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**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 2016**

**FINANCIAL HIGHLIGHTS**

	<b>Years ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue	<b>621,538</b>	585,613
Gross profit	<b>208,809</b>	185,244
Profit for the year attributable to equity shareholders of the Company	<b>75,910</b>	73,246
Earnings per share (RMB) <sup>(1)</sup>	<b>0.54</b>	0.65
Proposed dividend per share (RMB)	<b>7.42 cents</b>	7.12 cents

- Revenue increased by 6.1% as compared to the year ended 31 December 2015.
- Gross profit increased by 12.7% as compared to the year ended 31 December 2015.
- Profit for the year attributable to equity shareholders of the Company increased by 3.6% as compared to the year ended 31 December 2015.

<sup>(1)</sup> The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the year.

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 2016 (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 2016

(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
<b>Revenue</b>	3	<b>621,538</b>	585,613
Cost of sales	3, 5(a)	<u>(412,729)</u>	<u>(400,369)</u>
<b>Gross profit</b>		<b>208,809</b>	185,244
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	5(b)	<b>8,649</b>	4,761
Loss arising from changes in fair value less costs to sell of biological assets	5(c)	<b>(23,693)</b>	(12,494)
Other net income	4	<b>28,934</b>	24,255
Distribution costs		<b>(53,099)</b>	(38,108)
Administrative expenses		<u>(63,791)</u>	<u>(54,299)</u>
<b>Profit from operations</b>		<b>105,809</b>	109,359
Net finance costs	5(d)	<u>(16,665)</u>	<u>(23,690)</u>
<b>Profit before taxation</b>	3, 5	<b>89,144</b>	85,669
Income tax	6(a)	<u>(13,234)</u>	<u>(12,423)</u>
<b>Profit for the year</b>		<u><b>75,910</b></u>	<u>73,246</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<u><b>75,910</b></u>	<u>73,246</u>
<b>Profit for the year</b>		<u><b>75,910</b></u>	<u>73,246</u>
<b>Earnings per share</b>			
– Basic and diluted (RMB)	7	<u><b>0.54</b></u>	<u>0.65</u>

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

*For the year ended 31 December 2016*

*(Expressed in RMB)*

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Profit for the year</b>	<u>75,910</u>	<u>73,246</u>
<b>Total comprehensive income for the year</b>	<u>75,910</u>	<u>73,246</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<u>75,910</u>	<u>73,246</u>
<b>Total comprehensive income for the year</b>	<u>75,910</u>	<u>73,246</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Expressed in RMB)

	<i>Note</i>	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>684,354</b>	651,945
Available-for-sale financial assets		<b>33,720</b>	33,720
Lease prepayments		<b>18,832</b>	20,116
Biological assets	8	<b>126,289</b>	133,500
Deferred tax assets		<b>4,108</b>	5,222
Other non-current assets		<b>90,743</b>	27,045
		<b>958,046</b>	871,548
<b>Current assets</b>			
Inventories		<b>75,056</b>	86,350
Trade receivables	9	<b>14,036</b>	28,538
Deposits, prepayments and other receivables		<b>17,097</b>	86,310
Pledged deposit		<b>4,000</b>	36,334
Cash and cash equivalents		<b>273,352</b>	231,702
		<b>383,541</b>	469,234
<b>Current liabilities</b>			
Trade and bills payables	10	<b>84,168</b>	94,530
Receipts in advance		<b>20,290</b>	20,697
Accrued expenses and other payables		<b>54,552</b>	44,368
Non-current liabilities due within one year		<b>6,151</b>	9,403
Bank loans		<b>307,000</b>	356,000
Current taxation		<b>15,133</b>	15,047
		<b>487,294</b>	540,045
<b>Net current liabilities</b>		<b>(103,753)</b>	(70,811)
<b>Total assets less current liabilities</b>		<b>854,293</b>	800,737

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Non-current liabilities</b>		
Bank loans	<b>44,500</b>	59,500
Deferred income	<b>46,256</b>	46,052
Obligations under finance leases	<b>3,303</b>	857
	<u><b>94,059</b></u>	<u>106,409</u>
<b>NET ASSETS</b>	<u><b>760,234</b></u>	<u>694,328</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>140,500</b>	140,500
Reserves	<b>619,734</b>	553,828
<b>Total equity attributable to equity shareholders of the Company</b>	<u><b>760,234</b></u>	<u>694,328</u>
<b>TOTAL EQUITY</b>	<u><b>760,234</b></u>	<u>694,328</u>

## **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 2016 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 2017.

