Lanzhou Zhuangyuan Pasture Co., Ltd.*
蘭州莊園牧場股份有限公司
(a joint stock limited liability company incorporated in the People's Republic of China)
(Stock Code: 1533)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

Results

	Years ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Revenue	**585,613**	545,239
Gross profit	**185,244**	176,037
Profit for the year attributable to equity shareholders of the Company	**73,246**	65,409
Earnings per share (RMB)(1)	**0.65**	0.62
Proposed dividend per share (RMB)	**7.12 cents**	–

- Revenue increased by 7.4% as compared to the year ended 31 December 2014.
- Gross profit increased by 5.2% as compared to the year ended 31 December 2014.
- Profit for the year attributable to equity shareholders of the Company increased by 12.0% as compared to the year ended 31 December 2014.

(1) Please refer to Note 7(a) on page 15 of this announcement for calculation of earnings per share.

The board (the "**Board**") of directors (the "**Directors**") of Lanzhou Zhuangyuan Pasture Co., Ltd.*蘭州莊園牧場股份有限公司 (the "**Company**") is pleased to present the audited consolidated annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2015 (the "**Reporting Year**"), together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015
(Expressed in RMB)

	Note	2015 RMB'000	2014 RMB'000
Revenue	3	**585,613**	545,239
Cost of sales	3, 5(a)	**(400,369)**	(369,202)
Gross profit		**185,244**	176,037
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	5(b)	**4,761**	4,918
Loss arising from changes in fair value less costs to sell of biological assets	5(c)	**(12,494)**	(14,674)
Other net income	4	**24,255**	15,718
Distribution costs		**(38,108)**	(33,846)
Administrative expenses		**(54,299)**	(48,110)
Profit from operations		**109,359**	100,043
Net finance costs	5(d)	**(23,690)**	(26,351)
Profit before taxation	3, 5	**85,669**	73,692
Income tax	6(a)	**(12,423)**	(8,283)
Profit for the year		**73,246**	65,409
Attributable to:			
Equity shareholders of the Company		**73,246**	65,409
Profit for the year		**73,246**	65,409
Earnings per share			
– Basic and diluted (RMB)		**0.65**	0.62

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015
(Expressed in RMB)

	2015	2014
	RMB'000	*RMB'000*
Profit for the year	**73,246**	65,409
Total comprehensive income for the year	**73,246**	65,409
Attributable to:		
Equity shareholders of the Company	**73,246**	65,409
Total comprehensive income for the year	**73,246**	65,409

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015
(Expressed in RMB)

	Note	**2015** *RMB'000*	2014 *RMB'000*
Non-current assets			
Property, plant and equipment		**651,945**	618,848
Available-for-sale financial assets		**33,720**	33,720
Lease prepayments		**20,116**	14,376
Biological assets	*8*	**133,500**	103,264
Deferred tax assets		**5,222**	3,776
Other non-current assets		**27,045**	31,009
		871,548	804,993
Current assets			
Inventories		**86,350**	108,645
Trade receivables	*9*	**28,538**	21,783
Deposits, prepayments and other receivables		**86,310**	23,866
Pledged deposit		**36,334**	26,748
Cash and cash equivalents		**231,702**	215,454
		469,234	396,496
Current liabilities			
Trade and bills payables	*10*	**94,530**	110,059
Receipts in advance		**20,697**	28,107
Accrued expenses and other payables		**44,368**	46,549
Non-current liabilities due within one year		**9,403**	13,865
Bank loans		**356,000**	376,500
Current taxation		**15,047**	11,808
		540,045	586,888
Net current liabilities		**(70,811)**	(190,392)
Total assets less current liabilities		**800,737**	614,601

	2015	2014
	RMB'000	*RMB'000*
Non-current liabilities		
Bank loans	**59,500**	73,500
Deferred income	**46,052**	40,171
Obligations under finance leases	**857**	4,012
Other long-term payables	**–**	1,503
	106,409	119,186
NET ASSETS	**694,328**	495,415
CAPITAL AND RESERVES		
Share capital	**140,500**	105,370
Reserves	**553,828**	390,045
Total equity attributable to equity shareholders of the Company	**694,328**	495,415
TOTAL EQUITY	**694,328**	495,415

NOTES:

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

The annual results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2015 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"), and the requirements of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong). The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial statements of the Company comprise the Company and its subsidiaries (collectively referred to as the "Group"). The financial statements have been approved and authorized for issue by the board of directors on 29 March 2016.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for biological assets and agricultural produce are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

None of these developments have had a material effect on the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

The Group manages its business by lines of products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products, and is managed separately because they require different technology and marketing strategies. The financial statements of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

- Dairy Farming – breeding dairy cows to produce and sell raw milk.

