

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

FINANCIAL HIGHLIGHTS

Results

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Revenue	313,623	311,124
Gross profit	114,898	98,817
Profit for the period attributable to equity shareholders of the Company	26,326	37,742
Earnings per share (RMB) ⁽¹⁾	0.14	0.27

- Revenue increased by 0.8% as compared to the corresponding period in 2017.
- Gross profit increased by 16.3% as compared to the corresponding period in 2017.
- Profit for the period attributable to equity shareholders of the Company decreased by 30.2% as compared to the corresponding period in 2017.

⁽¹⁾ 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.

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 unaudited consolidated interim results (the “**Interim Results**”) of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2017, prepared in accordance with the China Accounting Standards for Business Enterprise (“**CASBE**”).

The Interim Results and the unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and the external auditor of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 – unaudited

(Expressed in RMB)

		Six months ended 30 June	
		2018	2017
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
I. Total operating revenue	3.4	313,623	311,124
Including: Operating revenue		313,623	311,124
II. Total operating cost		280,174	276,917
Including: Operating cost	3.4	198,725	212,307
Taxes and surcharges		2,135	1,926
Selling expenses	3.5	45,163	33,469
Administrative expenses	3.6	25,783	26,675
Financial expenses	3.7	8,400	2,437
Impairment losses on credit		(32)	102
Add: Other income	3.9	4,499	7,064
Gains from changes in fair value	3.8	(8,898)	285
Gains from asset disposal		(3)	–
III. Operating profit		29,047	41,556
Add: Non-operating income		456	354
Less: Non-operating expenses		1,777	654
IV. Total profit		27,725	41,256
Less: Income tax expenses	3.10	1,400	3,514
V. Net profit		26,326	37,742
(I) Classified by continuity of operations			
Net profit from continuing operations		26,326	37,742
(II) Classified by ownership of equity			
Net profit attributable to shareholders of the parent company		26,326	37,742

		Six months ended 30 June	
		2018	2017
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
VI. Total comprehensive income		26,326	37,742
Total comprehensive income attributable to shareholders of the parent company		26,326	37,742
VII. Earnings per share:			
(I) Basic earnings per share	<i>3.11</i>	0.14	0.27
(II) Diluted earnings per share		0.14	0.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

(Expressed in RMB)

		At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
	<i>Note</i>		
Current assets:			
Cash and bank balances		737,755	747,642
Bills receivable and trade receivables	3.1	24,558	24,403
Prepayments		10,098	6,132
Other receivables		7,549	13,290
Inventories		49,834	71,078
Assets held for sale		6,360	6,459
Other current assets		5,875	3,087
		<hr/>	<hr/>
Total current assets		842,028	872,092
		<hr/>	<hr/>
Non-current assets:			
Other investments in equity instruments		33,721	33,721
Fixed assets		710,336	625,799
Construction in progress		22,972	40,475
Productive biological assets	3.2	188,367	175,816
Intangible assets		20,819	20,572
Long-term deferred expenses		4,273	1,630
Deferred tax assets		6,224	4,878
Other non-current assets		48,154	28,736
		<hr/>	<hr/>
Total non-current assets		1,034,864	931,626
		<hr/>	<hr/>
Total assets		1,876,892	1,803,718
		<hr/>	<hr/>
Current liabilities:			
Short-term borrowings		466,000	406,000
Bills payable and trade payables	3.3	142,864	120,878
Advances from customers		6,417	24,062
Employee benefits payable		3,192	6,186
Taxes payable		6,020	8,675
Other payables		39,279	21,252
Non-current liabilities due within one year		15,563	20,054
		<hr/>	<hr/>
Total current liabilities		679,335	607,107
		<hr/>	<hr/>

		At 30 June 2018 <i>RMB'000</i>	At 31 December 2017 <i>RMB'000</i>
Non-current liabilities:			
Long-term loans		22,267	26,560
Long-term payables		–	1,395
Deferred income	3.9	<u>34,975</u>	<u>40,991</u>
Total non-current liabilities		<u>57,242</u>	<u>68,946</u>
Total liabilities		<u>736,577</u>	<u>676,053</u>
Owners' equity:			
Share capital		187,340	187,340
Capital reserve		508,791	508,791
Surplus reserve		34,439	32,051
Retained profit		<u>409,746</u>	<u>399,483</u>
Total equity attributable to owners of the Company		<u>1,140,315</u>	<u>1,127,665</u>
Total owners' equity		<u>1,140,315</u>	<u>1,127,665</u>
Total liabilities and owners' equity		<u>1,876,892</u>	<u>1,803,718</u>

NOTES:

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

The 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 the Accounting Standards for Business Enterprises No. 32 – Interim Financial Reporting, issued by the Ministry of Finance (“**MOF**”). It was authorised for issue on 17 August 2018.