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.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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 a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

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 2016 and 2015 is set out below:

	<b>Year ended 31 December 2016</b>		
	<b>Dairy Farming RMB'000</b>	<b>Dairy Products Production RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>			
Revenue from external customers	113	621,425	621,538
Inter-segment revenue	117,424	–	117,424
<b>Reportable segment revenue</b>	<b>117,537</b>	<b>621,425</b>	<b>738,962</b>
<b>Cost of sales</b>			
Cost of sales related to revenue from external customers	109	412,488	412,597
Inter-segment cost of sales	108,907	–	108,907
<b>Reportable segment cost of sales (cost of sales before biological fair value adjustments)</b>	<b>109,016</b>	<b>412,488</b>	<b>521,504</b>
<b>Reportable segment gross profit (gross profit before biological fair value adjustments)</b>	<b>8,521</b>	<b>208,937</b>	<b>217,458</b>
<b>Reportable segment profit (adjusted EBITDA)</b>	<b>27,305</b>	<b>143,335</b>	<b>170,640</b>
Interest income	984	1,341	2,325
Interest expenses	–	20,033	20,033
Depreciation and amortisation	13,056	27,039	40,095
<b>Reportable segment assets</b>	<b>668,598</b>	<b>1,108,100</b>	<b>1,776,698</b>
Additions to non-current segment assets during the year	62,412	86,969	149,381
<b>Reportable segment liabilities</b>	<b>489,215</b>	<b>531,357</b>	<b>1,020,572</b>



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

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Revenue</b>		
Reportable segment revenue	738,962	678,505
Elimination of inter-segment revenue	<u>(117,424)</u>	<u>(92,892)</u>
Consolidated revenue	<u>621,538</u>	<u>585,613</u>
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Profit</b>		
Reportable segment profit	170,640	159,271
Interest income	2,325	813
Interest expenses	(20,033)	(25,002)
Depreciation and amortisation	(40,095)	(36,919)
Loss arising from the changes in fair value less costs to sell of biological assets	<u>(23,693)</u>	<u>(12,494)</u>
Consolidated profit before taxation	<u>89,144</u>	<u>85,669</u>

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>Assets</b>		
Reportable segment assets	<b>1,776,698</b>	1,754,683
Elimination between segments	<b>(439,219)</b>	(419,123)
Deferred tax assets	<b>4,108</b>	5,222
	<hr/>	<hr/>
Consolidated total assets	<b>1,341,587</b>	1,340,782
	<hr/>	<hr/>
<b>Liabilities</b>		
Reportable segment liabilities	<b>1,020,572</b>	1,065,577
Elimination between segments	<b>(439,219)</b>	(419,123)
	<hr/>	<hr/>
Consolidated total liabilities	<b>581,353</b>	646,454
	<hr/>	<hr/>

(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 the PRC 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 the PRC provided to the Group’s management.

**4 OTHER NET INCOME**

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Government grants	<b>16,795</b>	15,925
Net income from sales of materials	<b>8,194</b>	4,745
Others	<b>3,945</b>	3,585
	<hr/>	<hr/>
	<b>28,934</b>	24,255
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## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Cost of sales:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Breeding costs to produce raw milk*	75,927	57,747
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest ( <i>Note 5(b)</i> )	8,649	4,761
Production costs incurred for dairy and grain products*	<u>328,153</u>	<u>337,861</u>
Cost of inventories sold	<u>412,729</u>	<u>400,369</u>

\* Breeding costs to produce raw milk and production costs incurred include, in aggregate, RMB40,213,000 for the year ended 31 December 2016 (for the year ended 31 December 2015: RMB42,881,000), relating to staff costs and depreciation and amortisation expenses, which 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	<u>8,649</u>	<u>4,761</u>
Included in: – cost of sales ( <i>Note 5(a)</i> )	<u>8,649</u>	<u>4,761</u>
Total gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest for the year	<u>8,649</u>	<u>4,761</u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Loss arising from changes in fair value less costs to sell of biological assets	<u>(23,693)</u>	<u>(12,494)</u>

(d) **Finance costs:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest income	(2,325)	(813)
Interest expenses on bank loans	19,811	24,601
Finance charges on obligations under finance leases	222	401
Net foreign exchange gain	(1,043)	(499)
	<hr/>	<hr/>
Total	<b>16,665</b>	<b>23,690</b>

(e) **Staff costs:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Salaries, bonuses and allowances	42,673	33,166
Pension insurance ( <i>Note (i)</i> )	2,911	2,858
Other social insurances ( <i>Note (ii)</i> )	2,708	2,632
Fees charged for hiring workers from labour dispatching companies	443	785
Staff welfare	2,100	1,274
	<hr/>	<hr/>
Total	<b>50,835</b>	<b>40,715</b>

*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 makes 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. The staff working in Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are recognised as an expense in profit or loss as incurred.