- Dairy Products Production – producing and selling Pasteurised Milk, Ultra High Temperature Milk ("UHT Milk"), Modified Milk, Yogurt and Other Dairy Products.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the bases as they are presented in the Group's financial statements.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below:

	Year ended 31 December 2015		
	Dairy Farming *RMB'000*	**Dairy Products Production** *RMB'000*	**Total** *RMB'000*
Revenue			
Revenue from external customers	**135**	**585,478**	**585,613**
Inter-segment revenue	**92,892**	**–**	**92,892**
Reportable segment revenue	**93,027**	**585,478**	**678,505**
Cost of sales			
Cost of sales related to revenue from external customers	**128**	**401,618**	**401,746**
Inter-segment cost of sales	**86,754**	**–**	**86,754**
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	**86,882**	**401,618**	**488,500**
Reportable segment gross profit (gross profit before biological fair value adjustments)	**6,145**	**183,860**	**190,005**
Reportable segment profit (adjusted EBITDA)	**18,510**	**140,761**	**159,271**
Interest income	**122**	**691**	**813**
Interest expenses	**1,213**	**23,789**	**25,002**
Depreciation and amortisation	**10,804**	**26,115**	**36,919**
Reportable segment assets	**650,908**	**1,103,775**	**1,754,683**
Additions to non-current segment assets during the year	**58,807**	**39,650**	**98,457**
Reportable segment liabilities	**463,064**	**602,513**	**1,065,577**

	Year ended 31 December 2014		
	Dairy Farming *RMB'000*	Dairy Products Production *RMB'000*	Total *RMB'000*
Revenue			
Revenue from external customers	871	544,368	545,239
Inter-segment revenue	93,506	–	93,506
Reportable segment revenue	94,377	544,368	638,745
Cost of sales			
Cost of sales related to revenue from external customers	844	372,153	372,997
Inter-segment cost of sales	84,793	–	84,793
Reportable segment cost of sales (cost of sales before biological fair value adjustments)	85,637	372,153	457,790
Reportable segment gross profit (gross profit before biological fair value adjustments)	8,740	172,215	180,955
Reportable segment profit (adjusted EBITDA)	28,831	119,729	148,560
Interest income	75	394	469
Interest expenses	2,017	24,803	26,820
Depreciation and amortisation	10,996	22,847	33,843
Reportable segment assets	581,194	935,084	1,516,278
Additions to non-current segment assets during the year	59,543	42,185	101,728
Reportable segment liabilities	387,312	637,327	1,024,639

(b) Reconciliations of reportable segment revenue, cost of sales, gross profit, profit, assets and liabilities

	2015	2014
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**678,505**	638,745
Elimination of inter-segment revenue	**(92,892)**	(93,506)
Consolidated revenue	**585,613**	545,239

	2015	2014
	RMB'000	*RMB'000*
Cost of sales		
Reportable segment cost of sales	**488,500**	457,790
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**4,761**	4,918
Elimination of inter-segment cost of sales	**(92,892)**	(93,506)
Consolidated cost of sales	**400,369**	369,202

	2015	2014
	RMB'000	*RMB'000*
Gross profit		
Reportable segment gross profit	**190,005**	180,955
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**(4,761)**	(4,918)
Consolidated gross profit	**185,244**	176,037

	2015	2014
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**159,271**	148,560
Interest income	**813**	469
Interest expenses	**(25,002)**	(26,820)
Depreciation and amortisation	**(36,919)**	(33,843)
Loss arising from the changes in fair value less costs to sell of biological assets	**(12,494)**	(14,674)
Consolidated profit before taxation	**85,669**	73,692

	2015	2014
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**1,754,683**	1,516,278
Deferred tax assets	**5,222**	3,776
Elimination between segments	**(419,123)**	(318,565)
Consolidated total assets	**1,340,782**	1,201,489

	2015	2014
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,065,577**	1,024,639
Elimination between segments	**(419,123)**	(318,565)
Consolidated total liabilities	**646,454**	706,074

(c) Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China (the "PRC") and the non-current assets are mainly obtained and all located in mainland China while all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, there is no information separated by different geographical locations within mainland China provided to the Group's management.

4 OTHER NET INCOME

	2015	2014
	RMB'000	*RMB'000*
Government grants	**15,925**	8,529
Net income from sales of materials	**4,745**	4,334
Others	**3,585**	2,855
Total	**24,255**	15,718

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Cost of sales

	2015	2014
	RMB'000	*RMB'000*
Breeding costs to produce raw milk*	**57,747**	50,914
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest *(Note 5(b))*	**4,761**	4,918
Production costs incurred for dairy products*	**337,861**	313,370
Cost of inventories sold	**400,369**	369,202

* Breeding costs to produce raw milk and production costs incurred include, in aggregate, RMB42,881,000 for the year ended 31 December 2015 (for the year ended 31 December 2014: RMB38,899,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately in notes 5(e) and 5(f) for each of these types of expenses.

(b) Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

	2015	2014
	RMB'000	*RMB'000*
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**4,761**	4,918
Included in:		
– cost of sales *(Note 5(a))*	**4,761**	4,918
Total gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**4,761**	4,918

(c) Loss arising from changes in fair value less costs to sell of biological assets

	2015	2014
	RMB'000	*RMB'000*
Loss arising from changes in fair value less costs to sell of biological assets	**(12,494)**	(14,674)

(d) Finance costs

	2015	2014
	RMB'000	*RMB'000*
Interest income	**(813)**	(469)
Interest expenses on bank loans		
– Interest on bank loans wholly repayable within five years	**23,124**	23,695
– Interest on bank loans wholly repayable over five years	**1,477**	3,380
Finance charges on obligations under finance leases	**401**	727
Less: Interest expenses capitalised	**–**	(982)
Net foreign exchange gain	**(499)**	–
Total	**23,690**	26,351

(e) Staff costs

	2015	2014
	RMB'000	*RMB'000*
Salaries, bonuses and allowances	**33,166**	28,237
Pension insurance *(Note (i))*	**2,858**	2,315
Other social insurances *(Note (ii))*	**2,632**	2,183
Fees charged for hiring workers from labour dispatching companies	**785**	563
Staff welfare	**1,274**	1,176
Total	**40,715**	34,474

Notes:

(i) The employees of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the PRC subsidiaries are required to contribute to the schemes according to the relevant national and local social welfare laws and regulations. Employees of the PRC subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

(ii) Pursuant to the relevant laws and regulations of the PRC, employees of the Group participate in the social insurance system established and managed by local government organisations. The Group make social insurance contributions, including contributions to basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and etc., as well as contributions to housing fund, at the applicable benchmarks and rates stipulated by the local government for the benefit of their employees.