Apart from the changes in accounting policies as set out in note 2, the interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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 2018. 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 the Accounting Standards for Business Enterprises No. 32 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.

The 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 2017 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 the Accounting Standards for Business Enterprises of China.

The interim financial report is unaudited, but has been reviewed by Ruihua Certified Public Accountants, LLP in accordance with the China’s Auditing Standards for the Chinese Certified Public Accountants No. 2101 – Review of Financial Statements.

2 CHANGES IN ACCOUNTING POLICIES

The MOF issued the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Revised in 2017) (Cai Kuai [2017] No. 7), Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (Revised in 2017) (Cai Kuai [2017] No. 8) and Accounting Standard for Business Enterprises No. 24 – Hedge Accounting (Revised in 2017) (Cai Kuai [2017] No. 9) on 31 March 2017 and the Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments (Revised in 2017) (Cai Kuai [2017] No. 14) on 2 May 2017 (collectively the “New ASBEs on Financial Instruments”); and issued the Accounting Standard for Business Enterprises No. 14 – Revenue (Revised in 2017) (Cai Kuai [2017] No. 22) on 5 July 2017 (the “New ASBEs on Revenue”). Enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare financial statements are required to apply the New ASBEs on Financial Instruments and New ASBEs on Revenue from 1 January 2018. The Company started to adopt the above five accounting standards at the time stipulated by the MOF.

The adoption of such standards have no material impact on the Group's financial statements for the first half of 2018.

On 15 June 2018, the MOF issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the year 2018 (Cai Kuai [2018] No.15), which revised the presentation format of financial statements of general enterprises. The Group has made adjustment to the presentation of the statements for the previous period in accordance with the requirements of the MOF. Details are as follows:

Consolidated Balance Sheet

	As 31 December 2017	
	Before adjustment RMB'000	After adjustment RMB'000
Trade receivables	24,403	–
Bills receivable and trade receivables	–	24,403
Available-for-sale financial assets	33,721	–
Other investments in equity instruments	–	33,721
Bills payable	19,493	–
Trade payables	101,385	–
Bills payable and trade payables	–	120,878
Interests payable	404	–
Other payables	20,848	21,252

Company Balance Sheet

	Before adjustment	After adjustment
	Trade receivables	17,720
Bills receivable and trade receivables	–	17,720
Available-for-sale financial assets	33,721	–
Other investments in equity instruments	–	33,721
Bills payable	19,493	–
Trade payables	52,303	–
Bills payable and trade payables	–	71,795
Interests payable	237	–
Other payables	79,270	79,507

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounts receivable

(1) *Accounts receivable by customer type are as follows:*

Type	At 30 June 2018 RMB'000	At 30 June 2017 RMB'000
Accounts receivable due from related party	–	650,000.00
Accounts receivable due from non-related parties	24,662,539.24	23,850,770.26
Sub-total	24,662,539.24	24,500,770.26
Less: Provision for bad and doubtful debts	(104,938.38)	(97,704.41)
Total	<u>24,557,600.86</u>	<u>24,403,065.85</u>

(2) *The ageing analysis of accounts receivable is as follows:*

Ageing	At 30 June 2018 RMB'000	At 30 June 2017 RMB'000
Within 1 year (inclusive)	24,662,539.24	24,327,754.92
Over 1 year but within 2 years (inclusive)	–	173,015.34
Over 2 years but within 3 years (inclusive)	–	–
Over 3 years	–	–
Sub-total	24,662,539.24	24,500,770.26
Less: Provision for bad and doubtful debts	(104,938.38)	(97,704.41)
Total	<u>24,557,600.86</u>	<u>24,403,065.85</u>

The ageing is counted starting from the date when accounts receivable are recognised.

