



Lanzhou Zhuangyuan Pasture Co., Ltd.*
蘭州莊園牧場股份有限公司

庄园浓缩系列

20年

累计销售

20亿包



2020 Interim
Report

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 in the PRC where our operations and sales are primarily located and we operate on a vertically integrated business model. Our business model covers the critical links 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.



For identification purpose only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Hongfu
Mr. Wang Guofu
Ms. Zhang Qianyu

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng

Independent Non-Executive Directors

Ms. Liu Zhijun
Mr. Zhao Xinmin
Mr. Wong Cho Hang Stanley

Supervisors

Ms. Du Wei
Mr. Sun Chuang
Mr. Wei Lin

AUDIT COMMITTEE

Ms. Liu Zhijun (*Chairman*)
Mr. Zhao Xinmin
Mr. Wong Cho Hang Stanley



REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun (*Chairman*)
Mr. Wang Guofu
Mr. Zhao Xinmin

NOMINATION COMMITTEE

Mr. Zhao Xinmin (*Chairman*)
Mr. Ma Hongfu
Mr. Wong Cho Hang Stanley

STRATEGY COMMITTEE

Mr. Ma Hongfu (*Chairman*)
Mr. Song Xiaopeng
Mr. Zhao Xinmin

AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu
Ms. Ho Wing Yan (*ACIS, ACS(PE)*)

JOINT COMPANY SECRETARIES

Ms. Zhang Qianyu (*Executive Director*)
Ms. Ho Wing Yan (*ACIS, ACS(PE)*)

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2703, 27/F
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Wanchai, Hong Kong

REGISTERED OFFICE

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Lanzhou, Gansu
PRC



Corporate Information

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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PRINCIPAL BANK

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COMPANY WEBSITE

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Interim Results Highlights

FINANCIAL HIGHLIGHTS

Results

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue	324,987	396,899
Gross profit	93,634	128,815
Profit for the period attributable to equity shareholders of the Company	-1,975	26,696
Earnings per share (RMB) ⁽¹⁾	-0.01	0.14

- Revenue decreased by 18.12% as compared to the corresponding period in 2019.
- Gross profit decreased by 27.31% as compared to the corresponding period in 2019.
- Profit for the period attributable to equity shareholders of the Company was RMB-1,975,054.39 as compared to RMB26,695,778.21 for the corresponding period in 2019.

⁽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.



Management Discussion and Analysis

BUSINESS OVERVIEW

We are one of the leading dairy companies in Gansu, Shaanxi and Qinghai in the PRC where our operations and sales are primarily located and we operate on a vertically integrated business model. Our vertically integrated business model covers the critical links 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 owned and operated seven dairy farms as at 30 June 2020. 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 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 needs. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

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

We are a major player in the sales of “Cold Chain Liquid Milk Products” (i.e. liquid milk product(s) that has a short shelf life between 3 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, Qinghai and Shaanxi regional markets. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Products market in Gansu, Shaanxi 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, Qinghai and Shaanxi regional markets and then further expand into other provinces in the northwestern China market.

While focusing on the Cold Chain Liquid Milk Products market, we also leverage on our strong brand recognition in the regional market to continue to strengthen the sales of our popular UHT 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.



Management Discussion and Analysis

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 2020 and 31 December 2019:

	At 30 June 2020 Heads	At 31 December 2019 Heads
Milkable cows	5,085	5,560
Heifers	7,361	6,472
Calves	1,070	1,380
Total	13,516	13,412

- *Milk yield*

We produced approximately 25,426 tonnes of raw milk for the Reporting Period (for the corresponding period in 2019: approximately 25,797 tonnes), representing a year-on-year decrease of approximately 1.44%. Such decrease was mainly attributable to the closure of one pasture by the Company in accordance with the environmental protection requirements compared with the corresponding period last year.

Our average milk yield per milkable cow per annum was 6.7~11.5 tonnes (during the six months ended 30 June 2019: 6.9~11.4 tonnes).



Management Discussion and Analysis

Dairy products production

During the Reporting Period, the competition in the market of domestic dairy products, especially liquid milk products, was unusually fierce. In response to these market conditions, we continuously optimized our product mix by leveraging on our advantages of milk sources produced by our own dairy farms and quality dairy products with high protein and fresh dairy milk products, thus expanding our differentiated competitive advantages, and focused on developing the market in northwestern China.

- *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 and package lines which are designed for packaging of paturised milk and yogurt products for our Cold Chain Liquid Milk Products in the Gansu, Shaanxi and Qinghai regional markets 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 equipment and distribution network in Gansu, Shaanxi 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 regional markets in Gansu, Shaanxi and Qinghai. As at 30 June 2020, we had entered into distribution agreements with 763 distributors and sales agents, as compared to 765 distributors and sales agents as at 31 December 2019. 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.

- *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 RMB9,029 per tonne in the six months ended 30 June 2019 to RMB8,863 per tonne in the Reporting Period, mainly due to the effect of the novel coronavirus (COVID-19) outbreak in the first half of 2020.



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, Shaanxi and Qinghai received the HACCP Certification issued by the China Quality Certification Centre and Beijing Continental Hengtong Certification Co. Ltd., respectively.

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

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

Brand building

The liquid milk product industry in China, including Gansu, Shaanxi 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 other competitors, we benefited from a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years.



Management Discussion and Analysis

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, Shaanxi 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, Shaanxi 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 2020 and 2019:

	Six months ended 30 June					
	2020			2019		
	Sales amount	Sales volume	Average selling price	Sales amount	Sales volume	Average selling price
	<i>RMB'000</i>	<i>Tonne</i>	<i>RMB/Tonne</i>	<i>RMB'000</i>	<i>Tonne</i>	<i>RMB/Tonne</i>
Liquid Milk Products						
Pasteurised Milk	21,273	2,688	7,914	12,904	1,570	8,221
UHT Milk	81,433	11,426	7,127	101,671	14,588	6,969
Modified Milk	118,110	13,044	9,055	135,358	14,132	9,578
Yogurt	92,082	7,898	11,659	129,354	11,115	11,637
Subtotal	312,899	35,057	8,925	379,286	41,405	9,160
Milk Beverage	2,310	676	3,417	6,462	984	6,567
Other Dairy Products	2,418	106	22,904	2,328	592	3,932
Total	317,627	35,838	8,863	388,076	42,981	9,029

Our revenue decreased by 18.15% from RMB388.1 million for the six months ended 30 June 2019 to RMB317.6 million for the Reporting Period, primarily due to the decline in revenue of the Company in the first half of 2020 compared with the corresponding period in last year because of the novel coronavirus (COVID-19) outbreak at the beginning of 2020.