(f) Other items

	2015	2014
	RMB'000	*RMB'000*
Depreciation and amortisation	**36,919**	33,843
Auditors' remuneration – audit services	**1,500**	1,174

6 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2015	2014
	RMB'000	*RMB'000*
Current taxation:		
PRC income tax	**13,869**	8,659
Deferred taxation:		
Origination and reversal of temporary differences	**(1,446)**	(376)
Total	**12,423**	8,283

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015	2014
	RMB'000	*RMB'000*
Profit before taxation	**85,669**	73,692
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Note(i))*	**21,417**	18,422
Effect of tax exemption *(Notes (iii))*	**(2,222)**	(4,327)
Reduction in tax rate *(Note (ii))*	**(8,567)**	(7,369)
Tax effect of non-deductible expenses	**215**	52
Tax effect of unused tax losses not recognised	**1,580**	1,505
Income tax	**12,423**	8,283

Notes:

(i) The Company and its subsidiaries are subject to PRC Enterprise Income Tax statutory rate of 25% for the years ended 31 December 2015 and 2014.

(ii) Pursuant to the Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) promulgated by the State Administration of Taxation on 6 April 2012 and effective on 1 January 2011, from 1 January 2011 to 31 December 2020, the Company and its subsidiaries established in the Western Region of the PRC are entitled to the preferential income tax rate of 15%.

(iii) According to the PRC Enterprise Income Tax Law and the Implementation Rules, the Group's income arising from certain agricultural activities is exempted from PRC Enterprise Income Tax.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB73,246,000 (2014: RMB65,409,000) and the weighted average of 112,877,000 ordinary shares (2014: 105,370,000 ordinary shares) in issue during the year as calculated in note 7(b).

(b) Weighted average number of ordinary shares

	2015	2014
	'000	*'000*
Issued ordinary shares at 1 January	**105,370**	105,370
Effect of H shares issued under initial public offering	**7,507**	–
Weighted average number of ordinary shares at 31 December	**112,877**	105,370

8 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

Biological assets of the Group are dairy cows held to produce raw milk.

The quantity of the dairy cows owned by the Group as at 31 December 2015 and 2014 was shown below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	2015	2014
	Heads	*Heads*
Milkable cows	**2,791**	2,180
Heifers	**2,358**	2,137
Calves	**791**	505
Total	**5,940**	4,822

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

(b) Value of the Group's biological assets

	2015 *RMB'000*	2014 *RMB'000*
Milkable cows	**75,862**	54,359
Heifers	**49,714**	44,524
Calves	**7,924**	4,381
Total	**133,500**	103,264

9 TRADE RECEIVABLES

	2015 *RMB'000*	2014 *RMB'000*
Trade receivable due from third parties	**29,206**	22,463
Less: allowance for impairment of doubtful debts	**(668)**	(680)
Total	**28,538**	21,783

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Less than 3 months	**23,391**	17,509
More than 3 months but less than 6 months	**4,244**	2,426
More than 6 months but less than 12 months	**821**	1,303
More than 1 year but less than 2 years	**82**	545
Total	**28,538**	21,783

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2015	2014
	RMB'000	*RMB'000*
At 1 January	**680**	1,975
Impairment losses recognised	**287**	245
Impairment losses reversed	**(275)**	(1,540)
Uncollectible amounts written off	**(24)**	–
At 31 December	**668**	680

At 31 December 2015, the Group's trade receivables of RMB668,000 (2014: RMB680,000) were individually determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2015	2014
	RMB'000	*RMB'000*
Neither past due nor impaired	**25,892**	21,783
Past due but not impaired	**2,646**	–
Total	**28,538**	21,783

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

10 TRADE AND BILLS PAYABLES

	2015 *RMB'000*	2014 *RMB'000*
Trade payable for purchase of raw milk, packing material and auxiliary material	**61,817**	55,366
Trade payable for purchase of forage and veterinary medicine	**14,315**	13,781
Bills payable	**18,398**	40,912
Total	**94,530**	110,059

All of the trade and bills payables of the Group are expected to be settled within one year.

As of the end of the reporting period, the ageing analysis of trade and bills payable is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Less than 3 months	**75,877**	58,608
More than 3 months but less than 6 months	**5,850**	42,218
More than 6 months but less than 12 months	**7,815**	3,466
More than 1 year but less than 2 years	**821**	1,322
More than 2 years	**4,167**	4,445
Total	**94,530**	110,059

11 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2015 *RMB'000*	2014 *RMB'000*
Final dividend proposed after the end of the reporting period of 7.12 cents per ordinary share (2014: 0 cents per ordinary share)	**10,004**	–
	10,004	–

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) There is no dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

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

China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. According to Frost & Sullivan, the overall dairy products market increased from RMB189.5 billion in 2009 to RMB330.1 billion in 2014 in terms of retail sales value, representing a CAGR of 11.7%, and it is expected that the total retail sales value of dairy products in China is likely to grow to RMB547.2 billion in 2019, with an estimated CAGR of 10.6% from 2014 to 2019.