(f) **Other items:**

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Depreciation and amortisation	40,095	36,919
Auditors' remuneration	2,523	1,500
	<hr/>	<hr/>

## 6 INCOME TAX

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
<b>Current taxation:</b>		
PRC income tax	12,120	13,869
<b>Deferred taxation:</b>		
Origination and reversal of temporary differences	1,114	(1,446)
Total	<u>13,234</u>	<u>12,423</u>

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

Profit before taxation	89,144	85,669
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Note (i))	22,286	21,417
Effect of tax exemption (Note (iii))	(2,987)	(2,222)
Reduction in tax rate (Note (ii))	(8,914)	(8,567)
Tax effect of non-deductible expenses	381	215
Tax effect of unused tax losses not recognised	2,468	1,580
Income tax	<u>13,234</u>	<u>12,423</u>

Notes:

- (i) The Company and its subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% for the years ended 31 December 2015 and 2016.
- (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 RMB75,910,000 (2015: RMB73,246,000) and the weighted average of 140,500,000 ordinary shares (2015: 112,877,000 ordinary shares) in issue during the year as calculated in note 7(b).

### (b) Weighted average number of ordinary shares

	<b>2016</b> <b>'000</b>	2015 <b>'000</b>
Issued ordinary shares at 1 January	<b>140,500</b>	105,370
Effect of H shares issued under initial public offering	–	7,507
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	<b>140,500</b>	112,877
	<hr/>	<hr/>

## 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 2016 and 2015 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.

	<b>2016</b> <b>Heads</b>	2015 <b>Heads</b>
Milkable cows	<b>2,560</b>	2,791
Heifers	<b>1,534</b>	2,358
Calves	<b>1,008</b>	791
	<hr/>	<hr/>
Total	<b>5,102</b>	5,940
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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**

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Milkable cows	<b>80,869</b>	75,862
Heifers	<b>32,914</b>	49,714
Calves	<b>12,506</b>	7,924
	<hr/>	<hr/>
Total	<b>126,289</b>	133,500
	<hr/>	<hr/>

**9 TRADE RECEIVABLES**

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivable due from third parties	<b>14,149</b>	29,206
Less: allowance for impairment of doubtful debts	<b>(113)</b>	(668)
	<hr/>	<hr/>
Total	<b>14,036</b>	28,538
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**(a) Aging 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:

	<b>At 31 December</b>	
	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Less than 3 months	<b>11,799</b>	23,391
More than 3 months but less than 6 months	<b>1,730</b>	4,244
More than 6 months but less than 12 months	<b>434</b>	821
More than 1 year but less than 2 years	<b>58</b>	82
More than 2 years but less than 3 years	<b>15</b>	–
	<hr/>	<hr/>
Total	<b>14,036</b>	28,538
	<hr/>	<hr/>

**(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:

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
At 1 January	<b>668</b>	680
Impairment losses recognised	<b>170</b>	287
Impairment losses reversed	<b>(318)</b>	(275)
Uncollectible amounts written off	<b>(407)</b>	(24)
	<hr/>	<hr/>
At 31 December	<b>113</b>	668
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At 31 December 2016, the Group's trade receivables of RMB113,000 (2015: RMB668,000) 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:

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Neither past due nor impaired	<b>13,450</b>	25,892
Past due but not impaired	<b>586</b>	2,646
	<hr/>	<hr/>
	<b>14,036</b>	28,538
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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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payable for purchase of raw milk, packing material and auxiliary material	60,755	61,817
Trade payable for purchase of forage and veterinary medicine	19,413	14,315
Bills payable	4,000	18,398
Total	<u>84,168</u>	<u>94,530</u>

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Less than 3 months	72,378	75,877
More than 3 months but less than 6 months	4,562	5,850
More than 6 months but less than 12 months	5,257	7,815
More than 1 year but less than 2 years	725	821
More than 2 years	1,246	4,167
Total	<u>84,168</u>	<u>94,530</u>

## 11 DIVIDENDS

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of RMB7.42 cents per ordinary share (2015: RMB7.12 cents per ordinary share)	10,425	10,004
	<u>10,425</u>	<u>10,004</u>

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) Dividends paid to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Final dividend in respect of the previous year, approved and paid during the year of RMB7.12 cents per ordinary share (2015: Nil)	9,298	–
	<u>9,298</u>	<u>–</u>

## **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, it is expected that the total retail sales value of dairy products in China is likely to grow to RMB547.2 billion in 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. It is expected to further grow to RMB258.7 billion by 2019, according to Frost & Sullivan.