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					
	2020			2019		
	Cost of sales RMB'000	Gross Profit RMB'000	Gross profit margin %	Cost of sales RMB'000	Gross Profit RMB'000	Gross profit margin %
Liquid Milk Products						
Pasteurised Milk	13,571	7,702	36.2	8,623	4,281	33.2
UHT Milk	67,098	14,335	17.6	77,606	24,064	23.7
Modified Milk	79,612	38,498	32.6	84,823	50,535	37.3
Yogurt	64,326	27,756	30.1	85,149	44,204	34.2
Subtotal	224,608	88,291	28.2	256,202	123,084	32.5
Milk Beverage	1,765	545	23.6	5,164	1,298	20.1
Other Dairy Products	1,582	837	34.6	1,901	427	18.4
Total cost of sales/ Total gross profit/ Overall gross profit margin	227,955	89,672	28.2	263,266	124,810	32.2

Our overall gross profit margin of our dairy products after taking into account biological assets fair value adjustments was 28.2% for the Reporting Period and 32.2% for the corresponding period in 2019. The decrease in the overall gross profit margin during the Reporting Period was primarily due to the fact that the novel coronavirus (COVID-19) outbreak at the beginning of 2020 resulted in the products of the Company being slow-moving, but these products are daily necessities with a relatively short shelf life. In order to facilitate the sales, the Company implements the enhanced marketing policy, and as a result, the gross margin decreased compared with the corresponding period in the last year.

Gain/loss arising from initial recognition of agricultural produce at fair value less the cost of sales at the point of harvest

Our gain arising from initial recognition of agricultural produce at fair value less the cost of sales at the point of harvest decreased from the gain of RMB4.7 million for the six months ended 30 June 2019 to a loss of RMB5.5 million for the Reporting Period. The decrease in gains during the Reporting Period was primarily due to the decrease in the price of raw milk in the market arising from the effect of the outbreak of COVID-19 in the first half of 2020.



Management Discussion and Analysis

Gain/loss arising from changes in fair value less the cost of sales of biological assets

We recorded gain arising from changes in fair value less the selling expenses of biological assets amounting to RMB0.3 million for the Reporting Period, compared to the loss of RMB1.4 million for the corresponding period in 2019, and the change from loss into gain was primarily attributable to the increase in the cow price as a result of the impact of market conditions.

Other income

Other income refers to government grants. Government grants are generally obtained from our agricultural activities. For the six months ended 30 June 2020 and 2019, government grants recognized by us amounted to RMB2.9 million and RMB2.0 million, respectively.

Operating expenses

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Selling expenses	30,767	42,585
Administrative expenses	34,431	39,544
Total operating expenses	65,198	82,129

Our operating expenses decreased from RMB82.1 million for the six months ended 30 June 2019 to RMB65.2 million for the Reporting Period.

The decrease in selling and distribution expenses during the Reporting Period was mainly due to the fact that the novel coronavirus (COVID-19) outbreak at the beginning of 2020 resulted in a decline in the sales volume of the Company and a decrease in promotion and freight and miscellaneous charges.

The decrease in administration expenses was mainly due to the enhanced cost control of the Company.

Financial expenses

Our net finance costs increased by 20.0% from RMB13.7 million for the six months ended 30 June 2019 to RMB16.5 million for the Reporting Period, primarily due to the increased amount of loans of the Company.

Current ratio

As at 30 June 2020, our current ratio (current assets/current liabilities) was approximately 0.66 compared to 0.64 as at 31 December 2019.



Management Discussion and Analysis

Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our daily operating activities. As at 30 June 2020 and 31 December 2019, we had RMB362.0 million and RMB248.2 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 RMB123.3 million and RMB170.2 million for the six months ended 30 June 2020 and 2019, respectively, which were primarily used in purchasing property, plant and equipment, and procuring dairy cows.

Gearing ratio

As at 30 June 2020, the Company had a gearing ratio of approximately 54.4% (as at 31 December 2019: approximately 50.8%).

Working capital

As at 30 June 2020, we had net current assets of RMB(393) million (31 December 2019: net current assets of RMB(350) million).

Indebtedness

During the Reporting Period, our borrowings were denominated in Renminbi. As at 30 June 2020, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB390.4 million at interest rates ranging from 4.15% to 6.49% per annum. As at 30 June 2020, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB216.1 million at interest rates ranging from 4.75% to 5.70% 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 2020 and 31 December 2019, there were no significant contingent liabilities.

Foreign exchange risk and pledge of assets

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 30 June 2020 were denominated in the respective Group companies' functional currencies.



Management Discussion and Analysis

For the Reporting Period, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed. The management will continue to monitor foreign currency risk and adopt prudent measures as and when appropriate.

The book value of our restricted assets was RMB699.6 million as at 30 June 2020 (31 December 2019: RMB601.7 million). The net book value of the restricted assets are as follow: (1) monetary capital: RMB222.9 million (31 December 2019: RMB165.5 million); (2) fixed assets: RMB383.9 million (31 December 2019: RMB346.1 million); (3) intangible assets: RMB57.4 million (31 December 2019: RMB54.8 million); and (4) long-term equity investments: RMB35.3 million (31 December 2019: RMB35.3 million).

Capital structure

There was no change in the capital structure of the Group during the Reporting Period. The capital of the Group only comprises ordinary shares.

Significant investments

The Company was established in April 2000. Its production base located in Sanjiaocheng, Yuzhong County, Lanzhou City, Gansu Province was built according to the then market size, consumer demand and industry characteristics, and was completed and put into production in 2003. After nearly 20 years, some workshops look outdated with some equipment getting obsolete. Due to limited plant area and fixed plant layout, the Company's dairy processing base in Yuzhong County is now unable to fully meet the growing demand for product diversification in the dairy consumer market and introduction of advanced dairy production processes such as filling technology.

