



# 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

## INTERIM REPORT 2017



\* For identification purposes only

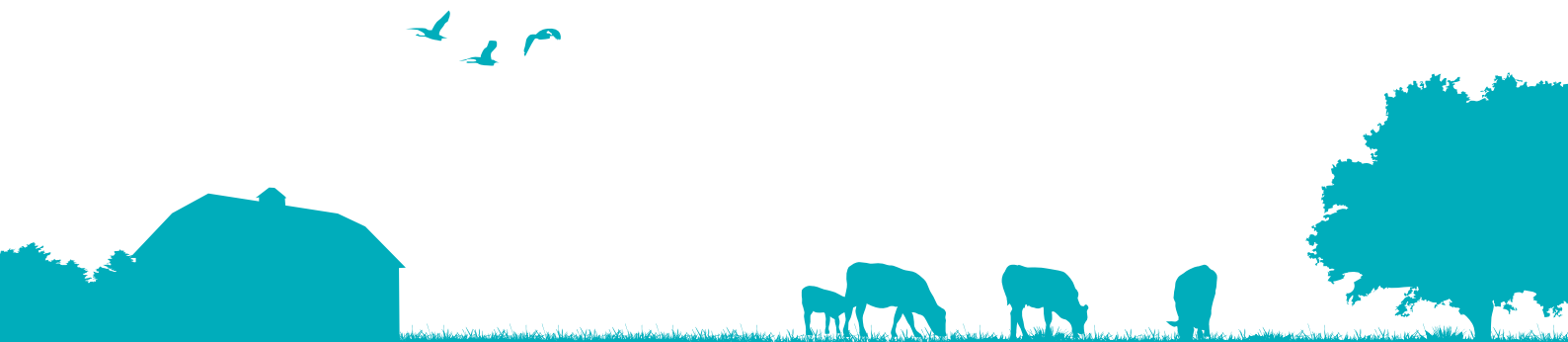
# ABOUT US

We, Lanzhou Zhuangyuan Pasture Co., Ltd.\* 蘭州莊園牧場股份有限公司 (the “Company”, together with its subsidiaries, the “Group”) are one of the leading dairy companies in Gansu Province and Qinghai Province where our operations and sales are primarily located and we operate a vertically integrated business model. Our business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure a stable supply of high quality raw milk for our dairy product manufacturing. We believe our business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ma Hongfu  
Mr. Wang Guofu  
Mr. Chen Yuhai  
Mr. Yan Bin

### Non-Executive Directors

Mr. Yap Kean Chong  
Mr. Song Xiaopeng

### Independent Non-Executive Directors

Ms. Liu Zhijun  
Ms. Xin Shihua  
Mr. Wong Cho Hang Stanley

### Supervisors

Ms. Du Wei  
Mr. Pan Jin  
Mr. Wei Lin

## AUDIT COMMITTEE

Ms. Liu Zhijun (*Chairman*)  
Ms. Xin Shihua  
Mr. Wong Cho Hang Stanley

## REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun (*Chairman*)  
Mr. Wang Guofu  
Ms. Xin Shihua

## NOMINATION COMMITTEE

Ms. Xin Shihua (*Chairman*)  
Mr. Ma Hongfu  
Mr. Wong Cho Hang Stanley

## STRATEGY COMMITTEE

Mr. Ma Hongfu (*Chairman*)  
Mr. Song Xiaopeng  
Ms. Xin Shihua

## AUTHORISED REPRESENTATIVES

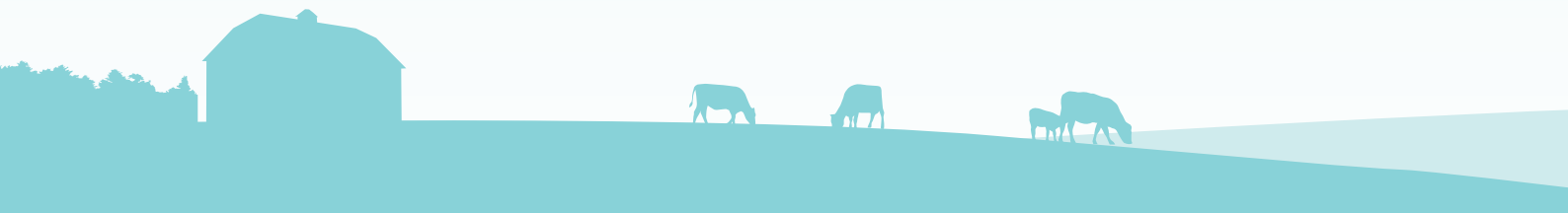
Mr. Ma Hongfu  
Mr. Li Siu Bun

## JOINT COMPANY SECRETARIES

Mr. Yan Bin (*Executive Director*)  
Mr. Li Siu Bun (*Chief Financial Officer*)

## STOCK CODE

1533



## Corporate Information

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 43,  
AIA Tower  
183 Electric Road  
North Point  
Hong Kong

### REGISTERED OFFICE

Sanjiaocheng Village  
Sanjiaocheng Town  
Yuzhong County  
Lanzhou, Gansu  
PRC

### PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

No. 158 Yanerwan Road  
Chengguan District  
Lanzhou, Gansu  
PRC

### H SHARE REGISTRAR AND TRANSFER OFFICE

#### Computershare Hong Kong Investor Services Limited

Shops 1712-1716  
17/F, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### LEGAL ADVISOR (AS TO HONG KONG LAW)