China's liquid milk product market has been growing rapidly in recent years, and according to Frost & Sullivan, it is projected to continue such growth in the near future. Further, with increasing awareness of health and food safety, Chinese consumers are increasingly attracted to liquid milk products with higher nutrition content and food safety assurance. The liquid milk products market in China in terms of retail sales value grew at a CAGR of 11.1% from RMB94.0 billion in 2009 to RMB159.1 billion in 2014, and is expected to further grow at a CAGR of 10.2% to RMB258.7 billion by 2019, according to Frost & Sullivan.

In particular, UHT milk (including modified milk) took a majority of share in terms of retail sales value in China, whose consumption value accounted for approximately 55.6% in 2014. During the past five years, this ratio has declined due to consumers' transferring consumption preference and is expected to maintain a downward trend in the following five years. With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health awareness, the consumption and the market share of pasteurised milk among liquid milk in China are expected to increase in the future. Similar with pasteurised milk, the market share of yogurt has also been increasing among liquid milk and has become the second largest segment in China's liquid milk product market.

Compared with the overall liquid milk market in China, the liquid milk markets in Gansu and Qinghai provinces in China ("Gansu" and "Qinghai") were still at their early growth stage in 2014. Pursuant to the rising per capita disposable income and increasing regional nominal GDP of Gansu and Qinghai, the liquid milk markets in these regions are expected to grow faster in the future. According to Frost & Sullivan, the liquid milk products market in Gansu and Qinghai in terms of retail sales value grew at a CAGR of 11.0% from RMB2.1 billion in 2009 to RMB3.6 billion in 2014, and is expected to further grow at an estimated CAGR of 10.7% to RMB6.0 billion by 2019.

Business Review

We are one of the leading dairy companies in Gansu and Qinghai where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated five dairy farms and collectively operated three dairy farms through cooperation with local dairy farmers. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so that approximately 60% of our raw milk requirement could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers, mainly through distributors and sales agents, include (i) liquid milk products, which comprise pasteurised milk (i.e., fresh milk), UHT milk, modified milk and yogurt, and (ii) milk beverages. We place strong emphasis on our product development to continuously develop new products that meet the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region. We market our products under three different brands, namely Zhuangyuan Ranch (莊園牧場), Shenghu (聖湖) and Yongdaobu (永道布). Our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands are widely recognised in Gansu and Qinghai, respectively. In 2014, we started to market and sell under the Yongdaobu (永道布) brand our specialty dairy products featuring yak milk ingredient, which is richer in protein, fat and other minerals such as calcium and phosphorus compared to normal cow milk, and other specialty products featuring Qinghai-Tibet Plateau characteristics, such as highland barley and black gojiberry which are unique to the Qinghai-Tibet Plateau. We plan to position this brand for the nation wide market. We plan to develop our distribution network for the sales of our Yongdaobu (永道布) products outside Gansu and Qinghai and focus on major cities in China.

We introduced to the market our Cold Chain Liquid Milk Products (i.e., pasteurised milk and yogurt) since the commencement of our production of dairy products in 2000, and we made a strategic decision in 2012 to enhance our efforts in the development and sales of such products, which we believe will represent the new consumption trend in the near future. Since then, we have been making continuous effort to expand our production capacity and distribution network of our Cold Chain Liquid Milk Products (i.e., liquid milk products that have a short shelf life between 3 to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products). As a result, we have become a major player in the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu and Qinghai due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and then further expand into other provinces in the northwestern China market.

While focusing on the Cold Chain Liquid Milk Product market, we also leveraged on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT milk and modified milk products, thereby maintaining our diversified product offerings. For example, condensed modified milk using Tetra Prisma and other aseptic carton packaging has become one of our popular products since its launch in 2013 due to the general acceptance of its taste which is catered to the preference of local customers, allowing us to command higher selling price and gross profit margin. Going forward, we intend to continue our efforts in the sales of our UHT milk and modified milk products that are popular among local customers to maintain our diversified product offerings.

Key financial ratios

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

	2015	2014
Current ratio[(1)]	**0.87**	0.68
Net gearing ratio[(2)]	**27.0%**	49.4%
Quick ratio[(3)]	**0.71**	0.49
Return on equity[(4)]	**12.3%**	14.1%
Return on assets[(5)]	**5.8%**	5.8%

Notes:

(1) Current assets/current liabilities.

(2) (Debts including bank loans and obligations under finance leases – cash and cash equivalents as at the end of the year)/total equity attributable to equity shareholders of the Company x 100%.

(3) (Current assets – inventory)/current liabilities.

(4) Net profit for the year/(total equity attributable to equity shareholders of the Company as at the beginning of the year + total equity attributable to equity shareholders of the Company as at the end of the year)/2 x 100%.

(5) Net profit for the year/(total assets as at the beginning of the year + total assets as at the end of the year)/2 x 100%.