In view of its future long-term planning and sustainable development, the Company started the “reconstruction and expansion project with daily processing 600 tons of liquid milk” in 2018. This “reconstruction and expansion project with daily processing 600 tons of liquid milk” will be built on the land where the existing production and processing base is locate with a site area of 35.70 acres and 113.82 acres of newly purchased land in 2018, that is, a total of 149.52 acres of land. An experienced and qualified engineering design institute was engaged to provide a rational and modern plan for overall layout for investment and construction. Existing obsolete production equipment with low utilization rate, long service life and outdated production technology will be demised. At the same time, new production lines will be purchased and built to increase the Company's production capacity. The capacity and output realized after the project is completed and put into operation will include the existing capacity and output of the Yuzhong processing base with some enhancement.

The Company invested RMB14.5 million in 2018, and RMB316.7 million in 2019. As of 30 June 2020, the cumulative investment was RMB331.2 million, accounting for 12.5% of its total assets of RMB2,658.9 million as at 30 June 2020.

The completion and acceptance work for the “reconstruction and expansion project with daily processing 600 tons of liquid milk” has been completed during the Reporting Period, and the Company has obtained the Housing Construction Project and Municipal infrastructure Project Completion Acceptance Recording Form (No. 17 [2020]) (《房屋建築工程和市政基礎設施工程竣工驗收備案表》(編號2020年第17號)), issued by the Housing and Urban-rural Development Bureau of Yuzhong County. The operation of this project will help optimize the production process and enrich the product structure; improve production efficiency and reduce labor costs; improve production standards and strengthen product quality control; and integrate the Group's production resources for long-term development.

Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Details of future plans for material investments or capital assets and expected sources of funding

As at 30 June 2020, the Company had no future plans for material investments or capital assets.

Use of proceeds from the H Share Listing

Basic information on the proceeds raised from the H Share Listing

As approved by the “Approval for the Issue of Overseas-listed Foreign Shares of Lanzhou Zhuangyuan Pasture Co., Ltd.* (Zheng Jian Xu Ke [2015] No. 1142)” (《關於核准蘭州莊園牧場股份有限公司發行境外上市外資股的批復》(證監許可[2015]1142號)) issued by CSRC, Lanzhou Zhuangyuan Pasture Co., Ltd.* (hereinafter referred to as the “Company”) carried out the initial public offering of 35,130,000 overseas-listed foreign shares (“H shares”) at a price of HK\$5.30 per share on 15 October 2015, which were paid up in cash in Hong Kong dollars. The total sum amounted to HK\$186,189,000. After deducting underwriting expenses and sponsor’s fee, various intermediaries’ fees and other issuance expenses from the total sum, the actual net proceeds raised amounted to HK\$141,832,158 (equivalent to RMB116,031,470 based on the middle point of the prevailing exchange rates of Hong Kong dollars against RMB on the date on which the Company received the prices).

The above funds were remitted to the account opened by the Company in Hong Kong branch of Bank of China Limited on 15 October, 19 October and 3 November 2015 respectively (account number: 01255068197773). KPMG Huazhen LLP has inspected the funds and issued KPMG Huazhen Yan Zi No. 1600935 capital verification report.

During January to June 2020, no proceeds were used and the accumulated proceeds used in the previous years amounted to RMB116,211,694. As of 30 June 2020, the Company had used RMB116,211,694 of the proceeds from issuance of H Shares accumulatively, with the accumulated net interest income of the proceeds net of handling fee amounting to RMB180,224.03, the balance of the special account of the proceeds amounting to RMB0.03 and the balance of the unused proceeds amounting to RMB0.03.

* For identification purpose only



Management Discussion and Analysis

We set out below the status of the application of the net proceeds from the H Share Listing to 30 June 2020:

(RMB'000)

Total raised fund	116,031	Total raised fund invested during the current period	—
Total raised fund which changed purpose during the reporting period	—	Total raised fund invested accumulatively	116,031
Total accumulatively raised fund which changed purpose	46,413		
The proportion of total accumulatively raised fund which changed purpose	40%		

Committed investment projects and investment direction of extra fund raised	Whether the project has been changed (including partial changes)	Total committed investment of raised fund	Total proceeds invested during the period	Accumulated amount invested as of the end of the current period ⁽²⁾	Investment progress as of the end of the current period (%) (3)=(2)/(1)	The date when the project reaches a predetermined usable state	The benefit realized during the current period	Whether the expected benefits are realized
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Committed investment projects

1. The construction of 3,000 raw milk kiosks of communities	Yes	37,130	—	—	—	N/A	N/A	N/A
2. Some source of fund for the project of importing approximately 5,000 dairy cows from Australia or New Zealand	Yes	34,809	—	81,222	100%		Note 1 and Note 2	
3. The promotion of brands	No	23,206	—	23,206	100%	N/A	N/A	N/A
4. The construction of a new technical centre	Yes	9,283	—	—	—	N/A	N/A	N/A
5. Operating capital and others	No	11,603	—	11,603	100%	N/A	N/A	N/A
Total		116,031	—	116,031	100%			

Note 1: The actual investment amount is aggregated under the premise that all the expenses related to the committed investment projects are incurred till the proceeds are fully utilized assuming that such proceeds are transferred to the relevant bank account.

Note 2: As the Company did not make any undertaking as to the estimated benefits of the investment of the funds raised in the prospectus for the initial public offering of H Shares of the Company, no disclosure was made on the benefits of the investment of the funds raised.



Management Discussion and Analysis

Use of proceeds from the A Share Listing

Basic information on the proceeds raised from the A Share Listing

As approved by the “Approval for the initial public offering of Shares of Lanzhou Zhuangyuan Pasture Co., Ltd.* (蘭州莊園牧場股份有限公司) [2017] No. 1779” issued by the CSRC on 29 September 2017, the Company carried out the public offering of 46,840,000 A Shares of RMB1 each via offline placing through price consultations to qualified investors and online issuance at an issue price of RMB7.46 per share to public investors who hold the market value of non-restricted A Shares circulated in the Shenzhen market (“**A Shares**”) on 31 October 2017 (the “**A Shares Listing**”). The total sum of funds raised was RMB349,426,400 and the total net proceeds after deduction of the related issuance expenses of RMB39,922,700 (exclusive of value-added taxes) amounted to RMB309,503,700 (the “Raised Fund”).