#### P.C. Woo & Co.

12/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

### PRINCIPAL BANK

#### Agricultural Development Bank of China, Yuzhong County Branch

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

### AUDITOR

#### KPMG

Certified Public Accountants  
8th Floor, Prince's Building  
10 Charter Road  
Central  
Hong Kong

### COMPANY WEBSITE

<http://www.lzzhuangyuan.com>



# INTERIM RESULTS HIGHLIGHTS

## FINANCIAL HIGHLIGHTS

### Results

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Revenue	<b>291,675</b>	322,214
Gross profit	<b>93,096</b>	111,578
Profit for the period attributable to equity shareholders of the Company	<b>37,742</b>	37,625
Earnings per share (RMB) <sup>(1)</sup>	<b>0.27</b>	0.27

- Revenue decreased by 9.5% as compared to the corresponding period in 2016.
- Gross profit decreased by 16.6% as compared to the corresponding period in 2016.
- Profit for the period attributable to equity shareholders of the Company increased by 0.3% as compared to the corresponding period in 2016.

<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 interim periods.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OVERVIEW

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 products manufacturing. We owned and operated four dairy farms and collectively operated four 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 as to maintain approximately 60% of our raw milk requirement that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

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



We are a major player on the sale of “Cold Chain Liquid Milk Products” (i.e., liquid milk products that have a short shelf life between 3 days to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products) in the Gansu 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.



## Management Discussion and Analysis

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

### Dairy Farming

- **Number of dairy cows**

For the six months ended 30 June 2017 (the “Reporting Period”), our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the number of our dairy cows as at 30 June 2017 and 31 December 2016:



	At 30 June 2017 Heads	At 31 December 2016 Heads
Milkable cows	<b>2,853</b>	2,560
Heifers	<b>1,583</b>	1,534
Calves	<b>644</b>	1,008
<b>Total</b>	<b>5,080</b>	5,102





## Management Discussion and Analysis

- **Milk yield**

We produced approximately 12,820 tonnes of raw milk for the Reporting Period, representing an increase of approximately 25.6% from about 10,209 tonnes in the corresponding period in 2016. The improved results were mainly attributable to the increase in average milk yield per milkable cow per annum.

Our average milk yield per milkable cow per annum increased from 6.0~7.4 tonnes during the six months ended 30 June 2016 to 6.4~8.6 tonnes during the Reporting Period.

### Dairy Products Production

During the Reporting Period, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased. In response to these market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own dairy farms and quality 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 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 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.

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, constructing additional cold warehouses and vending machines. We expect sales of our Cold Chain Liquid Milk Products and high-margin products will continue to increase in the foreseeable future.



## Management Discussion and Analysis

- **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 30 June 2017, we had entered into distribution agreements with 305 distributors and 144 sales agents, as compared to 303 distributors and 168 sales agents as at 31 December 2016. 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. Furthermore, we are also expanding our distribution network into the China national market, especially in the northwestern China region.

- **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 decreased slightly from RMB9,527 per tonne in the six months ended 30 June 2016 to RMB9,462 per tonne in the Reporting Period. We believe our ability to maintain a relatively high 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.



## Management Discussion and Analysis

### 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 (HACCP) 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 SSOP specifying step-by-step procedures needed for processes related to sanitation. Following the SSOP, 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.



## Management Discussion and Analysis

### 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 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.



## Management Discussion and Analysis

### FINANCIAL OVERVIEW

#### Revenue

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June					
	2017			2016		
	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	9,690	1,121	8,644	9,572	1,131	8,463
UHT Milk	54,215	8,253	6,569	51,109	8,132	6,285
Modified Milk	102,194	11,555	8,844	107,215	12,073	8,881
Yogurt	122,571	9,580	12,794	151,212	12,159	12,436
<b>Subtotal</b>	<b>288,670</b>	<b>30,509</b>	<b>9,462</b>	319,108	33,495	9,527
<b>Milk Beverage</b>	<b>1,975</b>	<b>454</b>	<b>4,350</b>	2,075	428	4,848
<b>Other Dairy Products</b>	<b>1,030</b>	<b>22</b>	<b>46,818</b>	1,031	36	28,639
<b>Total</b>	<b>291,675</b>	<b>30,985</b>	<b>9,413</b>	322,214	33,959	9,488

Our revenue decreased by 9.5% from RMB322.2 million for the six months ended 30 June 2016 to RMB291.7 million for the Reporting Period, primarily due to the decrease in our sales of liquid milk products, particularly the yogurt products.

The decrease of our liquid milk business was due to the decrease in the total volume of liquid milk products sold in Qinghai and fierce competition from national brands. During the Reporting Period, the total volume of dairy products sold decreased by 8.8% from approximately 33,959 tonnes for the six months ended 30 June 2016 to approximately 30,985 tonnes for the Reporting Period, primarily due to the decrease in the sales volume of yogurt products.