Biological Assets

During the Reporting Year, our biological assets comprised of dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2015 and 2014:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Dairy cows		
Milkable cows	**75,862**	54,359
Heifers	**49,714**	44,524
Calves	**7,924**	4,381
Total	**133,500**	103,264

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

	As at 31 December	
	2015	2014
	(Heads)	*(Heads)*
Dairy cows		
Milkable cows	**2,791**	2,180
Heifers	**2,358**	2,137
Calves	**791**	505
Total	**5,940**	4,822

Dairy Farming

- *Milk yield*

  We produced approximately 14,879 tonnes of raw milk for the year ended 31 December 2015, representing an increase of approximately 10.0% from about 13,528 tonnes in 2014. The improved results were attributable to the increase in number of milkable cows and average milk yield per milkable cow per annum.

  During the Reporting Year, our milkable cows had an average milk yield per milkable cow per annum increased from 5.7~6.2 tonnes during 2014 to 6.0~6.4 tonnes during 2015.

Dairy Products Production

In 2015, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased due to the decreasing prices of imported milk powders in large packages. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own farms and of our quality dairy products with high protein and fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

- *Optimizing Liquid Milk Product Mix*

  Product mix has affected our revenue, gross profit and gross profit margin in the past. Following the success we achieved from our bottle packaging line which we installed in 2012 to expand our Cold Chain Liquid Milk Products, we made a strategic decision to increase the proportion of sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. We have established an extensive distribution network for our Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and purchased additional Ecolean package lines which are designed for packaging of pateurised milk and yogurt products to expand our production and increase the sales of Cold Chain Liquid Milk Products. As a result, our yogurt products experienced rapid growth in sales amount, which increased from RMB153.2 million in 2014 to RMB262.1 million in 2015 and accounted for approximately 28.1% and 44.8% of our total sales. In spite of the increase in sales of Cold Chain Liquid Milk Products from different product mix with new packaging, the cost of sales increase due to more expensive packaging and more promotional activities (mainly in a form of free goods) on our new products to obtain larger market shares, the gross profit margin of our yogurt products decreased slightly from 38.2% in 2014 to 37.9% in 2015.

  We have also gradually increased our sales of other high margin products such as condensed modified milk using brick shape of aseptic carton packaging. However, due to more expensive packaging and more promotional activities (mainly in a form of free goods) in the year of 2015, our gross profit margin decreased slightly to 31.6% in 2015 from 32.3% in 2014.

  We plan to further increase the sales of Cold Chain Liquid Milk Products and other high margin products. We plan to further expand our cold chain production facilities and distribution network in Gansu and Qinghai by purchasing additional packaging lines and constructing additional cold warehouses. We expect sales of our Cold Chain Liquid Milk Products and high-margin products will continue to increase in the foreseeable future.

- *Expansion of our Distribution Network*

  We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu and Qinghai. As at 31 December 2015, we had entered into distribution agreements with 231 distributors and 170 sales agents, as compared to 154 distributors and 126 sales agents as at 31 December 2014. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. We also plan to continue to expand our Cold Chain Liquid Mild Products distribution network to further increase sales of our Cold Chain Liquid Milk Products. With respect to our Yongdaobu (永道布) brand which we position for national expansion, we plan to develop our distribution network for the sales of our Yongdaobu (永道布) products outside Gansu and Qinghai and focus on major cities in China. We expect our sales to increase as we expand our geographical reach and distribution channels.

- *Average Selling Price of our Liquid Milk Products*

  Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products increased from RMB8,792 per tonne in 2014 to RMB9,139 per tonne in 2015. We believe our ability to achieve increasingly higher average selling price for our liquid milk products was primarily due to the high quality of our products and our ability to develop and launch new products catered to the evolving tastes and preferences of local consumers, as well as our success in changing the product mix of our liquid milk products to focus on marketing and sales of Cold Chain Liquid Milk Products and other high margin products.

Quality Control

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

Our quality control centre subdivided into four units, namely, (i) inspection unit for finished goods; (ii) inspection unit for Cold Chain Liquid Milk Products; (iii) inspection unit for auxiliary raw materials; and (iv) technology centre lab for inspecting the level of microorganism, heavy metals, and melamine in our dairy products. The quality control centre is headed by Ms. Niu Shuli (牛淑麗女士), who obtained the certificate of high quality control manager issued by the national examination and assessment committee of professionals of the PRC (全國專業人才考評專家委員會) in 2009, certificate of achievement for successful completion of Agilent GC/LC Analytical Solution Training for Milk Product Enterprise issued by Agilent University in 2011, the certificate of attendance of training course of QC/QAII issued by Tetra Pak in 2011, and the certificate of attendance of senior director of operations training course issued by the National Computer Integrated Manufacturing Systems Engineering Research Centre in Tsinghua University in 2012.

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

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

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

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

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

Brand Building

The liquid milk product industry in China, including Gansu and Qinghai, our major markets, is highly concentrated. The competitive landscape of the dairy product industry in China can be split into three categories: (1) national brands; (2) regional brands; and (3) foreign brands. As a regional brand, we are located near to the market with shorter transportation time that guarantees better freshness. Our products are also more tailored to the taste and spending habits of end consumers. Compared with our competitors, we benefited from a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years. Leveraged on our sales and distribution network through different sales channels, we have established strong brand recognition for our Zhuangyuan Ranch (莊園牧場) brand in Gansu and Shenghu (聖湖) brand in Qinghai, and marketed our Yongdaobu (永道布) branded products nationwide.