(3) *Additions, recoveries or reversals of provision for bad and doubtful debts during the year:*

	At 30 June 2018 RMB'000	At 30 June 2017 RMB'000
Balance at the beginning of the year	97,704.41	113,391.08
Additions during the year	7,233.97	80,452.10
Recoveries or reversals during the year	–	(96,138.77)
Written-off during the year	–	–
Balance at the end of the year	<u>104,938.38</u>	<u>97,704.41</u>

(a) No significant recoveries or reversals of provision for bad debts and doubtful debts of accounts receivable which are fully or substantially impaired during the year.

(b) No accounts receivable which are individually significant are written off during the year.

2 Bearer biological assets

(1) Nature of the Group's agricultural activities

Bearer biological assets of the Group are dairy cows held to produce raw milk. The Group's dairy cows are milkable cows held for milk production and heifers and calves that have not reached the age to produce raw milk.

The number of cows owned by the Group as at 30 June 2018 and 31 December 2017 is as follows:

	At 30 June 2018	At 31 December 2017
	<i>Heads</i>	<i>Heads</i>
Calves	495	723
Heifers	3,701	3,446
Milkable cows	2,711	2,803
Total	6,907	6,972

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. 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.

(2) Value of the Group's bearer biological assets

	Calves	Heifers	Milkable cows	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Balance as at 31 December 2017	7,189,600.00	78,903,700.00	89,722,504.71	175,815,804.71
Balance as at 30 June 2018	4,995,300.00	96,168,000.00	87,203,354.95	188,366,654.95

3 Accounts payable

(1) Details of accounts payable are as follows:

	At 30 June 2018	At 31 December 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable	142,863,946.00	101,385,124.99
Bills payable	–	19,492,581.98
Total	142,863,946.00	120,877,706.97

(2) Ageing analysis

Ageing	At 30 June 2018	At 31 December 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year (inclusive)	122,070,323.60	92,041,617.19
Over 1 year but within 2 years (inclusive)	19,194,101.90	5,195,443.88
Over 2 years	1,599,520.50	4,148,063.92
Total	142,863,946.00	101,385,124.99

4 Operating income and operating costs

(1) Operating income and operating costs

	Six months ended 30 June			
	2018		2017	
	Income RMB	Cost RMB	Income RMB	Cost RMB
Principal activities	300,399,252.64	188,773,389.08	291,675,415.69	198,578,900.91
Other operating activities	13,224,185.25	9,951,944.27	19,448,290.52	13,728,478.43
Total	<u>313,623,437.89</u>	<u>198,725,333.35</u>	<u>311,123,706.21</u>	<u>212,307,379.34</u>

Details of operating income

	Six months ended 30 June	
	2018 RMB	2017 RMB
Operating income from principal activities		
– Sale of goods	300,399,252.64	291,675,415.69
Sub-total	300,399,252.64	291,675,415.69
Other operating income		
– Income from sales of feed	12,071,957.92	19,448,290.52
– Others	1,152,227.33	–
Total	<u>313,623,437.89</u>	<u>311,123,706.21</u>

5 Selling and distribution expenses

	Six months ended 30 June	
	2018 RMB	2017 RMB
Staff cost	8,677,606.71	9,262,628.14
Freight and miscellaneous charges	13,559,759.11	9,665,226.52
Low cost and short-lived consumable items	6,675,652.76	4,150,916.88
Travel expenses	1,533,838.57	2,238,238.90
Promotional fees	12,333,921.02	4,919,232.25
Depreciation and amortization	1,157,675.13	1,247,644.13
Others	1,224,773.39	1,985,083.17
Total	<u>45,163,226.69</u>	<u>33,468,969.99</u>

6 General and administrative expenses

	Six months ended 30 June	
	2018 <i>RMB</i>	2017 <i>RMB</i>
Staff cost	9,589,896.51	8,169,435.32
Maintenance fees	7,148,860.78	5,785,475.81
Professional service fees	1,852,296.88	5,093,526.27
Travel expenses	326,295.75	1,499,682.03
Depreciation and amortization	1,737,380.37	1,648,668.52
Auditor fees	1,951,994.56	1,888,703.74
Business entertainment	233,463.37	584,734.12
Others	2,943,056.46	2,004,443.27
Total	<u>25,783,244.68</u>	<u>26,674,669.08</u>