The funds utilized during the Reporting Period were RMB42,034,439, the temporary supplemental liquidities were RMB50,000,000 and the interest income of the special account for funds raised after deducting handling charges for the Reporting Period was RMB61,593. As of 30 June 2020, the Company had utilized RMB245,434,439 out of the funds raised from the A Share Listing. The balance of the Raised Fund deposited in the special account was RMB15,485,051, and the balance of the Raised Fund unutilized was RMB65,485,051.

We set out below the status of the application of the net proceeds from the A Share Listing to 30 June 2020:

(RMB'000)

Total raised fund	309,504	Total raised fund invested during the Reporting Period	42,034
Total raised fund which changed purpose during the reporting period	—	Total raised fund invested accumulatively	245,434
Total accumulatively raised fund which changed purpose	256,104	—	—
The proportion of total accumulatively raised fund which changed purpose	83%	—	—

* For identification purpose only



Management Discussion and Analysis

Committed investment projects and use of excessive raised funds	Whether the project has been changed (including some changes)	Total committed investment of raised funds	Total investment after adjustment ⁽¹⁾	The amount invested during the Reporting Period	Accumulated amount invested as of the end of the Reporting Period ⁽²⁾	Investment progress as of the end of the Reporting Period ^{(%)⁽²⁾⁽¹⁾}	The date when the project reaches a predetermined usable state	The benefit realized during the Reporting Period	Whether it has achieved expected benefit	Whether there are significant changes on the feasibility of the project
	Committed investment projects									
1. The project of cultivation and construction of 10,000 imported improved dairy cows	Yes	260,193	53,400		53,400	100%	Note 1	N/A	N/A	No
2. The construction project of self-service milk selling machines and ancillary facility	Yes	49,310					N/A	N/A	N/A	Yes
3. The acquisition of 82% equity interest of Xi'an Dongfang Dairy	No		150,000		150,000	100%	31 October 2018	1,448	No	No
4. Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District	No		106,104	42,034	42,034	40%	Note 2	N/A	N/A	No
Total		309,504	309,504	42,034	245,434	79%		1,448		

Note 1: Cattle breeding project of 10,000 imported improved dairy cows: as of 30 June 2020, RMB53,400,000 was paid for the purchase of 3,000 Holstein cows for the "cattle breeding project of 10,000 imported improved dairy cows", of which 2,241 cows have reached to the pasture, and the remaining 759 cows have not yet.

Note 2: Of the proceeds raised, RMB50 million that has not been used for purchase of cows needs to be used according to the progress of the construction of the pasture, taking into account the supply volume of cows in the international market.

Human Resources

We had 962 employees in Mainland China and Hong Kong as at 30 June 2020 (31 December 2019: 922 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 RMB32.4 million (the corresponding period in 2019: RMB33.8 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.

Management Discussion and Analysis

The Restricted Shares Incentive Scheme for 2019 (draft) was considered and approved at the meeting of the Board held by the Company on 11 March 2019; the general meeting was held on 23 May 2019 to consider and approve the Restricted Shares Incentive Scheme for 2019 (draft); the meeting of the Board was held on 21 June 2019 to consider and approve “first granting 3,341,000 restricted shares to the 84 incentive targets after adjustments” ; “Application Materials for Completion of Registration of Equity Incentive Grant” was submitted to Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited on 27 June 2019; the registration of restricted shares grant was completed on 12 July 2019.

Corporate Social Responsibility

We believe that social responsibility is the foundation for the development of an enterprise. In our opinion, taking part in industrial poverty alleviation and 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.

FUTURE OUTLOOK

1. The Company will continue to take the production of quality dairy products as the goal on the basis of a complete set of production facilities and processes such as large-scale concentrated farming, concentrated unified milking, specialized storage, transportation and processing of fresh milk and further improve the level of dairy farming through production demonstration and technology radiation; we will strengthen the cooperation with external professional dairy farming institutions with large farming scale, rich farming experience and high product quality to form balanced, complementary and diversified supply sources of fresh and raw milk while strengthening the construction of our own milk source base. We will continue to ensure the effective connection of safe and reliable milk source with dairy product processing link to achieve the security and controllability of product quality during the whole process.
2. We will continue to strengthen the study on the consumption behaviors of dairy products consumers within the region, perfect the formula of products and optimization configuration of processes and equipments on a consumer-oriented basis, make the products to own targeted and characteristic advantages, and establish a system of consumption analysis triggering research and development, research and development satisfying consumption demands under different scenarios and maintaining the loyalty of consumers to the brand with upgrading products.
3. We will further deepen and penetrate sales channels, increase the sinking efforts of sales channels, actively expand the markets of third-tier cities and rural areas and vigorously promote the in-depth development of channels, so as to consolidate and increase market share and enhance market occupancy rate.
4. The Company will continue to conduct various forms of on-the-job trainings, improve work skills, enhance work efficiency and tamp the construction of the middle-level team. The Company will strengthen the recruitment of professional talents with market qualifications or excellent skills and give full development space and positive incentive policies to ensure the stability of the talent team and the echelon construction of the talent reserve and enhance the core competitiveness of the Company.



Management Discussion and Analysis

IMPORTANT EVENTS THAT HAVE OCCURRED SINCE 30 JUNE 2020

Subsequent to 30 June 2020, there had been no significant change in our principal business, pricing policy and costs structure.

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.

Save as disclosed herein, the Company has complied with all applicable Code Provisions of the Corporate Governance Code (the “**CG Code**”) and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) during the Reporting Period, except the following deviation.

CODE PROVISION A.2.1

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Following the appointment of Mr. Ma Hongfu (“Mr. Ma”) as the general manager of the Company, a position equivalent to a chief executive officer in the PRC, and after the resignation of Mr. Chen Yuhai on 10 March 2020, Mr. Ma concurrently holds the position of the chairman of the Board and the general manager of the Company. This deviates from code provision A.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

Mr. Ma is the founder of the Group and has over 20 years of experience in the dairy industry. His positions in the industry associates can also keep the Group updated with the latest development of the industry. The Board has set up four committees under the Board (including the strategy committee, the nomination committee, the remuneration committee and the audit committee) and includes three independent non-executive Directors. The members of the Board committees and the independent non-executive Directors have important role and functions in the decision making process of the Board and the daily operations of the Company, which has the effect of checks and balances of the power of the chairman of the Board and the general manager. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Ma, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Ma to hold both positions as the chairman and the general manager of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company. The Board will continue to review and consider splitting the roles of the chairman of the Board and the general manager of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Management Discussion and Analysis

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.