## Management Discussion and Analysis

### Gross profit and gross profit margin

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

	Six months ended 30 June					
	2017			2016		
	Cost of sales RMB'000	Gross Profit RMB'000	Gross profit margin %	Cost of sales RMB'000	Gross Profit RMB'000	Gross profit margin %
<b>Liquid Milk Products</b>						
Pasteurised Milk	5,406	4,284	44.2	5,072	4,500	47.0
UHT Milk	44,767	9,448	17.4	38,735	12,374	24.2
Modified Milk	66,771	35,423	34.7	70,119	37,096	34.6
Yogurt	79,507	43,064	35.1	94,128	57,084	37.8
<b>Subtotal</b>	<b>196,451</b>	<b>92,219</b>	<b>31.9</b>	<b>208,054</b>	<b>111,054</b>	<b>34.8</b>
<b>Milk Beverage</b>	<b>1,467</b>	<b>508</b>	<b>25.7</b>	<b>1,478</b>	<b>597</b>	<b>28.8</b>
<b>Other Dairy Products</b>	<b>661</b>	<b>369</b>	<b>35.8</b>	<b>1,104</b>	<b>-73</b>	<b>-7.1</b>
<b>Total cost of sales/Total gross profit/Overall gross profit margin</b>	<b>198,579</b>	<b>93,096</b>	<b>31.9</b>	<b>210,636</b>	<b>111,578</b>	<b>34.6</b>

Our overall gross profit margin of our dairy products after taking into account biological assets fair value adjustments was 31.9% for the Reporting Period and 34.6% for the corresponding period in 2016. The decrease in the overall gross profit margin during the Reporting Period was primarily due to the increase of purchase price of raw milk. The average raw milk purchase price increased by about 6.9% from RMB3.60/kg for the six months ended 30 June 2016 to RMB3.85/kg for the Reporting Period.



## Management Discussion and Analysis

### 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 RMB4.9 million for the six months ended 30 June 2016 to RMB7.2 million for the Reporting Period. The increase was mainly due to the increase of milk yield during the Reporting Period compared to the corresponding period in 2016.

### 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 RMB6.9 million for the Reporting Period, which decreased by 75.6% from RMB28.3 million for the corresponding period in 2016, primarily contributable to the improved milk yield and the fluctuation of raw milk price compared with the corresponding period of last year.

### 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 six months ended 30 June 2017 and 2016, government grants we recognized amounted to RMB15.7 million and RMB11.3 million, and net income from sales of materials we recognized amounted to RMB3.6 million and RMB5.0 million, respectively.

### Operating expenses

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Distribution costs	33,469	26,247
Administrative expenses	29,906	25,405
<b>Total operating expenses</b>	<b>63,375</b>	51,652

Our operating expenses increased from RMB51.7 million for the six months ended 30 June 2016 to RMB63.4 million for the Reporting Period.

## Management Discussion and Analysis

The increase in distribution costs during the Reporting Period was mainly due to: (1) the increase in transportation cost and staff cost to promote sales in the fierce market competition; (2) the increase in the marketing expenses for the purpose of securing higher sales growth and gaining larger market shares in regional key market and further exploring the national market for our Cold Chain Liquid Milk Products.

The administrative expenses increased primarily because there was cost incurred relating to the proposed A Shares offering during the Reporting Period.

### Net finance costs

Our net finance costs increased by 19.5% from RMB8.2 million for the six months ended 30 June 2016 to RMB9.8 million for the Reporting Period, primarily due to increased interest expenses resulting from increased average bank loans utilized during the Reporting Period.

### Current ratio and net gearing ratio

As at 30 June 2017, our current ratio (current assets/current liabilities) was approximately 0.87 compared to 0.79 as at 31 December 2016. As at 30 June 2017, the net gearing ratio was 5.0% compared to 11.1% as at 31 December 2016. 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 period/year) over total equity attributable to equity shareholders of the Company.

### Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our daily operations and proceeds from bank loans. As at 30 June 2017 and 31 December 2016, we had RMB394.4 million and RMB273.4 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 RMB10.2 million and RMB72.3 million for the six months ended 30 June 2017 and 2016, respectively, which were primarily used in purchasing property, plant and equipment, procuring dairy cows and settling land leases.





## Management Discussion and Analysis

### Working capital

As at 30 June 2017, we had net current liabilities of RMB74.6 million (31 December 2016: net current liabilities of RMB103.8 million).

### Indebtedness

During the Reporting Period, our borrowings were denominated in Renminbi. As at 30 June 2017, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB399.6 million at interest rates ranging from 4.35%~8.00% per annum. As at 30 June 2017, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB29.6 million at interest rates ranging from 5.39%~5.488% 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 Reporting Period, 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 RMB644.8 million as at 30 June 2017. The net book value of the pledge of assets are as follow: (1) Plants and buildings: RMB447.8 million; (2) Machinery and equipment: RMB179.8 million; and (3) Lease prepayments: RMB17.2 million.

### Contingent liabilities

As at 30 June 2017 and 31 December 2016, we did not have significant contingent liabilities.



## Management Discussion and Analysis

### Use of Proceeds from Listing

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 30 June 2017	
	Actual amount used RMB'000 (%)	Intended amount to be used RMB'000 (%)
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	9,275 (8.0%)	23,206 (20.0%)
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10.0%)
IPO proceeds not utilized	13,931 (12.0%)	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.