We believe the demand for premium Cold Chain Liquid Milk Products will continue to rise along with the increased awareness of the importance of nutritional products to the health and well-being of consumers. To capture the increasing demand for Cold Chain Liquid Milk Products, we plan to continue to expand our cold chain distribution network in Gansu and Qinghai and further in northwestern China. We believe that one of the key factors to a successful cold chain distribution network is the strategic location of cold warehouses outside of our production plants as it allows our products to reach local markets within 300 kilometers radius of our cold warehouses and also allows us to have better control over the quality of the Cold Chain Liquid Milk Products during the distribution process. We currently have two cold warehouses located in Lanzhou which enables us to ship some of our Cold Chain Liquid Milk Products from our production plant to these warehouses for further distributions. We plan to increase the number of our cold warehouses to 12 in Gansu and Qinghai to penetrate into local markets to expand our coverage in the foreseeable future. Furthermore, we intend to increase local penetration in additional end-markets of Cold Chain Liquid Milk Products by constructing approximately 3,000 community milk booths in Gansu and approximately 1,000 in Qinghai by 2017.

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

With respect to our Yongdaobu (永道布) brand, we believe we have accumulated sufficient knowledge and resources over the past 16 years since we started our operations in the dairy industry, and it is the appropriate time to gradually roll out our brand nationwide. To position our Yongdaobu (永道布) brand for national expansion, we have already started to arrange our distribution resource and network since 2014. As a first stage of the network establishment, we plan to develop our distribution network for the sales of our Yongdaobu (永道布) branded products outside of Gansu and Qinghai and focus on major cities in China such as Beijing and Tianjin.

Financial Overview

Revenue

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2015 and 2014:

	Years ended 31 December					
	2015			2014		
	Sales Amount *RMB'000*	**Sales Volume** *Tonne*	**Average Selling Price** *RMB/Tonne*	Sales Amount *RMB'000*	Sales Volume *Tonne*	Average Selling Price *RMB/Tonne*
Liquid Milk Products						
Pasteurised Milk	**22,297**	**2,630**	**8,478**	25,877	2,985	8,669
UHT Milk	**94,106**	**15,249**	**6,171**	127,904	19,790	6,463
Modified Milk	**195,763**	**22,654**	**8,641**	203,504	21,752	9,356
Yogurt	**262,052**	**22,298**	**11,752**	153,240	13,539	11,318
Subtotal	**574,218**	**62,831**	**9,139**	510,525	58,066	8,792
Milk Beverage	**7,131**	**1,585**	**4,499**	23,686	4,936	4,799
Other Dairy Products	**4,264**	**3,510**	**1,215**	11,028	643	17,151
Total	**585,613**	**67,926**	**8,621**	545,239	63,645	8,567

Our revenue increased by 7.4% from RMB545.2 million for the year ended 31 December 2014 to RMB585.6 million for year ended 31 December 2015, primarily due to an increase in our sales of liquid milk products, particularly the yogurt products.

The growth of our liquid milk business was due to the slight increase in the total volume of liquid milk products sold and change in our liquid milk product mix. During the Reporting Year, the total volume of dairy products sold increased by 6.7% from approximately 63,645 tonnes for the year ended 31 December 2014 to approximately 67,926 tonnes for the year ended 31 December 2015, primarily due to the growth of yogurt production and sales derived from our adjustment in product mix.

Gross profit and gross profit margin

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

	Year ended 31 December					
	2015			2014		
	Cost of sales *RMB'000*	**Gross Profit** *RMB'000*	**Gross profit margin** *%*	Cost of sales *RMB'000*	Gross Profit *RMB'000*	Gross profit margin *%*
Liquid Milk Products						
Pasteurised Milk	**13,632**	**8,665**	**38.9**	15,326	10,551	40.8
UHT Milk	**76,999**	**17,107**	**18.2**	95,087	32,817	25.7
Modified Milk	**137,400**	**58,363**	**29.8**	136,760	66,744	32.8
Yogurt	**162,722**	**99,330**	**37.9**	94,673	58,567	38.2
Subtotal	**390,753**	**183,465**	**32.0**	341,846	168,679	33.0
Milk Beverage	**5,866**	**1,265**	**17.7**	19,606	4,080	17.2
Other Dairy Products	**3,750**	**514**	**12.1**	7,750	3,278	29.7
Total cost of sales/ Total gross profit/ Overall gross profit margin	**400,369**	**185,244**	**31.6**	369,202	176,037	32.3

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 32.3% for the year ended 31 December 2014 and 31.6% for year ended 31 December 2015. The decrease during the Reporting Year was primarily due to more expensive packaging and more promotional activities (mainly in a form of free goods) on our new products to obtain larger market shares which led to the increase in cost of sales.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest remain relatively stable from RMB4.9 million for the year ended 31 December 2014 to RMB4.8 million for the year ended 31 December 2015.

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

We recorded loss arising from changes in fair value less costs to sell of biological assets amounted to RMB12.5 million for the year ended 31 December 2015, which decreased 15.0% from RMB14.7 million for the year ended 31 December 2014, primarily due to the increase of market price of the calves and heifers and increase of milk yield of the milkable cows.