NON-PUBLIC ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE

On 5 December 2019, the Board approved the proposed non-public issuance of A Shares. The proposed non-public issuance of A Shares has been approved by the shareholders of the Company (the “**Shareholders**”) at the extraordinary general meeting and the class meetings of the Company held on 17 January 2020.

On 3 April 2020, the Board approved the adjustments to non-public issuance of A Shares. The Shareholders approved the adjustments to non-public issuance of A Shares at the extraordinary general meeting and the class meetings of the Company held on 25 May 2020.

On 10 August 2020, the application for the non-public issuance was approved at the Issuance Examination Committee’s 119th meeting in 2020 by voting and the Issuance Examination Committee had no audit opinion. On 25 August 2020, the Company received the Reply on Approval of Non-public Issuance of Shares by Lanzhou Zhuangyuan Pasture Co., Ltd.* (Zheng Jian Xu Ke [2020] No. 1864) issued by China Securities Regulatory Commission.

For details, please refer to the announcements of the Company dated 5 December 2019 and the circulars of the Company dated 31 December 2019 and 6 April 2020.

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.

* *For identification purpose only*



Management Discussion and Analysis

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

1. On 13 February 2018, according to the Notice on the Closing and Relocation of Livestock Farms in the Livestock and Poultry Prohibited Area (《關於畜禽禁養區內養殖場關閉搬遷的通告》) issued by the People's Government of Litong District of Wuzhong City, Ningxia Zhuangyuan Pasture Co., Ltd. a wholly-owned subsidiary of the Company, was listed as the livestock farms planned to be closed and relocated, and the Company responded positively to the government's work arrangement and carried out the closure work. The Company has been actively negotiating compensation matters with the Litong District People's Government, but has not yet signed a compensation agreement with the People's Government of Litong District till the date of this report. The Company filed a lawsuit with the Intermediate People's Court of Wuzhong City and requested the People's Court to order the People's Government of Litong District of Wuzhong City to fulfill statutory obligations in accordance with the requirements of Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and make compensation for the loss caused by the closure and relocation of the Company's farms. Ningxia Zhuangyuan recently received the Administrative Judgment ((2020) Ning 03 Xingchu No. 6) served by the People's Court of Wuzhong City of Ningxia Hui Autonomous Region. The main content of the Judgment is that "the People's Government of Litong District of Wuzhong City as defendant shall compensate Ningxia Zhuangyuan Pasture as plaintiff for the closure and relocation within 60 days from the date on which this Judgment takes effect".
2. On 25 July 2017, according to the notice on the Plan for Delineation of the Prohibited Area and Restricted Area of Livestock and Poultry in Xining City (Trial) (Ningzhengban [2017] No. 143) (《西寧市畜禽養殖禁養區限養區劃定方案(試行)》) issued by the General Office of the People's Government of Xining City, Qinghai Shengyuan Plateau Pasture Co., Ltd. a subsidiary of the Company, was included in the scope of the prohibited area. The Company respected environmental protection work arrangements and responded actively to close the relevant farm. The Company has requested the People's Government of Huangyuan County of Xining City to compensate for the relocation losses but has not yet received any response. Therefore, the Company submitted an administrative complaint to the Intermediate People's Court of Xining City in Qinghai Province in accordance with the requirements of Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》), requesting the People's Government of Huangyuan County of Xining City to make compensation. Qinghai Shengyuan recently received the Notice from the Intermediate People's Court of Xining City of Qinghai Province. The case regarding the litigation by Qinghai Shengyuan against the People's Government of Huangyuan County of Xining City came to trial in the court on 7 August 2020. Currently, the hearing is in process.

SHARE OPTION SCHEME

There was no share option scheme (pursuant to Chapter 17 of the Listing Rules) adopted by the Company during the Reporting Period.



Other Information

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

As at 30 June 2020, 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 of Hong Kong Limited (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 A Shares	Approximate percentage in the issued share capital of the Company
A Shares				
Ma Hongfu (<i>Note 2</i>)	Beneficial owner	32,197,400 (L)	20.70%	16.89%
	Interested in controlled corporation	45,894,700 (L)	29.50%	24.07%
Wang Guofu	Beneficial owner	483,000	0.31%	0.25%
Zhang Qianyu	Beneficial owner	108,000	0.07%	0.06%
Ding Jianping	Beneficial owner	458,000	0.29%	0.24%
Zhao Qinghua	Beneficial owner	106,400	0.068%	0.056%

Notes:

- (1) All interests in shares were long positions.
- (2) Mr. Ma Hongfu holds 97.38% equity interests in Lanzhou Zhuangyuan Investment Co., Ltd.* (蘭州莊園投資股份有限公司) (“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 2020, 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 of the Laws of Hong Kong), 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.

* For identification purpose only



Other Information

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

As at 30 June 2020, 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 A Shares/H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
A Shares				
Lanzhou Zhuangyuan Investment Co., Ltd. <i>(Note 2)</i>	Beneficial owner	30,894,700 (L)	19.86%	16.20%
Gansu Lucky Cow Investment Co., Ltd. <i>(Note 2)</i>	Beneficial owner	15,000,000 (L)	9.64%	7.87%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	3,243,272 (L)	2.09%	1.70%
H Shares				
Hu Keliang	Beneficial owner	6,960,000 (L)	19.81%	3.65%
Li Yanling <i>(Note 3)</i>	Interests of spouse	6,960,000 (L)	19.81%	3.65%
Wang Wei <i>(Note 4)</i>	Beneficial owner	800,000 (L)	2.28%	0.42%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.47%
Li Qi <i>(Note 4)</i>	Interests of spouse	3,600,000 (L)	10.25%	1.89%
Venko Limited <i>(Note 4)</i>	Beneficial owner	2,800,000 (L)	7.97%	1.47%
Ren Qifeng <i>(Note 5)</i>	Interest of controlled corporation	3,523,000 (L)	10.03%	1.85%
Ren Songliu <i>(Note 5)</i>	Interests of spouse	3,523,000 (L)	10.03%	1.85%
Technoart Investments Limited <i>(Note 5)</i>	Beneficial owner	3,523,000 (L)	10.03%	1.85%
Hu Jiawu	Beneficial owner	2,800,000 (L)	7.97%	1.47%
Xi Xin <i>(Note 6)</i>	Interests of spouse	2,800,000 (L)	7.97%	1.47%

Other Information

Notes:

1. All interests in shares were long positions.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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 2020, the Company had not been notified by any other persons (other than Directors and chief executive of the Company) who had interests 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, 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.