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. 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 is expected to further grow 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 four dairy farms and collectively operated four dairy farms through cooperation with local dairy farmers as at 31 December 2016. 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 are a major player in the sales of Cold Chain Liquid Milk Products (i.e., liquid milk product(s) that has 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) 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. Going forward, we intend to continue our efforts in the sales of our yogurt 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:

	<b>2016</b>	2015
Current ratio <sup>(1)</sup>	<b>0.79</b>	0.87
Net gearing ratio <sup>(2)</sup>	<b>11.1%</b>	27.0%
Quick ratio <sup>(3)</sup>	<b>0.63</b>	0.71
Return on equity <sup>(4)</sup>	<b>10.4%</b>	12.3%
Return on assets <sup>(5)</sup>	<b>5.7%</b>	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 2016 and 2015:

	<b>At 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Dairy cows</b>		
Milkable cows	<b>80,869</b>	75,862
Heifers	<b>32,914</b>	49,714
Calves	<b>12,506</b>	7,924
	<hr/>	<hr/>
Total	<b>126,289</b>	133,500
	<hr/>	<hr/>

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

	<b>2016</b>	<b>2015</b>
	<b>(Heads)</b>	<b>(Heads)</b>
<b>Dairy cows</b>		
Milkable cows	<b>2,560</b>	2,791
Heifers	<b>1,534</b>	2,358
Calves	<b>1,008</b>	791
	<hr/>	<hr/>
Total	<b>5,102</b>	5,940
	<hr/>	<hr/>

## ***Dairy Farming***

- *Milk yield*

We produced approximately 19,837 tonnes of raw milk for the year ended 31 December 2016, representing an increase of approximately 33.3% from about 14,879 tonnes in 2015. The increase in milk production were mainly attributable to the increase in number as well as average milk yield per annum of milkable cows.

During the Reporting Year, the average milk yield per milkable cow per annum increased from 6.0~6.4 tonnes during 2015 to 5.9~7.7 tonnes during 2016, which was mainly due to the higher percentage of number of imported cow over the total number of cows.

## *Dairy Products Production*

In 2016, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own farms and 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. We continued to place effort to increase the sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future 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 pasteurised 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 stable growth in sales amount, which increased from RMB262.1 million in 2015 to RMB276.9 million in 2016. Attributable to the increase in sales of Cold Chain Liquid Milk Products with new packaging, the gross profit margin of our yogurt products increased slightly from 37.9% in 2015 to 38.4% in 2016.

With increasing awareness of health and food safety, consumers are increasingly attracted to liquid milk products with higher nutrition content. It led to the transfer of market demands from milk beverage products to modified milk products. We promoted modified milk products into Gansu region and as a result, revenue from modified milk products increased from RMB195.8 million in 2015 to RMB218.1 million in 2016.

Our gross profit margin increased to 33.6% in 2016 from 31.6% in 2015 due to the increase in the proportion of sales of products with higher gross profit margin.

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 2016, we had entered into distribution agreements with 299 distributors and 241 sales agents, as compared to 231 distributors and 170 sales agents as at 31 December 2015. 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 Milk Products distribution network to further increase sales of our Cold Chain Liquid Milk Products. We plan to develop our distribution network for the sales of our 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 RMB9,139 per tonne in 2015 to RMB9,320 per tonne in 2016. 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 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.

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 six cold warehouses located in Gansu and Ningxia which enables us to ship some of our Cold Chain Liquid Milk Products from our production plant to these warehouses for further distributions.



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 preference.