## Management Discussion and Analysis

### HUMAN RESOURCES

We had 712 employees in Mainland China and Hong Kong as at 30 June 2017 (31 December 2016: 748 employees). During the Reporting Period, 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 RMB26.2 million (the corresponding period in 2016: RMB23.9 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 the employees in the PRC, we have participated in defined contribution retirement plans and social insurance plans organised by the relevant local governmental authorities. For the employees in Hong Kong, we participate 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.



## Management Discussion and Analysis

### 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.



# OTHER INFORMATION

## IMPORTANT EVENTS THAT HAVE OCCURRED SINCE 30 JUNE 2017

Subsequent to 30 June 2017, there had been no significant change in our principal business, pricing policy and costs structure.

On 3 August 2017, the Board passed the resolutions regarding the proposal on the extension of the validity period of the Shareholders' approval for the proposed initial public offering of not more than 46,840,000 A Shares in the PRC on the Shenzhen Stock Exchange, which is subject to approval of extraordinary general meeting and class meetings to be held on 29 September 2017. For further details, please refer to the announcement of the Company dated 3 August 2017, the notice of extraordinary general meeting of the Company, the notice of domestic Shareholders' class meeting and H Shareholders' class meeting, all dated 14 August 2017.

## 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, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the Reporting Period since the Company was listed on the Stock Exchange.



## Other Information

### 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 the directors of the Company (the “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 Reporting Period.

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

During the Reporting Period, there was no repurchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company.

### MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration proceedings during the Reporting Period.

### SHARE OPTION SCHEME

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

### CAPITAL COMMITMENTS

Details of capital commitments are set out in Note 20 to the unaudited interim financial report.

### SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Company acquired 18% equity interests in Xi’an Dongfang Dairy Co., Ltd. (西安東方乳業有限公司) in 2013. There was no significant influence on the investee during the six months ended 30 June 2017.

### MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2017, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.



## Other Information

**DIRECTORS' AND SUPERVISORS' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2017, the interests and/or short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of Interest	Total Number of Shares	Approximate percentage of total issued Domestic Shares	Approximate percentage in the issued share capital of the Company
<b>Domestic Shares</b>				
Ma Hongfu ( <i>Note 2</i> )	Beneficial owner	32,197,400 (L)	30.56%	22.92%
	Interested in controlled corporation	45,894,700 (L)	43.56%	32.67%

*Notes:*

- (1) All interests in Shares were long positions.
- (2) Mr. Ma Hongfu holds 97.38% equity interests in Lanzhou Zhuangyuan Investment Co., Ltd.\* (蘭州莊園投資有限公司) ("Zhuangyuan Investment") and 39.44% equity interests in Gansu Lucky Cow Investment Co., Ltd.\* (甘肅福牛投資有限公司) ("Lucky Cow"). Under the SFO, he is deemed to be interested in the Shares held by Zhuangyuan Investment and Lucky Cow.

Save as disclosed above, as at 30 June 2017, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest and/or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Other Information

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

As at 30 June 2017, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests and/or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued Domestic Shares/ H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
<b>Domestic Shares</b>				
Yang Xiuhua (Note 2)	Interest of spouse	78,092,100 (L)	74.11%	55.58%
Lanzhou Zhuangyuan Investment Co., Ltd. (Note 3)	Beneficial owner	30,894,700 (L)	29.32%	21.99%
Gansu Lucky Cow Investment Co., Ltd. (Note 3)	Beneficial owner	15,000,000 (L)	14.24%	10.68%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	6,990,000 (L)	6.63%	4.98%
<b>H Shares</b>				
Hu Keliang	Beneficial owner	7,000,000 (L)	19.93%	4.98%
Li Yanling (Note 4)	Interests of spouse	7,000,000 (L)	19.93%	4.98%
Wang Wei (Note 5)	Beneficial owner	800,000 (L)	2.28%	0.57%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.99%
Li Qi (Note 5)	Interests of spouse	3,600,000 (L)	10.25%	2.56%
Venko Limited (Note 5)	Beneficial owner	2,800,000 (L)	7.97%	1.99%
Ren Qifeng (Note 6)	Interest of controlled corporation	3,523,000 (L)	10.03%	2.51%
Ren Songliu (Note 6)	Interests of spouse	3,523,000 (L)	10.03%	2.51%
Technoart Investments Limited (Note 6)	Beneficial owner	3,523,000 (L)	10.03%	2.51%
Zhang Chenbin	Beneficial owner	3,040,000 (L)	8.65%	2.16%
Hu Jiawu	Beneficial owner	3,000,000 (L)	8.54%	2.14%
Xi Xin (Note 7)	Interests of spouse	3,000,000 (L)	8.54%	2.14%



## Other Information

### Notes:

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

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any other persons (other than Directors and chief executive of the Company) who had interests and/or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## REVIEW OF INTERIM 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 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 unaudited interim results of the Group for the Reporting Period.

## DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (the six months ended 30 June 2016: Nil).

## SUFFICIENCY OF PUBLIC FLOAT

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

By order of the Board

**Lanzhou Zhuangyuan Pasture Co., Ltd.\***

**Ma Hongfu**

*Chairman, Executive Director and Chief Executive Officer*

Lanzhou, the PRC, 21 August 2017



# REVIEW REPORT TO THE BOARD OF DIRECTORS



**Review report to the board of directors of  
Lanzhou Zhuangyuan Pasture Co., Ltd.**

## INTRODUCTION

We have reviewed the interim financial report set out on pages 26 to 52 which comprises the consolidated statement of financial position of Lanzhou Zhuangyuan Pasture Co., Ltd. (the “Company”) as of 30 June 2017 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.