Other Information

DIVIDEND

The Board has resolved not to declare any interim dividend for the Reporting Period (the six months ended 30 June 2019: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on information known to the Directors and publicly available to the Company, 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 and Executive Director

Lanzhou, the PRC, 10 August 2020

* *For identification purpose only*



Review Report

To all shareholders of Lanzhou Zhuangyuan Pasture Co., Ltd.,

We have reviewed the accompanying financial statements of Lanzhou Zhuangyuan Pasture Co., Ltd. (“Zhuangyuan Pasture”), which comprise the consolidated and the parent company’s balance sheets as at 30 June 2020, and the consolidated and the parent company’s income statements, the consolidated and the parent company’s cash flow statements for January to June 2020 and the consolidated and the parent company’s statements of changes in shareholders’ equity for January to June 2020, and the notes to the financial statements. The preparation of these financial statements is the responsibility of Zhuangyuan Pasture’s management. Our responsibility is to issue a report on review of these financial statements based on our review.

We conducted our review in accordance with China Certified Public Accountant Review Standard No. 2101 — Review of Financial Statements. This Standard requires us to plan and perform the review to obtain limited assurance about whether these financial statements are free from material misstatements. A review is limited primarily to procedures as enquiry of entity’s personnel and analytical review procedures applied to the financial information and thus provides less assurance than an audit. We have not performed an audit, and therefore we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not prepared in accordance with the requirement of Accounting Standards for Business Enterprises and cannot present fairly, the reviewed entity’s consolidated and the parent company’s financial position as at 30 June 2020, and the consolidated and the parent company’s operating results and cash flows for January to June 2020.

WUYIGE Certified Public Accountants LLP

Chinese Certified Public Accountant: Wei Caixiang

Beijing, the PRC

Chinese Certified Public Accountant: Zhang Yingli

10 August 2020



Consolidated Balance Sheet

As at 30 June 2020 - unaudited
(Expressed in RMB)

Item	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
Current assets:			
Monetary funds		584,984	413,742
Trading financial assets		20,412	20,412
Bills receivable		282	
Trade receivables	II.1	32,753	29,649
Prepayments		4,249	16,185
Other receivables		8,221	17,694
Including: Interest receivable			
Dividend receivable			
Inventories		83,918	94,832
Other current assets		12,479	17,595
Total current assets		747,299	610,110
Non-current assets:			
Other equity instrument investments		44	44
Fixed assets		1,210,601	1,247,639
Construction in progress		104,455	59,188
Bearer biological assets	II.2	383,496	360,095
Right-of-use assets		56,072	43,437
Intangible assets		90,886	90,609
Goodwill		9,971	9,971
Long-term deferred expenses		5,842	7,138
Deferred tax assets		8,275	6,644
Other non-current assets		41,989	57,852
Total non-current assets		1,911,631	1,882,617
Total assets		2,658,930	2,492,727



Consolidated Balance Sheet (Continued)

As at 30 June 2020 - unaudited
(Expressed in RMB)

Item	<i>Note</i>	30 June 2020 RMB'000	31 December 2019 RMB'000
Current liabilities:			
Short-term borrowings		348,788	315,184
Bills payable		446,730	283,014
Accounts payable	<i>11.3</i>	204,125	228,221
Contract liabilities		6,417	16,470
Employee remuneration payable		3,788	2,621
Taxes payable		6,307	7,504
Other payables		75,996	50,725
Including: Interests payable			
Dividends payable		10,487	
Non-current liabilities due within one year		47,950	56,249
Total current liabilities		1,140,102	959,987
Non-current liabilities:			
Long-term borrowings		216,074	227,327
Lease liabilities		43,124	30,946
Estimated liabilities		482	515
Deferred income		37,546	39,518
Deferred income tax liabilities		8,861	9,027
Total non-current liabilities		306,087	307,332
Total liabilities		1,446,189	1,267,320



Consolidated Balance Sheet (Continued)

As at 30 June 2020 - unaudited
(Expressed in RMB)

Item	<i>Note</i>	30 June 2020 RMB'000	31 December 2019 RMB'000
Shareholders' equity:			
Share capital		190,681	190,681
Capital reserve		530,916	531,119
Less: Treasury stocks		23,251	23,251
Surplus reserve		43,387	43,387
Undistributed profits		471,008	483,471
Total equity attributable to shareholders of the parent		1,212,741	1,225,407
Total Shareholders' equity		1,212,741	1,225,407
Total liabilities and Shareholders' equity		2,658,930	2,492,727



Consolidated Income Statement

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

Item	Note	January to June 2020 RMB'000	January to June 2019 RMB'000
I. Total operating income	<i>11.4</i>	324,987	396,899
II. Total operating cost		321,243	372,424
Less: Operating cost	<i>11.4</i>	231,353	268,084
Taxes and surcharges		3,024	3,185
Selling expenses	<i>11.5</i>	30,767	42,585
Administrative expenses	<i>11.6</i>	34,431	39,544
Research and development expenses	<i>11.7</i>	5,178	5,290
Financial expenses	<i>11.8</i>	16,490	13,737
Including: Interest expenses		15,750	12,708
Interest income		2,241	870
Add: Other income		2,943	1,998
Investment income		(5,175)	
Including: Gain on derecognition of financial assets measured at amortised cost		(5,175)	
Gains/(losses) from changes in fair value	<i>11.9</i>	(5,164)	3,298
Impairment losses on credit		(119)	(474)
Gains from asset disposal		—	(2)
III. Operating profit		(3,771)	29,295
Add: Non-operating income		365	1,530
Less: Non-operating expenses		238	238
IV. Total profit		(3,644)	30,588
Less: Income tax expenses	<i>11.11</i>	(1,669)	3,892
V. Net profit		(1,975)	26,696
(I) Classification by operating continuity:			
1. Net profit from continuing operations		(1,975)	26,696
2. Net profit from discontinued operations			
(II) Classification by ownership:			
1. Net profit attributable to shareholders of the Parent Company		(1,975)	26,696
2. Minority shareholders' profits and losses			
VI. Other net comprehensive income after tax			
(I) Other net comprehensive income after tax attributable to shareholders of the Parent Company			
(II) Other net comprehensive income after tax attributable to minority shareholders			
VII. Total comprehensive income		(1,975)	26,696
(I) Total comprehensive income attributable to the owners of the Parent Company		(1,975)	26,696
(II) Total comprehensive income attributable to minority shareholders			
VIII. Earnings per share			
(I) Basic earnings per share (RMB/share)	<i>11.12</i>	(0.01)	0.14
(II) Diluted earnings per share (RMB/share)		(0.01)	0.14