## 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 2016 and 2015:

	Years ended 31 December					
	2016			2015		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
<b>Liquid Milk Products</b>						
Pasteurised Milk	20,898	2,530	8,260	22,297	2,630	8,478
UHT Milk	97,955	15,791	6,203	94,106	15,249	6,171
Modified Milk	218,146	25,283	8,628	195,763	22,654	8,641
Yogurt	276,937	22,266	12,438	262,052	22,298	11,752
<b>Subtotal</b>	<b>613,936</b>	<b>65,870</b>	<b>9,320</b>	<b>574,218</b>	<b>62,831</b>	<b>9,139</b>
<b>Milk Beverage</b>	<b>5,228</b>	<b>1,250</b>	<b>4,182</b>	<b>7,131</b>	<b>1,585</b>	<b>4,499</b>
<b>Other Dairy Products</b>	<b>2,374</b>	<b>144</b>	<b>16,486</b>	<b>4,264</b>	<b>3,510</b>	<b>1,215</b>
<b>Total</b>	<b>621,538</b>	<b>67,264</b>	<b>9,240</b>	<b>585,613</b>	<b>67,926</b>	<b>8,621</b>

Our revenue increased by 6.1% from RMB585.6 million for the year ended 31 December 2015 to RMB621.5 million for year ended 31 December 2016, primarily due to an increase in our sales of liquid milk products, particularly the modified milk and yogurt products.

The growth of our liquid milk business was primarily due to the increase in the average selling price of yogurt and improvement of our liquid milk product mix as a result of higher sales volume of modified milk products, which has relatively higher average selling price.

### ***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:

	Years ended 31 December					
	2016			2015		
	Cost of Sales RMB'000	Gross Profit RMB'000	GP Margin %	Cost of Sales RMB'000	Gross Profit RMB'000	GP Margin %
<b>Liquid Milk Products</b>						
Pasteurised Milk	11,665	9,233	44.2%	13,632	8,665	38.9%
UHT Milk	78,348	19,607	20.0%	76,999	17,107	18.2%
Modified Milk	145,676	72,470	33.2%	137,400	58,363	29.8%
Yogurt	170,706	106,231	38.4%	162,722	99,330	37.9%
<b>Subtotal</b>	<b>406,395</b>	<b>207,541</b>	<b>33.8%</b>	<b>390,753</b>	<b>183,465</b>	<b>32.0%</b>
<b>Milk Beverage</b>	<b>4,321</b>	<b>907</b>	<b>17.3%</b>	<b>5,866</b>	<b>1,265</b>	<b>17.7%</b>
<b>Other Dairy Products</b>	<b>2,013</b>	<b>361</b>	<b>15.2%</b>	<b>3,750</b>	<b>514</b>	<b>12.1%</b>
<b>Total</b>	<b>412,729</b>	<b>208,809</b>	<b>33.6%</b>	<b>400,369</b>	<b>185,244</b>	<b>31.6%</b>

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was 31.6% for the year ended 31 December 2015 and 33.6% for year ended 31 December 2016. The increase in the overall gross profit margin during the Reporting Year was primarily due to the optimisation of products mix resulting from consumer awareness on healthy products and the increase in demand for modified milk, the cold chain and high end products which are in high gross profit margin in general. In addition, the Company offered some new yogurt products (especially with PE bottle packaging) in the Reporting Year which increased the sales and gross profit.

### ***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 increased from RMB4.8 million for the year ended 31 December 2015 to RMB8.6 million for the year ended 31 December 2016. The increase during the Reporting Year was primarily due to the increase in raw milk yield.

### ***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 RMB23.7 million for the year ended 31 December 2016, which increased by 89.6% from RMB12.5 million for the year ended 31 December 2015, primarily due to the fluctuation of raw milk prices and higher discounting rate adopted.

### *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 2016. 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 16 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 2016 and 2015, government grants we recognized amounted to RMB16.8 million and RMB15.9 million, and sales of materials we recognized amounted to RMB8.2 million and RMB4.7 million, respectively.

### *Operating expenses*

	<b>Years ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b><i>RMB’000</i></b>	<b><i>RMB’000</i></b>
Distribution costs	<b>53,099</b>	38,108
Administrative expenses	<b>63,791</b>	54,299
Total operating expenses	<b><u>116,890</u></b>	<b><u>92,407</u></b>

Our operating expenses increased from RMB92.4 million for the year ended 31 December 2015 to RMB116.9 million for the year ended 31 December 2016. During the Reporting Year, as we further explored the northwestern China market for our Cold Chain Liquid Milk 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 marketing expenses and personnel expenses correspondingly.

The increase in administrative expenses was primarily due to the rise of labour costs and maintenance expenses during the Reporting Year.

### ***Net finance costs***

Our net finance costs decreased by 29.5% from RMB23.7 million for the year ended 31 December 2015 to RMB16.7 million for the year ended 31 December 2016, primarily due to lower interest expenses resulting from decreased bank loans utilized during the Reporting Year.