## Review Report to the Board of Directors

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

### KPMG

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

21 August 2017



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b>Revenue</b>	4	<b>291,675</b>	322,214
Cost of sales		<b>(198,579)</b>	(210,636)
<b>Gross profit</b>		<b>93,096</b>	111,578
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		<b>7,179</b>	4,900
Loss arising from changes in fair value less costs to sell of biological assets		<b>(6,894)</b>	(28,281)
Other net income	5	<b>21,086</b>	18,509
Distribution costs		<b>(33,469)</b>	(26,247)
Administrative expenses		<b>(29,906)</b>	(25,405)
<b>Profit from operations</b>		<b>51,092</b>	55,054
Net finance costs	6(a)	<b>(9,835)</b>	(8,246)
<b>Profit before taxation</b>	4, 6	<b>41,257</b>	46,808
Income tax	7	<b>(3,515)</b>	(9,183)
<b>Profit for the period</b>		<b>37,742</b>	37,625
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>37,742</b>	37,625
<b>Earnings per share</b>			
– Basic and diluted (RMB)	8	<b>0.27</b>	0.27

The notes on pages 33 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 18(a).



**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

for the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b>Profit for the period</b>	<b>37,742</b>	37,625
<b>Total comprehensive income for the period</b>	<b>37,742</b>	37,625
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>37,742</b>	37,625
<b>Total comprehensive income for the period</b>	<b>37,742</b>	37,625

The notes on pages 33 to 52 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 – unaudited  
(Expressed in RMB)

	<i>Note</i>	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9	669,078	684,354
Available-for-sale financial assets		33,720	33,720
Lease prepayments	10	18,450	18,832
Biological assets	11	128,515	126,289
Deferred tax assets		3,955	4,108
Other non-current assets		81,456	90,743
		<b>935,174</b>	958,046
<b>Current assets</b>			
Inventories		54,567	75,056
Trade receivables	12	23,324	14,036
Deposits, prepayments and other receivables	13	15,123	17,097
Pledged deposit	14	14,248	4,000
Cash and cash equivalents	14	394,359	273,352
		<b>501,621</b>	383,541
<b>Current liabilities</b>			
Trade and bills payables	15	102,955	84,168
Receipts in advance		4,108	20,290
Accrued expenses and other payables	16	57,075	54,552
Non-current liabilities due within one year		5,064	6,151
Bank loans	17(a)	399,563	307,000
Current taxation		7,461	15,133
		<b>576,226</b>	487,294
<b>Net current liabilities</b>		<b>(74,605)</b>	(103,753)
<b>Total assets less current liabilities</b>		<b>860,569</b>	854,293

The notes on pages 33 to 52 form part of this interim financial report.

**Consolidated Statement of Financial Position**

at 30 June 2017 – unaudited

(Expressed in RMB)

	<i>Note</i>	<b>At 30 June 2017 RMB'000</b>	<b>At 31 December 2016 RMB'000</b>
<b>Non-current liabilities</b>			
Bank loans	17(b)	<b>29,634</b>	44,500
Deferred income		<b>41,009</b>	46,256
Obligations under finance leases		<b>2,375</b>	3,303
		<b>73,018</b>	94,059
<b>NET ASSETS</b>		<b>787,551</b>	760,234
<b>CAPITAL AND RESERVES</b>			
Share capital	18	<b>140,500</b>	140,500
Reserves	18	<b>647,051</b>	619,734
<b>Total equity attributable to equity shareholders of the Company</b>		<b>787,551</b>	760,234
<b>TOTAL EQUITY</b>		<b>787,551</b>	760,234

Approved and authorised for issue by the board of directors on 21 August 2017.

**Ma Hongfu**  
*Director*

**Wang Guofu**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 (Note 18(b))	Capital reserve RMB'000 (Note 18(c)(i))	PRC statutory reserves RMB'000 (Note 18(c)(iii))	Retained profits RMB'000	Total RMB'000
<b>Balance at 1 January 2016</b>	140,500	246,127	21,721	285,980	694,328
<b>Changes in equity for the six months ended 30 June 2016:</b>					
Profit for the period	–	–	–	37,625	37,625
Total comprehensive income	–	–	–	37,625	37,625
Dividends approved in respect of the previous year	–	–	–	(10,004)	(10,004)
<b>Balance at 30 June 2016</b>	140,500	246,127	21,721	313,601	721,949
<b>Changes in equity for the six months ended 31 December 2016:</b>					
Profit for the period	–	–	–	38,285	38,285
Total comprehensive income	–	–	–	38,285	38,285
Appropriation to reserves	–	–	6,483	(6,483)	–
<b>Balance at 31 December 2016</b>	140,500	246,127	28,204	345,403	760,234

The notes on pages 33 to 52 form part of this interim financial report.