7 Financial expenses

	Six months ended 30 June	
	2018 <i>RMB</i>	2017 <i>RMB</i>
Interest expenses from loans and payables	9,353,796.48	1,608,423.07
Including: Interest expenses	9,803,796.48	10,210,823.07
Interest subsidies for policy-related preferential loans	(450,000.00)	(8,602,400.00)
Less: interest income	1,495,339.94	824,451.11
Less: exchange gains	78,069.00	(448,476.60)
Others	619,396.89	1,204,765.40
Total	<u>8,399,784.43</u>	<u>2,437,213.96</u>

8 Gains/(losses) from changes in fair value

	<i>Note</i>	Six months ended 30 June	
		2018 <i>RMB</i>	2017 <i>RMB</i>
Loss arising from changes in fair value less costs to sell of biological assets	(1)	(8,800,161.77)	(6,894,343.78)
Gain arising on initial recognition of agricultural produce at value less costs to sell at the point of harvest	(2)	<u>(98,248.09)</u>	<u>7,179,043.76</u>
Total		<u>(8,898,409.86)</u>	<u>284,699.98</u>

(1) The bearer biological assets held by the Group, the dairy cows, are independently valued by the independent valuers at the balance sheet date. The changes in fair value are recognised in profit or loss.

(2) Agricultural produce harvested from the Group's biological assets are raw milk. Upon harvest, agricultural produce are initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any resultant gain or loss arising on initial recognition of such fair values (i.e. the difference between the fair values less costs to sell of the agricultural produce at the point of harvest and the breeding costs) is recognised in the profit or loss in the period of harvest. Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in the profit or loss.

9 Government grants

(1) Government grants related to assets

Subsidy items	At 31 December 2017 RMB	Additions during the year RMB	Recognition as other income RMB	At 30 June 2018 RMB
Dairy farming project	23,005,360.02	150,000.00	2,202,426.64	20,952,933.38
Dairy product production project	8,837,499.98		260,583.30	8,576,916.68
Biogas project	5,447,000.34		134,333.31	5,312,667.03
Others	6,727,001.33	200,000.00	911,700.32	6,015,301.01
Total	<u>44,016,861.67</u>	<u>350,000.00</u>	<u>3,509,043.57</u>	<u>40,857,818.10</u>

Item	At 31 December 2017 RMB	Decrease in the period RMB	At 30 June 2018 RMB
Government grants	44,016,861.67	-3,159,043.57	40,857,818.10
Less: Deferred income amortised over one year	<u>3,025,470.00</u>		<u>5,882,687.25</u>
Total	<u>40,991,391.67</u>		<u>34,975,130.85</u>

(2) Government grants related to income

Subsidy items	Six months ended 30 June					
	2018 Recognition as other income RMB	2018 Recognition as non-operating income RMB	Offset against financial expense RMB	2017 Recognition as other income RMB	2017 Recognition as non-operating income RMB	Offset against financial expense RMB
Financial support items	4,499,043.57			1,027,296.69		
Interest subsidies for policy-related preferential loans			450,000.00			8,602,400.00
Others		5,000.00				
Total	<u>4,499,043.57</u>	<u>5,000.00</u>	<u>450,000.00</u>	<u>1,027,296.69</u>		<u>8,602,400.00</u>

10 Income tax expenses

	Six months ended 30 June	
	2018 RMB	2017 RMB
Current tax expense	2,745,591.44	3,361,034.97
Deferred tax expense	<u>(1,345,924.67)</u>	<u>153,036.53</u>
Total	<u>1,399,666.77</u>	<u>3,514,071.50</u>

11 Basic earnings per share

Basic earnings per share is calculated as dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

Item	Six months ended 30 June	
	2018 RMB	2017 RMB
Consolidated net profit attributable to ordinary shareholders of the Company	<u>26,325,519.89</u>	<u>37,741,527.02</u>
Weighted average number of ordinary shares outstanding	<u>187,340,000</u>	<u>140,500,000</u>
Basic earnings per share (RMB/share)	<u>0.14</u>	<u>0.27</u>

- (i) In October 2017, the Company issued 46,840,000 ordinary shares with nominal value per share RMB1 under public offering on the Small and Medium Enterprise Board of Shenzhen Stock Exchange.