### ***Current ratio and net gearing ratio***

As at 31 December 2016, our current ratio (current assets/current liabilities) was approximately 0.79 compared to 0.87 as at 31 December 2015. As at 31 December 2016, the net gearing ratio was 11.1% compared to 27.0% as at 31 December 2015. 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 2016 and 2015, we had RMB273.4 million and RMB231.7 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 RMB85.7 million and RMB102.4 million for the years ended 31 December 2016 and 2015, respectively, which were primarily used in purchasing property, plant and equipment and procuring dairy cows.

### ***Working capital***

As at 31 December 2016, we had net current liabilities of RMB103.8 million (31 December 2015: net current liabilities of RMB70.8 million).

### ***Indebtedness***

During the Reporting Year, our borrowings were denominated in Renminbi. As at 31 December 2016, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB307.0 million at interest rates ranging from 4.35% to 8.00% per annum. As at 31 December 2016, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB44.5 million at interest rates ranging from 4.90% to 5.39% 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 2016, 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 RMB661.3 million as at 31 December 2016 (31 December 2015: RMB626.5 million). The net book value of the pledge of assets are as follow: (1) Plants and buildings: RMB455.3 million (31 December 2015: RMB430.2 million); (2) Machinery and equipment: RMB188.5 million (31 December 2015: RMB178.6 million); and (3) Lease prepayments: RMB17.5 million (31 December 2015: RMB17.7 million).

### ***Contingent liabilities***

As at 31 December 2015 and 31 December 2016, 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<sup>Note</sup>:

	<b>As of 31 December 2016</b>	
	<b>Actual amount used</b>	<b>Intended amount to be used</b>
	<i>RMB'000 (%)</i>	<i>RMB'000 (%)</i>
Building 3,000 community milk booths in Gansu as part of our effort to expand Cold Chain Liquid Milk Products distribution network	N/A	N/A
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	81,222 (70.0%)	81,222 (70.0%)
Promoting our brands	5,624 (4.8%)	23,206 (20.0%)
Construction of our new technology centre to conduct product development activities	N/A	N/A
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10.0%)
IPO proceeds not utilized	17,582 (15.2%)	N/A
<b>Total</b>	<b>116,031 (100%)</b>	<b>116,031 (100%)</b>

*Note:* The Board resolved to reallocate the net proceeds which were no longer needed for the originally designed purpose to support other purposes of use of proceeds. For details, please refer to the announcement of the Company dated 26 October 2016.

We had one bank account in Mainland China to manage the unutilized IPO proceeds balance. We currently do not have any intention to change our plan for the use of proceeds as stated in the announcement of for change in use of proceeds the Company dated 26 October 2016.

## **Human Resources**

We had 748 employees in PRC and Hong Kong as at 31 December 2016 (31 December 2015: 551 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 RMB52.0 million (the corresponding period in 2015: RMB41.1 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 2016**

Subsequent to 31 December 2016, 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.

## **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 2016 since the Company was listed on the Stock Exchange.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

The Board has overall responsibility for the Group’s internal control, assessment and management of risks.

The Board is responsible for maintaining and reviewing the effectiveness of the Group’s internal control and particularly the adequacy of resources, qualifications and experience of staff of the Group’s accounting and financial reporting function, and their training programs and budget.

The Board, through the audit committee of the Company (the “Audit Committee”), keeps regularly appraised of significant risks that may have impact on the Group’s performance. The Board considers that the Group’s internal control is adequate and effective.



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

## **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 2016.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 December 2016, 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 2016.

## **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 with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley. Ms. Liu Zhijun 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 2016.

## **DIVIDEND**

The Board recommended a final dividend of RMB7.42 cents per share for the Reporting Year. The total dividend amounted to approximately RMB10.4 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 Friday, 16 June 2017. 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 AGM, the register of members of the Company will be closed from Wednesday, 17 May 2017 to Friday, 16 June 2017, 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 Tuesday, 16 May 2017.

For ascertaining the entitlements of the Shareholders to receive the final dividend, the register of members of the Company will be temporarily closed from 22 June 2017 to 27 June 2017 (both days inclusive), during which no transfer of shares will be registered. All transfer documents together with the relevant share certificates and form of transfer must be delivered to the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East not later than 4:30 p.m. on 21 June 2017.

## **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 2016 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 2017

*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 Ms. Liu Zhijun, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley.*

\* *For identification purpose only*