**Consolidated Statement of Changes in Equity**

for the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 <i>(Note 18(b))</i>	Capital reserve RMB'000 <i>(Note 18(c)(i))</i>	PRC statutory reserves RMB'000 <i>(Note 18(c)(ii))</i>	Retained profits RMB'000	Total RMB'000
<b>Balance at 1 January 2017</b>	<b>140,500</b>	<b>246,127</b>	<b>28,204</b>	<b>345,403</b>	<b>760,234</b>
<b>Changes in equity for the six months ended 30 June 2017:</b>					
Profit for the period	–	–	–	37,742	37,742
Total comprehensive income	–	–	–	37,742	37,742
Dividends approved in respect of the previous year	–	–	–	(10,425)	(10,425)
Appropriation to reserves	–	–	2,269	(2,269)	–
<b>Balance at 30 June 2017</b>	<b>140,500</b>	<b>246,127</b>	<b>30,473</b>	<b>370,451</b>	<b>787,551</b>

The notes on pages 33 to 52 form part of this interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b>Operating activities</b>			
Cash generated from operations		93,412	108,343
PRC income tax paid		(11,034)	(10,975)
<b>Net cash generated from operating activities</b>		<b>82,378</b>	97,368
<b>Investing activities</b>			
Payments for purchase of property, plant, equipment and lease prepayments		(16,226)	(43,682)
Payments for breeding calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		(10,488)	(14,030)
Payments for amount lending to a third party		–	(10,000)
Repayment of amount lending to a third party		–	50,000
Proceeds from receipts of financing products at maturity		–	10,000
Cash received from government grants		520	4,650
(Increase)/decrease in pledged deposit		(10,248)	30,211
Other cash flows arising from investing activities		10,189	3,649
<b>Net cash (used in)/generated from investing activities</b>		<b>(26,253)</b>	30,798
<b>Financing activities</b>			
Repayments of bank loans		(197,683)	(177,000)
Proceeds from new bank loans		275,380	160,000
Interest paid		(10,048)	(9,626)
Other cash flows arising from financing activities		(2,319)	(3,016)
<b>Net cash generated from/(used in) financing activities</b>		<b>65,330</b>	(29,642)
<b>Net increase in cash and cash equivalents</b>		<b>121,455</b>	98,524
<b>Cash and cash equivalents at 1 January</b>		<b>273,352</b>	231,702
<b>Effect of foreign exchange rate changes</b>		<b>(448)</b>	516
<b>Cash and cash equivalents at 30 June</b>	14	<b>394,359</b>	330,742

The notes on pages 33 to 52 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

## 1 PRINCIPAL ACTIVITIES AND ORGANIZATION

Lanzhou Zhuangyuan Pasture Co., Ltd. (the “Company”) was incorporated as a joint stock limited company in Gansu, Lanzhou on 19 April 2011. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 October 2015. These condensed consolidated interim financial statements comprise the Company and its subsidiaries (collectively referred to as the “Group”). The Group is primarily involved in breeding dairy cows and manufacturing and selling dairy products.

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (the “IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 21 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The interim financial report presented in Renminbi (“RMB”), rounded to the nearest thousand unless otherwise indicated, and is prepared on the historical cost basis except for biological assets and agricultural produce are stated at their fair value.

The interim financial report has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 30 June 2017. The directors are of opinion that, based on the working capital forecast of the Group, the Group will have necessary liquid funds to finance its working capital expenditure requirements for a reasonable period of time.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by HKICPA. KPMG’s independent review report to the Board of Directors is included in this report.



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 2 BASIS OF PREPARATION *(Continued)*

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2017.

### 3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4 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 information 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.



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 4 SEGMENT REPORTING *(Continued)*

#### (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 following bases:

Segment assets include all assets with the exception of deferred tax assets. Segment liabilities include all current and non-current liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reportable segment profit is "adjusted EBITDA" i.e. "adjusted earnings before net finance costs, taxes, depreciation and amortisation", and "depreciation and amortisation" is regarded as including the depreciation and amortisation of and the impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as the gains and losses arising from the changes in fair value (including the changes arising from biological assets and agricultural produce) as management believes that such adjusted information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning the above items, management is provided with segment information concerning net finance costs, depreciation and amortisation expenses and additions to non-current segment assets related to each segment in their operations. There are transfers of the raw milk produced by Dairy farming segment to Dairy products production segments. Inter-segment sales are priced with reference to market price.



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 4 SEGMENT REPORTING *(Continued)*

#### (a) Segment results, assets and liabilities *(Continued)*

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 period is set out below:

	Six months ended 30 June 2017		
	Dairy farming RMB'000	Dairy products production RMB'000	Total RMB'000
<b>Revenue</b>			
Revenue from external customers	90	291,585	291,675
Inter-segment revenue	75,778	–	75,778
<b>Reportable segment revenue</b>	<b>75,868</b>	<b>291,585</b>	<b>367,453</b>
<b>Reportable segment profit (adjusted EBITDA)</b>	<b>28,047</b>	<b>53,055</b>	<b>81,102</b>

	At 30 June 2017		
	Dairy farming RMB'000	Dairy products production RMB'000	Total RMB'000
<b>Reportable segment assets</b>	<b>692,657</b>	<b>1,214,861</b>	<b>1,907,518</b>
<b>Reportable segment liabilities</b>	<b>499,551</b>	<b>624,371</b>	<b>1,123,922</b>