12 Dividends

- (i) The board of directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2018.
- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB7.30 cents per share (six months ended 30 June 2017: RMB7.42 cents per share)	<u>13,676</u>	<u>10,425</u>
Total	<u>13,676</u>	<u>10,425</u>

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

It was resolved at the 2017 annual general meeting of the Company convened on 20 June 2018 to distribute dividends in cash at RMB0.73 (tax inclusive) per 10 shares to all shareholders with the profit available for distribution realized in 2017 and the total dividends distributed amounted to RMB13,675,820.00.

13 Segment reporting

Considering the framework of internal organisation, requirements of management and the system of internal reporting, the Group has presented two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and market 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.

Segment	Principal activities
Dairy farming	Breeding dairy cows to produce and sell raw milk
Dairy products production	Producing and selling Pasteurised Milk, Ultra High Temperature Milk, Modified Milk, Yogurt and Other Dairy Products

(1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets, such as receivable, with the exception of deferred tax assets and other unallocated corporate assets (if any). Segment liabilities include current and non-current liabilities, such as payables, bank borrowings, attributable to the individual segments, but exclude deferred tax liabilities (if any).

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting operating costs, taxes and surcharges, selling and distribution expenses, general and administrative expenses, financial expenses and non-operating income and expenses attributable to the individual segments but exclude unallocated corporate expenses (if any). Transfer pricing of income among reportable segments is in accordance with the similar terms of transaction with external parties.

Information regarding the Group's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

Item	Dairy farming		Dairy products production		Elimination among segment		Total	
	Six months ended 30 June							
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Operating income from external customers	13,224,185.25	23,991,060.53	300,399,252.64	287,132,645.68			313,623,437.89	311,123,706.21
Inter-segment operating income	81,108,623.99	75,777,806.17			(81,108,623.99)	(75,777,806.17)		
Depreciation and amortisation	10,840,842.59	7,827,435.75	11,089,611.08	15,288,394.03			21,930,453.67	23,115,829.78
Interest income	1,338,458.87	397,940.10	156,881.07	426,511.01			1,495,399.94	824,451.11
Interest expense		-	9,353,796.48	1,608,423.07			9,353,796.48	1,608,423.07
Profit/(losses) before income tax	8,045,070.50	13,722,657.68	19,680,116.17	27,532,940.84			27,725,186.67	41,255,598.52
Income tax expenses		-	1,399,666.78	3,514,071.50			1,399,666.78	3,514,071.50
Net profit/(losses)	7,917,915.59	13,722,657.68	18,407,604.30	24,018,869.34			26,325,519.89	37,741,527.02
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Total assets	749,279,778.91	692,656,596.68	1,596,063,958.22	1,218,817,153.36	(468,451,391.24)	(474,677,352.72)	1,876,892,345.89	1,436,796,397.32
Total liabilities	524,489,627.01	499,551,381.79	680,539,215.39	624,371,231.68	(468,451,391.24)	(474,677,352.72)	736,577,451.16	649,245,260.75
Other items:								
Additions on non-current assets	103,237,894.34	5,000,898.98		5,532,930.18			103,237,894.34	10,533,829.16

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 three dairy farms and collectively operated five 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.

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*

During 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 2018 and 31 December 2017:

	At 30 June 2018 Heads	At 31 December 2017 Heads
Milkable cows	2,711	2,803
Heifers	3,701	3,446
Calves	495	723
Total	6,907	6,972

- *Milk yield*

We produced approximately 12,533 tonnes of raw milk for the Reporting Period, representing a slight decrease of approximately 2.2% from about 12,820 tonnes in the corresponding period in 2017. Such decrease was mainly attributable to the decrease in the number of milkable cows.

Our average milk yield per milkable cow per annum increased from 6.4~8.6 tonnes during the six months ended 30 June 2017 to 5.2~10.9 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 package lines which are designed for packaging of paturised 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, and 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 30 June 2018, we had entered into distribution agreements with 394 distributors and 153 sales agents, as compared to 417 distributors and 170 sales agents as at 31 December 2017. 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 from RMB9,462 per tonne in the six months ended 30 June 2017 to RMB8,534 per tonne in the Reporting Period, mainly due to the obvious decrease in selling price of the products series in Qinghai.

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.

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.