Consolidated Cash Flow Statement

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

Item	Note	January to June 2020 RMB'000	January to June 2019 RMB'000
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		358,527	426,485
Refund of taxes and levies		914	
Other cash received relating to operating activities		36,134	7,443
Sub-total of cash inflows from operating activities		395,575	433,927
Payment for goods and services		207,073	164,686
Payment to and for employees		31,276	35,401
Payment of various taxes and levies		13,468	25,696
Payment for other cash relating to operating activities		54,144	62,904
Sub-total of cash outflows from operating activities		305,962	288,688
Net cash flows from operating activities		89,614	145,240
II. Cash flows from investing activities:			
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		11,439	10
Other cash received relating to investing activities		41,233	22,589
Sub-total of cash inflows from investing activities		52,672	22,599
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		123,284	170,226
Cash paid for investments			3,823
Payment for other cash relating to investing activities			102,307
Sub-total of cash outflows from investing activities		123,284	276,356
Net cash flows from investing activities		(70,612)	(253,758)
III. Cash flows from financing activities:			
Proceeds from investors			23,251
Including: cash received from absorption by the subsidiaries of investment of minority shareholders			
Cash received from borrowings		308,500	615,000
Other cash received relating to financing activities		194,492	1,146
Sub-total of cash inflows from financing activities		502,992	639,397
Cash paid for repayments of borrowings		295,484	349,876
Cash paid for dividends, profit distributions or interest		15,710	11,985
Including: Dividend and profit paid by the subsidiaries to minority shareholders			
Other cash paid relating to financing activities		97,008	5,339
Sub-total of cash outflows from financing activities		408,202	367,200
Net cash flow from financing activities		94,789	272,197
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		9	(109)
V. Net increase in cash and cash equivalents			
Add: Balance of cash and cash equivalents at the beginning of the period		248,235	388,791
VI. Balance of cash and cash equivalents at the end of the period			
		362,035	552,361

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2020 - unaudited

(Expressed in RMB)

Item	January to June 2020													
	Attributable to shareholders of the parent company												Minority shareholders' equity	Total shareholders' equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Sub-total	Other equity instruments		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
I. Balance at the end of the previous year	190,681				531,119	23,251			43,387	483,471	1,225,407		1,225,407	
Add: Change in accounting policies														
Prior-period error correction														
Business combination under the common control														
Others														
II. Balance at the beginning of the year	190,681				531,119	23,251			43,387	483,471	1,225,407		1,225,407	
III. Increase/decrease amount during the period					(204)					(12,462)	(12,666)		(12,666)	
(I) Total comprehensive income										(1,975)	(1,975)		(1,975)	
(II) Invested and reduced capitals of shareholders					(204)						(204)		(204)	
1. Common share contributed by shareholders														
2. Capital contributed by other equity instrument holders														
3. Amount of share-based payment included in shareholders' equities					(204)						(204)		(204)	
4. Others														
(III) Appropriation of profits										(10,487)	(10,487)		(10,487)	
1. Withdrawal of surplus reserve														
2. Distributions to shareholders										(10,487)	(10,487)		(10,487)	
3. Others														
(IV) Internal carry-over of shareholders' equity														
1. Share capital transferred with capital reserves														
2. Share capital transferred with surplus reserves														
3. Surplus reserve to cover the losses														
4. Transferred the balance of defined benefits plan to retained earnings														
5. Transferred other comprehensive income to retained earnings														
6. Others														
(V) Special reserve														
1. Withdraw amount in the period														
2. Utilized amount in the period														
(VI) Others														
IV. Balance at the end of the period	190,681				530,916	23,251			43,387	471,008	1,212,741		1,212,741	

Consolidated Statement of Changes in Shareholders' Equity (Continued)

For the six months ended 30 June 2020 - unaudited

(Expressed in RMB)

Item	January to June 2019											
	Attributable to shareholders of the parent company										Minority shareholders' equity	Total shareholders' equity
	Share capital	Preferred shares	Perpetual bonds	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I. Balance at the end of the previous year	187,340				508,791				37,194	451,082	1,184,407	1,184,407
Add: Change in accounting policies												
Prior-period error correction												
Business combination under the common control												
Others												
II. Balance at the beginning of the year	187,340				508,791				37,194	451,082	1,184,407	1,184,407
III. Increase/decrease amount during the period	3,341				19,910	23,251			1,712	12,245	13,957	13,957
(I) Total comprehensive income										26,696	26,696	26,696
(II) Invested and reduced capitals of shareholders	3,341				19,910	23,251						
1. Common share contributed by shareholders	3,341				19,910	23,251						
2. Capital contributed by other equity instrument holders												
3. Amount of share-based payment included in shareholders' equities												
4. Others												
(III) Appropriation of profits									1,712	(14,451)	(12,739)	(12,739)
1. Withdrawal of surplus reserve									1,712	(1,712)		
2. Distributions to shareholders										(12,739)	(12,739)	(12,739)
3. Others												
(IV) Internal carry-over of shareholders' equity												
1. Share capital transferred with capital reserves												
2. Share capital transferred with surplus reserves												
3. Surplus reserve to cover the losses												
4. Transferred the balance of defined benefits plan to retained earnings												
5. Transferred other comprehensive income to retained earnings												
6. Others												
(V) Special reserve												
1. Withdraw amount in the period												
2. Utilized amount in the period												
(VI) Others												
IV. Balance at the end of the period	190,681				528,701	23,251			38,907	463,326	1,198,363	1,198,363