Qualification and independence of the valuers

Jones Lang LaSalle ("JLL") is a firm of independent qualified professional valuer to determine the fair value of our dairy cows for the year ended 31 December 2015. The key member of the Jones Lang LaSalle valuer is Mr. Simon M.K. Chan. Mr. Simon Chan, regional director at JLL, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Certified Valuation Analyst (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA). Mr. Chan oversees the business valuation services of JLL and has over 15 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in Mainland China, Hong Kong, Singapore and the United States. JLL is an independent firm providing a full range of valuation and advisory services. The valuation results have been prepared independently. JLL and parties preparing the valuation results do not hold any interest in the Company or our related parties. The fee for providing the valuation service is based on JLL's normal professional rates. Payment of fees and reimbursements are not contingent upon the conclusion drawn in the valuation results.

Other net income

Other net income includes government grants, net income from sales of materials and other income. Government grants are generally obtained from our agricultural activities. For the years ended 31 December 2015 and 2014, government grants we recognized amounted to RMB15.9 million and RMB8.5 million, and sales of materials we recognized amounted to RMB4.7 million and RMB4.3 million, respectively.

Operating expenses

	Years ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Distribution costs	**38,108**	33,846
Administrative expenses	**54,299**	48,110
Total operating expenses	**92,407**	81,956

Our operating expenses increased from RMB82.0 million for the year ended 31 December 2014 to RMB92.4 million for the year ended 31 December 2015. During the Reporting Year, as we further explored the northwestern China market for our Cold Chain products in other major cities and maintained our geographical spread in regional key markets nationwide which required preliminary marketing expenses for securing higher sales growth and gaining larger market shares in the future, coupled with the increase in number of distributors and sales agents which led to the increase in the transportation cost and personnel expenses correspondingly.

The increase in administrative expenses was primarily due to the rise of labour costs, repairment expenses and consultation fees during the Reporting Year.

Net finance costs

Our net finance costs decreased by 10.1% from RMB26.4 million for the year ended 31 December 2014 to RMB23.7 million for the year ended 31 December 2015, primarily due to lower interest expenses resulting from decreased bank loans during the Reporting Year.

Current ratio and net gearing ratio

As at 31 December 2015, our current ratio (current assets/current liabilities) was approximately 0.87 compared to 0.68 as at 31 December 2014. As at 31 December 2015, the net gearing ratio was 27.0% compared to 49.4% as at 31 December 2014. Net gearing ratio was calculated by net debt (aggregated bank loans and obligations under finance leases net of cash and cash equivalents as at the ending of the year) over total equity attributable to equity shareholders of the Company.

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations, proceeds from issuance of shares of the Company (the "Shares") under initial public offering and proceeds from bank loans. As at 31 December 2015 and 2014, we had RMB231.7 million and RMB215.5 million in cash and cash equivalents, respectively, which was mainly denominated in Renminbi and primarily consisted of cash on hand and bank deposits.

Capital expenditures

We had capital expenditures of RMB102.4 million and RMB103.2 million for the years ended 31 December 2015 and 2014, respectively, which were primarily used in purchasing property, plant and equipment, settling land leases and procuring dairy cows.

Working capital

As at 31 December 2015, we had net current liabilities of RMB70.8 million (31 December 2014: net current liabilities of RMB190.4 million).

Indebtedness

During the Reporting Year, our borrowings were denominated in Renminbi. As at 31 December 2015, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB356.0 million at interest rates ranging from 4.35% to 8.00% per annum. As at 31 December 2015, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB59.5 million at interest rates ranging from 4.90% to 6.22% per annum.

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

For the year ended 31 December 2015, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

The book value of our lease prepayments and property, plant and equipment that were used as guarantees was RMB626.5 million as at 31 December 2015 (31 December 2014: RMB590.0 million). The details of the pledge of assets are as follow: (1) Plants and buildings: RMB430.2 million; (2) Machinery and equipment: RMB178.6 million; and (3) Lease prepayments: RMB17.7 million.

Contingent liabilities

As at 31 December 2014 and 31 December 2015, we did not have significant contingent liabilities.

Use of Proceeds from Listing

The Company was listed on the Main Board of the Stock Exchange on 15 October 2015 (the "Listing"). Net proceeds from the Listing amounted to approximately RMB116.0 million.

We set out below the status of the application of the net proceeds from the issue of shares in connection with the Listing:

	As of 31 December 2015	
	Actual amount used	**Intended amount to be used**
	RMB'000 (%)	*RMB'000 (%)*
Building 3,000 community milk booths in Gansu as part of our effort to expand Cold Chain Liquid Milk Products distribution network	0 (0%)	37,130 (32%)
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	8,809 (7.6%)	34,809 (30%)
Promoting our brands	1,393 (1.2%)	23,206 (20%)
Construction of our new technology centre to conduct product development activities	0 (0%)	9,283 (8%)
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10%)
IPO proceeds not utilized	94,226 (81.2%)	N/A
Total	**116,031 (100%)**	**116,031 (100%)**

The balance of approximately RMB94.2 million has been deposited with banks and licensed financial institutions in Hong Kong and Mainland China. We currently do not have any intention to change our plan for the use of proceeds as stated in the prospectus of the Company dated 30 September 2015.

Human Resources

We had 551 employees in Mainland China and Hong Kong as at 31 December 2015 (31 December 2014: 510 employees). During the Reporting Year, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive Directors' fees, were approximately RMB41.1 million (the corresponding period in 2014: RMB34.4 million).