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 2018 and 2017:

	Six months ended 30 June					
	2018			2017		
	Sales amount	Sales volume	Average selling price	Sales amount	Sales volume	Average selling price
	RMB'000	Tonne	RMB/Tonne	RMB'000	Tonne	RMB/Tonne
Liquid Milk Products						
Pasteurised Milk	10,763	1,468	7,330	9,690	1,121	8,644
UHT Milk	77,008	12,478	6,172	54,215	8,253	6,569
Modified Milk	108,520	12,397	8,754	102,194	11,555	8,844
Yogurt	101,245	8,533	11,865	122,571	9,580	12,794
Subtotal	297,536	34,876	8,531	288,670	30,509	9,462
Milk Beverage	600	229	262	1,975	454	4,350
Other Dairy Products	2,264	94	2,401	1,030	22	46,818
Total	300,399	35,200	8,534	291,675	30,985	9,413

Our revenue increased by 3.0% from RMB291.7 million for the six months ended 30 June 2017 to RMB300.4 million for the Reporting Period, primarily due to the increase in our sales of UHT milk.

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					
	2018			2017		
	Cost of sales	Gross Profit	Gross profit margin	Cost of sales	Gross Profit	Gross profit margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Liquid Milk Products						
Pasteurised Milk	5,893	4,870	45.3	5,406	4,284	44.2%
UHT Milk	55,088	21,920	28.5	44,767	9,448	17.4%
Modified Milk	59,030	49,490	45.6	66,771	35,423	34.7%
Yogurt	65,723	35,522	35.1	79,507	43,064	35.1%
Subtotal	185,733	111,803	37.6	196,451	92,219	31.9%
Milk Beverage	501	99	16.5	1,467	508	25.7%
Other Dairy Products	2,540	-276	-12.2	661	369	35.8%
Total cost of sales/Total gross profit/ Overall gross profit margin	188,773	111,626	37.2	198,579	93,096	31.9%

Our overall gross profit margin of our dairy products after taking into account biological assets fair value adjustments was 37.2% for the Reporting Period and 31.9% for the corresponding period in 2017. The increase in the overall gross profit margin during the Reporting Period was primarily due to the decrease of purchase price of raw milk. The average raw milk purchase price decreased by about 12.2% from RMB3.85/kg for the six months ended 30 June 2017 to RMB3.38/kg for the Reporting Period.

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 decreased from RMB7.2 million for the six months ended 30 June 2017 to the loss of RMB0.1 million for the Reporting Period. The decrease was mainly due to the decrease in market price of fresh and raw milk during the Reporting Period.

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 RMB8.8 million for the Reporting Period, which increased by 27.6% from RMB6.9 million for the corresponding period in 2017, primarily attributable to the decrease in market price of fresh and raw milk during the Reporting Period.

Other income

Other income refers to government grants. Government grants are generally obtained from our agricultural activities. For the six months ended 30 June 2018 and 2017, government grants we recognized amounted to RMB4.5 million and RMB7.1 million, respectively.

Operating expenses

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Selling and distribution expenses	45,163	33,469
General and administrative expenses	25,783	26,675
Total operating expenses	70,946	60,144

Our operating expenses increased from RMB63.4 million for the six months ended 30 June 2017 to RMB70.9 million for the Reporting Period.

The increase in selling and distribution expenses during the Reporting Period was mainly due to: (1) 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; (2) the increase in transportation cost to promote sales in the fierce market competition.

Financial expenses

Our net finance costs increased by 345% from RMB2.4 million for the six months ended 30 June 2017 to RMB8.4 million for the Reporting Period, primarily due to substantial decrease in interest subsidies for policy-related preferential loans utilized during the Reporting Period.

Current ratio

As at 30 June 2018, our current ratio (current assets/current liabilities) was approximately 1.24 compared to 1.49 as at 31 December 2017.

Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our daily operations and proceeds from issuance of shares of the Company (the “**Shares**”) on the Shenzhen Stock Exchange (“**SZSE**”) (the “**A Share Listing**”). As at 30 June 2018 and 31 December 2017, we had RMB737.8 million and RMB747.6 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 RMB125.7 million and RMB41.0 million for the six months ended 30 June 2018 and 2017, respectively, which were primarily used in purchasing property, plant and equipment, procuring dairy cows and settling land leases.

Working capital

As at 30 June 2018, we had net current assets of RMB162.7 million (31 December 2017: net current assets of RMB265.0 million).