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

## 4 SEGMENT REPORTING (Continued)

## (a) Segment results, assets and liabilities (Continued)

	Six months ended 30 June 2016		
	Dairy farming RMB'000	Dairy products production RMB'000	Total RMB'000
<b>Revenue</b>			
Revenue from external customers	78	322,136	322,214
Inter-segment revenue	54,071	–	54,071
<b>Reportable segment revenue</b>	<b>54,149</b>	<b>322,136</b>	<b>376,285</b>
<b>Reportable segment profit (adjusted EBITDA)</b>	<b>13,588</b>	<b>88,210</b>	<b>101,798</b>

	At 31 December 2016		
	Dairy farming RMB'000	Dairy products production RMB'000	Total RMB'000
<b>Reportable segment assets</b>	<b>668,598</b>	<b>1,108,100</b>	<b>1,776,698</b>
<b>Reportable segment liabilities</b>	<b>489,215</b>	<b>531,357</b>	<b>1,020,572</b>

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 4 SEGMENT REPORTING *(Continued)*

#### (b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Reportable segment profit	<b>81,102</b>	101,798
Net finance costs	<b>(9,835)</b>	(8,246)
Depreciation and amortisation	<b>(23,116)</b>	(18,463)
Loss arising from changes in fair value less costs to sell of biological assets	<b>(6,894)</b>	(28,281)
Consolidated profit before taxation	<b>41,257</b>	46,808

### 5 OTHER NET INCOME

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Government grants	<b>15,666</b>	11,307
Net income from sales of materials	<b>3,579</b>	4,956
Others	<b>1,841</b>	2,246
Total	<b>21,086</b>	18,509





## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 6 PROFIT BEFORE TAXATION

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

#### (a) Net finance costs

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Interest income	(824)	(1,131)
Interest expenses on bank loans	9,920	9,710
Finance charges on obligations under finance leases	291	116
Net foreign exchange loss/(gain)	448	(449)
<b>Total</b>	<b>9,835</b>	<b>8,246</b>

#### (b) Other items

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Staff costs	25,456	23,402
Depreciation and amortisation	23,116	18,463

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 7 INCOME TAX

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b>Current taxation</b>		
PRC income tax	<b>3,362</b>	7,817
<b>Deferred taxation</b>		
Origination and reversal of temporary difference	<b>153</b>	1,366
<b>Total</b>	<b>3,515</b>	9,183

Notes:

- (i) The Company and its subsidiaries are subject to the PRC Enterprise Income Tax statutory rate of 25% for the six months ended 30 June 2017.
- (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 Enterprise Income Tax.

### 8 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB37,742,000 (six months ended 30 June 2016: RMB37,625,000) and the weighted average of 140,500,000 ordinary shares (2016: 140,500,000 ordinary shares) in issue during the interim period.

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding during the six months ended 30 June 2017 and 2016.



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment amounted to RMB9,837,000 (six months ended 30 June 2016: RMB64,204,000).

### 10 LEASE PREPAYMENTS

Lease prepayments mainly represent the payments for the acquisitions of lands held under operating leases.

During the six months ended 30 June 2017, no material items of lease prepayments were acquired (six months ended 30 June 2016: Nil).

### 11 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 30 June 2017 and 31 December 2016 is 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.

	At 30 June 2017 Heads	At 31 December 2016 Heads
Milkable cows	<b>2,853</b>	2,560
Heifers	<b>1,583</b>	1,534
Calves	<b>644</b>	1,008
Total	<b>5,080</b>	5,102

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 11 BIOLOGICAL ASSETS *(Continued)*

#### (a) Nature of the Group's agricultural activities *(Continued)*

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

The amounts of the dairy cows are as below:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Milkable cows	<b>86,988</b>	80,869
Heifers	<b>32,709</b>	32,914
Calves	<b>8,818</b>	12,506
Total	<b>128,515</b>	126,289

The fair value of the Group's dairy cows as at 30 June 2017 were estimated by using the same valuation techniques as adopted in the consolidated financial statements of the Group for the year ended 31 December 2016.



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 12 TRADE RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade receivables due from third parties	<b>23,389</b>	14,149
Less: allowance for impairment of doubtful debts	<b>(65)</b>	(113)
Total	<b>23,324</b>	14,036

#### (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:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Less than 3 months	<b>19,812</b>	11,799
More than 3 months but less than 6 months	<b>2,589</b>	1,730
More than 6 months but less than 12 months	<b>881</b>	434
More than 1 year but less than 2 years	<b>5</b>	58
More than 2 years but less than 3 years	<b>37</b>	15
Total	<b>23,324</b>	14,036

#### (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.

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 12 TRADE RECEIVABLES *(Continued)*

#### (b) Impairment of trade receivables *(Continued)*

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
At 1 January	113	668
Impairment losses recognised	42	170
Impairment losses reversed	(90)	(318)
Uncollectible amounts written off	–	(407)
At 30 June/31 December	<b>65</b>	113

At 30 June 2017, the Group's trade receivable of RMB65,000 (31 December 2016: RMB113,000) were individually or collectively 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:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Neither past due nor impaired	22,741	13,450
Past due but not impaired	583	586
Total	<b>23,324</b>	14,036

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 12 TRADE RECEIVABLES *(Continued)*

#### (c) Trade receivables that are not impaired *(Continued)*

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, 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.

