) and the Group's deposits amounting to approximately RMB9,000,000 (2018: RMB9,000,000), with present value of RMB8,997,000 (2018: RMB8,585,000).

(d) As at 31 December 2019, bank borrowings of RMB171,428,000 (2018: RMB200,000,000) were guaranteed by Mr. Zhang Jianshe, Mrs. Li Jingtao and China United SME Guarantee Corporation Company, an independent third party, and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB147,997,000 (2018: RMB174,367,000).

(e) As at 31 December 2019, other borrowings of RMB495,008,000 (2018: RMB500,000,000) were secured by trade receivables of RMB11,451,000 (2018: RMB12,419,000) and dairy cows of RMB322,760,000 (2018: RMB310,342,000) under factoring agreements and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

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

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

(ii) As at 31 December 2019, the contracted interest rates of the above bank and other borrowings ranged from 4.60% to 6.84%. (2018: 3.45% to 6.84%)

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Review

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

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

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

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

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

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

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

**Business Review**

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

***Dairy Farming Business***

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

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

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

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

### *1. Scale of dairy farms*

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

### *2. Herd size*

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

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

### *3. Milk yield and sales*

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

### *4. Raw milk quality*

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

| Standard | Protein content *(Unit: %)* | Fat content *(Unit: %)* | Aerobic plate count *(Unit:/ml)* | Somatic cell count *(Unit:/ml)* |
|---|---|---|---|---|
| The Company[1] | 3.33 | 3.97 | 21,800 | 169,100 |
| EU Standard[2] | N/A | N/A | <100,000 | <400,000 |
| US Standard[3] | ≧3.2 | ≧3.5 | <100,000 | <750,000 |
| PRC Standard[4] | ≧2.8 | ≧3.1 | <2,000,000 | N/A |

*Notes:*

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

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

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

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

### Import Trading Business

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

## PROSPECTS

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

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

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

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

## FINANCIAL OVERVIEW

### ***Revenue***

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

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

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

### *Dairy Farming Business*

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

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

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

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

### *Import Trading Business*

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

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Revenue** | **Percentage** | Revenue | Percentage |
| | **RMB'000** | | RMB'000 | |
| Import principal trading business | **103** | **15.7%** | 86,238 | 96.7% |
| Import agency business | **551** | **84.3%** | 2,909 | 3.3% |
| Total | **654** | **100.00%** | 89,147 | 100.0% |

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

***Gross Profit and Gross Profit Margin***

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

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

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

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

***Cost of Sales***

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

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

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

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

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

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

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

### *Other Income*

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

### *Operating Expenses*

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

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

### *Finance Costs*

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

### *Capital Expenditure*

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

### *Liquidity and Sources of Funds*

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

### *Indebtedness*

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

### *Contingent Liabilities*

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

### *Foreign Exchange Risk*

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

### *Significant Investments, Acquisitions and Disposals of Assets*

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

### *Pledge of Assets*

Save for the amounts disclosed in note 14 to the consolidated financial statements of this announcement and the amounts recorded in the pledged bank deposits project in the consolidated statement of financial position of this announcement, there was no other pledge of assets of the Group.

### *Use of Proceeds from Global Offering*

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

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

### *Human Resources*

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

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

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

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

On 28 October 2015, the Company adopted a share option scheme (the "**Post-IPO Share Option Scheme**") as a means of motivation and incentive, details of which are set out in the section headed "Statutory and General Information – Post-IPO Share Option Scheme" in Appendix IV to the Prospectus of the Company. As at the date of this 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 a high standard of corporate governance within the Group, and the Board considers that effective corporate governance marks an important contribution to corporate success and to enhancing shareholders' value.

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

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

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

### Model Code for Securities Transactions by Directors

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

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

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

**Review by the Audit Committee**

The audit committee of the Company (the "**Audit Committee**") comprises Prof. Li Shengli (李勝利) and Mr. Joseph Chow, who are independent non-executive Directors, and Ms. Yu Tianhua (于天華), who is a non-executive Director. The Audit Committee is chaired by Mr. Joseph Chow. The Audit Committee and the management team of the Company have reviewed the accounting principles and practices adopted by the Group and discussed issues relating to audit, risk management, internal control and financial reporting, including reviewing the annual results of the Group for the year ended 31 December 2019, and they have no objection thereto.

**Purchase, Sale or Redemption of Listed Securities of the Company**

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

**Significant Events after the Reporting Period**

As at the date of this announcement, except for the novel coronavirus pneumonia epidemic disclosed in the section captioned as "Prospects" in this announcement, there are no significant events subsequent to the end of the Reporting Period which are required to be disclosed.

**Dividend**

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

**Scope of work of Ernst & Young**

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young with regard to this announcement.

### Annual General Meeting

The 2019 annual general meeting of the Company (the "**AGM**") will be held on Wednesday, 27 May 2020. A notice convening the AGM will be published and despatched to the shareholders of the Company in accordance with the requirements of the Listing Rules and the articles of association of the Company in due course.

### Closure of Register of Members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 22 May 2020 to Wednesday, 27 May 2020 (both dates inclusive), during which no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 21 May 2020.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.zhongdidairy.hk). The Company will despatch the annual report for 2019 and the notice of the AGM to its shareholders and will publish the same on the above-mentioned websites in accordance with the requirements of the Listing Rules.

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

Hong Kong, 27 March 2020

*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.*