Indebtedness

During the Reporting Period, our borrowings were denominated in Renminbi. As at 30 June 2018, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB466 million at interest rates ranging from 4.35%~6.84% per annum. As at 30 June 2018, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB22.3 million at interest rates ranging from 5.49%~6.22% per annum.

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

For the Reporting Period, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed.

Contingent liabilities

As at 30 June 2018 and 31 December 2017, we did not have significant contingent liabilities.

Use of Proceeds from A Share Listing and H Share Listing

The Company was listed on the SZSE on 31 October 2017. The net proceeds from the A Share Listing amounted to RMB309.5 million.

We set out below the status of the application of the net proceeds from the A Share Listing:

	As of 31 December 2017	
	Actual amount used	Intended amount to be used
	<i>RMB'000 (%)</i>	<i>RMB'000 (%)</i>
Construction project of a dairy farm for 10,000 imported fine-breed dairy cows	0 (0.0%)	260,193.30 (84.1%)
Construction project of milk vending machines and ancillary facilities	0 (0.0%)	49,310.40 (15.9%)
IPO proceeds not utilized	309,503.70 (100%)	N/A
Total	309,503.70 (100%)	309,503.70 (100%)

As mentioned in the announcement issued by the Company on 26 July 2018 with the title of “Announcement on Change of the Use of Partial Proceeds into Acquisition of the Equity Interests”, due to the change of the market situation and the progress of the projects, the Board proposed to use part of the proceeds for “Construction project of a dairy farm for 10,000 imported fine-breed dairy cows” amounting to RMB100,591,214.95 and all of the proceeds for “Construction project of milk vending machines and ancillary facilities” amounting to RMB49,408,785.05 (including interests) for the settlement of part of the consideration payable by the Company for the proposed acquisition of the 82% equity interest of the Xi’an Dongfang Dairy Company Limited* (西安東方乳業有限公司) (“**Dongfang Dairy**”), a company established under the laws of the PRC with limited liability which is principally engaged in breeding of dairy cows, production and sales of dairy products and beverages pursuant to the agreement between the Company and the equity interest holders of Dongfang Dairy dated 26 July 2018. Further details of the proposed acquisition are set out in the announcement of the Company dated 26 July 2018.

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

We set out below the status of the application of the net proceeds from the H Share Listing:

	As of 30 June 2018	
	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	14,187 (12.2%)	23,206 (20.0%)
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10.0%)
IPO proceeds not utilized	9,019 (7.8%)	N/A
Total	116,031 (100%)	116,031 (100%)

Note: We had one bank account in Mainland China to manage the unutilized H Share Listing proceeds balance. We currently do not have any intention to change our current plan for the use of proceeds.

Human Resources

We had 670 employees in Mainland China and Hong Kong as at 30 June 2018 (31 December 2017: 724 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 RMB26.9 million (the corresponding period in 2017: RMB26.2 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.

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 30 JUNE 2018

Subsequent to 30 June 2018, there had been no significant change in our principal business, pricing policy and costs structure.

As approved at the sixth meeting of the third session of the Board of the Company convened on 26 July 2018, the Company proposed to acquire the 82% equity interests in Dongfang Dairy from Hu Keliang, Li Ya'nan, Ding Jianping, Zhang Chenbin and Beijing Ruili Caifu Investment Partnership Enterprise (Limited Partnership) (北京睿理財富投資合夥企業(有限合夥)), all being equity interest holders of Dongfang Dairy, by payment of cash at an aggregate consideration of RMB249,000,000. Upon completion of the transaction, the Company will hold an aggregate of 100% equity interest in Dongfang Dairy and Dongfang Dairy will become a wholly-owned subsidiary of the Company. The transaction is still subject to consideration at the general meeting of the Company. For further details, please refer to the announcement of the Company dated 26 July 2018.

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.

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 Reporting Period.

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 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.

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, Mr. Zhao Xinmin 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 2017: Nil).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the Company's website (<http://www.lzzhuangyuan.com/>) and the Stock Exchange's website (<http://www.hkexnews.hk>). The interim report of the Company for the Reporting Period 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, 17 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Ma Hongfu, Mr. Wang Guofu, Mr. Chen Yuhai and Ms. Zhang Qianyu; the non-executive directors of the Company are Mr. Yap Kean Chong and Mr. Song Xiaopeng; and the independent non-executive directors of the Company are Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley.

* For identification purpose only