### 13 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Receivable for disposal of dairy cows	5,589	4,308
Prepayments for raw materials	4,436	6,296
Advances to staff	1,755	1,845
Deductible value added tax	–	1,050
Deposits with third parties	912	781
Others	4,188	4,423
Total	16,880	18,703
Less: allowance for impairment of doubtful debts	(1,757)	(1,606)
Total	15,123	17,097

All of the deposits, prepayments and other receivables the Group are expected to be recovered or recognised in the statement of profit or loss or to other items in the statement of financial position within one year.

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 13 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

The movement in the allowance for doubtful debts is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
At 1 January	1,606	1,866
Impairment losses recognised	658	979
Impairment losses reversed	(507)	(1,103)
Uncollectible amounts written off	-	(136)
At 30 June/31 December	<b>1,757</b>	1,606

At 30 June 2017, the Group's deposits, prepayments and other receivables of RMB1,757,000 (31 December 2016: RMB1,606,000) were individually or collectively determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

For the other balances of deposits, prepayments and other receivables for the Group, the management is of the opinion that the counterparties are with good credit quality and the balances are considered fully recoverable.

### 14 PLEDGED DEPOSIT, CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Pledged deposit	14,248	4,000
Cash at bank and on hand	394,359	273,352
Total	<b>408,607</b>	277,352





## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 15 TRADE AND BILLS PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade payables for purchase of raw milk, packing material and auxiliary material	<b>55,072</b>	60,755
Trade payables for purchase of forage and veterinary medicine	<b>19,388</b>	19,413
Bills payable	<b>28,495</b>	4,000
<b>Total</b>	<b>102,955</b>	84,168

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 payables is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Less than 3 months	<b>53,234</b>	72,378
More than 3 months but less than 6 months	<b>41,921</b>	4,562
More than 6 months but less than 12 months	<b>5,262</b>	5,257
More than 1 year but less than 2 years	<b>998</b>	725
More than 2 years	<b>1,540</b>	1,246
<b>Total</b>	<b>102,955</b>	84,168

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 16 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Payables for acquisition of property, plant and equipment	<b>16,703</b>	22,041
Dividends payable	<b>10,425</b>	–
Conditional government grants received but not yet recognised	<b>4,332</b>	4,332
Employee benefits payables	<b>10,177</b>	10,692
Deposit from third parties	<b>6,006</b>	4,835
Value added tax and other taxes payables	<b>2,740</b>	3,786
Payables for advertising and promotion expenses	<b>1,027</b>	1,431
Payables for accessories	<b>1,539</b>	3,149
Interest payable	<b>305</b>	432
Others	<b>3,821</b>	3,854
<b>Total</b>	<b>57,075</b>	54,552

### 17 BANK LOANS

(a) The short-term bank loans are analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Short-term bank loans	<b>380,000</b>	300,000
Add: current portion of long-term bank loans	<b>19,563</b>	7,000
<b>Total</b>	<b>399,563</b>	307,000

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 17 BANK LOANS (Continued)

#### (a) The short-term bank loans are analysed as follows: (Continued)

As at the end of the reporting period, the short-term bank loans (excluding the current portion of long-term bank loans) were secured and/or guaranteed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Secured by land use rights, property, plant and equipment of the Group (Note (b))	280,000	230,000
Secured by land use rights of related parties	50,000	–
Jointly guaranteed by the intra-group entities	50,000	60,000
Unsecured bank loans	–	10,000
<b>Total</b>	<b>380,000</b>	<b>300,000</b>

#### (b) The long-term bank loans are analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Long-term bank loans	49,197	51,500
Less: current portion of long-term bank loans	(19,563)	(7,000)
<b>Total</b>	<b>29,634</b>	<b>44,500</b>

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 17 BANK LOANS *(Continued)*

#### (b) The long-term bank loans are analysed as follows: *(Continued)*

As at the end of the reporting period, the long-term bank loans (including the current portion of long-term bank loans) were secured and/or guaranteed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Jointly secured by land use rights of the Group and land use rights, property, plant and equipment of third parties and guaranteed by the intra-group entities	<b>13,500</b>	18,000
Jointly guaranteed by the intra-group entities and third parties	<b>35,697</b>	33,500
<b>Total</b>	<b>49,197</b>	51,500

*Note:*

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

None of the Group's bank loans is subject to the fulfilment of covenants.



## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 18 CAPITAL, RESERVES AND DIVIDENDS

#### (a) Dividends

- (i) The board of directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2017.
- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB7.42 cents per share (six months ended 30 June 2016: RMB7.12 cents per share)	10,425	10,004
Total	10,425	10,004

The dividends have been subsequently paid out upon the approval of the interim financial report.

#### (b) Share capital

Ordinary shares, issued and fully paid:

	At 30 June 2017		At 31 December 2016	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
At 1 January	140,500	140,500	140,500	140,500
At 30 June/31 December	140,500	140,500	140,500	140,500

## Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

### 18 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

#### (c) Nature and purpose of reserves

##### (i) Capital reserve

Capital reserve mainly includes the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company and contributions from equity shareholders.

##### (ii) PRC statutory reserves

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

### 19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2017 and 31 December 2016.

### 20 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	25,380	25,380
Total	25,380	25,380