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

For its employees in the PRC, the Group has participated in defined contribution benefit plans and social insurance plans organised by the relevant local governmental authorities. For its employees in Hong Kong, the Group participates in the mandatory provident fund scheme with contributions calculated in accordance with the provisions under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

Corporate Social Responsibility

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

OUTLOOK

Our goal is to further strengthen our regional market leading position and brand recognition in Gansu and Qinghai. To achieve this goal, we plan to implement the following strategies:

- Pursue our branding strategies to strengthen our branding positions under our different brands, increase our market shares and enhance consumer loyalty;

- Upgrade our cold chain distribution facilities to strengthen our regional market leader position in Gansu and Qinghai and expand our sales and distribution network;

- Improve our raw milk production capacity and quality to satisfy the needs of our fast growing business; and

- Enrich our product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for our products through our continuous product development efforts.

IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2015

Subsequent to 31 December 2015, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation.

Discloseable Transaction

On 14 March 2016 (after trading hours), the Company entered into the four loan agreements (the Loan Agreements") with Mr. Hu Keliang ("Mr. Hu") pursuant to which, the Company, as lender, has confirmed its agreement to grant to Mr. Hu, as borrower, the unsecured loans in the principal amount of RMB50,000,000 in aggregate for a term of 3 months from (i) 22 December 2015 (in respect of loan in the amount of RMB5,000,000); (ii) 23 December 2015 (in respect of loan in the amount of RMB5,000,000); (iii) 24 December 2015 (in respect of loan in the amount of RMB20,000,000); and (iv) 25 December 2015 (in respect of loan in the amount of RMB20,000,000) (the "Loan"). The interest rate was 4.35% per annum.

As certain of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Loan granted to Mr. Hu under the Loan Agreements exceed 5% but are less than 25%, the grant of the Loan constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. On 25 February 2016, Mr. Hu repaid the principal of the Loan in full to the Company prior to the maturity of the Loan. The accrued interest amounting to approximately RMB380,000 was repaid by Mr. Hu to the Company on 14 March 2016.

The disclosure obligations in relation to the Loan Agreements should have arisen on 25 December 2015 stipulated in Rule 14.34 of the Listing Rules. The Company was required to comply with such requirement as mentioned above but the Company had not done so. The omission by the Company to comply with the Listing Rules requirement to make timely disclosure was due to inadvertent mistakes. The Company has strengthened its internal control procedures and organised training to the Directors to ensure that such oversight will not happen again.

For the details of the above transaction, please refer to the announcement of the Company dated 14 March 2016.

CORPORATE GOVERNANCE

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

Pursuant to code provision (the "Code Provision") A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. Ma Hongfu currently performs both roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Save for the above and as disclosed in this announcement, the Company has complied with all applicable Code Provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2015 since the Company was listed on the Stock Exchange.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions. Having made specific enquiry of all Directors and the supervisors of the Company (the "Supervisors"), all the Directors and Supervisors confirm that they have complied with the required standards of the Model Code during the year ended 31 December 2015.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2015, there was no repurchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Reporting Year.

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration proceedings during the year ended 31 December 2015.

SHARE OPTION SCHEME

There is no Share Option Scheme adopted for the Company during the Reporting Year.

REVIEW OF ANNUAL RESULTS

The Company has established the audit committee (the "Audit Committee") with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Bai Yongzhi, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley. Mr. Bai Yongzhi is the chairman of the Audit Committee. The Audit Committee is responsible for, amongst other matters, reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board. The Audit Committee has amongst others, reviewed and discussed with the management the accounting principles and practices adopted by the Group and the Group's internal controls and financial reporting matters, including the review of the audited final results of the Group for the year ended 31 December 2015.

DIVIDEND

The Board recommended a final dividend of RMB7.12 cents per share for the Reporting Year. The total dividend amounted to approximately RMB10.0 million.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Nonresidents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the dividend to be distributed to them. However, the individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau). For individual holders of H Shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H Shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H Shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H Shares in the distribution of the dividend accordingly.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting (the "AGM") of the Company will be held on Tuesday, 14 June 2016. A notice convening the AGM will be published and despatched to the shareholders of the Company (the "Shareholders") in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For ascertaining Shareholders' eligibility to attend and vote at the annual general meeting (the "AGM"), the register of members of the Company will be closed from Sunday, 15 May 2016 to Tuesday, 14 June 2016, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East Hong Kong for registration no later than 4:30 p.m. on Friday, 13 May 2016.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is published on the Company's website (http://www.lzzhuangyuan.com/) and the Stock Exchange's website (http://www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2015 will be despatched to the Shareholders and will be made available on the websites of the Company and the Stock Exchange in due course.

By order of the Board
Lanzhou Zhuangyuan Pasture Co., Ltd.*
Ma Hongfu
Chairman

Lanzhou, the PRC, 29 March 2016

As at the date of this announcement, the executive Directors are Mr. Ma Hongfu, Mr. Wang Guofu, Mr. Chen Yuhai and Mr. Yan Bin; the non-executive Directors are Mr. Yap Kean Chong and Mr. Song Xiaopeng; and the independent non-executive Directors are Mr. Bai Yongzhi, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley.

* *For identification purpose only*