Balance Sheet of the Parent Company

As at 30 June 2020 - unaudited
(Expressed in RMB)

Item	<i>Note</i>	30 June 2020 RMB'000	31 December 2019 RMB'000
Current assets:			
Cash at bank and on hand		439,182	359,427
Trading financial assets		20,412	20,412
Bills receivable		282	
Accounts receivable		13,643	13,002
Prepayments		3,011	14,464
Other receivables		515,065	593,144
Including: Interests receivable			
Dividends receivable			
Inventories		27,830	21,362
Other current assets		12,153	17,117
Total current assets		1,031,578	1,038,928
Non-current assets:			
Long-term equity investments		703,789	533,789
Other equity instrument investment		44	44
Fixed assets		519,631	529,887
Construction in progress		1,086	
Right-of-use assets		3,331	4,033
Intangible assets		57,285	56,927
Long-term deferred expenses		5,761	6,946
Deferred income tax assets		4,602	2,933
Other non-current assets		25,672	29,735
Total non-current assets		1,321,201	1,164,294
Total assets		2,352,779	2,203,222



Balance Sheet of the Parent Company (Continued)

As at 30 June 2020 - unaudited
(Expressed in RMB)

Item	<i>Note</i>	30 June 2020 RMB'000	31 December 2019 RMB'000
Current liabilities:			
Short-term borrowings		308,788	315,184
Bills payable		446,730	283,014
Accounts payable		96,650	123,726
Contract liabilities		4,953	12,377
Employee benefits payable		3,223	2,013
Taxes payable		3,812	2,872
Other payables		118,826	61,442
Including: interest payable			
Dividends payable		10,487	
Non-current liabilities due within one year		33,630	33,566
Total current liabilities		1,016,612	834,193
Non-current liabilities:			
Long-term borrowings		216,074	227,327
Lease liabilities		2,595	3,122
Estimated liabilities		4	44
Deferred income		15,709	16,598
Deferred income tax liabilities		4,277	4,277
Total non-current liabilities		238,659	251,368
Total liabilities		1,255,270	1,085,561
Shareholders' equity:			
Share capital		190,681	190,681
Capital reserves		553,427	553,631
Less: treasury shares		23,251	23,251
Surplus reserves		43,387	43,387
Retained earnings		333,264	353,213
Total shareholders' equities		1,097,509	1,117,662
Total liabilities and shareholders' equities		2,352,779	2,203,222



Income Statement of the Parent Company

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

Item	<i>Note</i>	January to June 2020 RMB'000	January to June 2019 RMB'000
I.Total operating income		221,444	242,189
II.Total operating cost		233,857	223,240
Less: operating costs		179,778	165,197
Taxes and surcharges		1,224	1,245
Selling expenses		17,950	24,101
Administrative expenses		15,113	18,350
R&D expenses		4,505	2,644
Financial expenses		15,287	11,704
Including: interest expenses		14,557	10,817
Interest income		2,118	748
Add: other income		1,053	819
Credit impairment loss		25	(110)
Gain on disposal of assets			(2)
III. Operating profit		(11,335)	19,656
Add: non-operating income		227	228
Less: non-operating expenses		23	191
IV. Total profits		(11,132)	19,692
Less: income tax expense		(1,670)	2,571
V. Net profit		(9,462)	17,121
1. Net profit from continuing operation		(9,462)	17,121
2. Net profit from discontinued operation			
VI. Net other comprehensive income after tax			
1. Other comprehensive income that cannot be reclassified into profits and losses afterwards			
2. Other comprehensive income to be reclassified into profits and losses afterwards			
VII. Total comprehensive income		(9,462)	17,121



Cash Flow Statement of the Parent Company

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

Item	<i>Note</i>	January - June 2020 RMB'000	January - June 2019 RMB'000
I. Cash flow from operating activities:			
Proceeds from sale of goods and rendering of services		241,148	260,618
Refund of taxes received		914	
Proceeds from other operating activities		198,139	26,638
Sub-total of cash inflows from operating activities		440,201	287,256
Payment for goods and services		103,081	228,908
Payment to and for employees		13,052	14,250
Payment of various taxes		4,105	14,819
Payment for other operating activities		38,376	47,197
Sub-total of cash outflows from operating activities		158,614	305,174
Net cash flow from operating activities		281,587	(17,918)
II. Cash flow from investment activities:			
Net cash from disposal of fixed assets, intangible assets and other long-term assets		576	10
Cash receipt from other investment activities		22,333	5,900
Sub-total of cash inflows from investing activities		22,910	5,910
Payment for acquisition of fixed assets, intangible assets and other long-term assets		20,810	134,706
Cash paid for investments		170,000	9,823
Payment for other investing activities			39,499
Sub-total of cash outflow from investing activities		190,810	184,027
Net cash flow from investing activities		(167,900)	(178,117)
III. Cash flow from financing activities:			
Cash received from investors			23,251
Cash received from borrowings		268,500	615,000
Cash receipt from other financing activities		35,507	1,146
Sub-total of cash inflow from financing activities		304,007	639,397
Repayments of borrowings		286,174	321,110
Payment for dividends, appropriation of profits or interest		14,467	10,943
Payment for other financing activities		94,749	3,425
Sub-total of cash outflows from financing activities		395,390	335,477
Net cash flow from financing activities		(91,383)	303,919
IV. Effect of foreign exchange rate changes on cash and cash equivalents			
		9	(109)
V. Net increase in cash and cash equivalents			
		22,313	107,775
Add: Cash and cash equivalents at the beginning of the period		193,920	287,852
VI. Cash and cash equivalents at the end of the period		216,233	395,627

Statement of Changes in Shareholders' Equity of the Parent Company

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

Item	January - June 2020										
	Other equity instruments				Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Total shareholders' equity
	Share capital	Preferred shares	Perpetual bonds	Others							
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
I. Balance at the end of the previous year	190,681				553,631	23,251			43,387	353,213	1,117,662
Add: Change in accounting policies											
Prior-period error correction											
Others											
II. Balance at the beginning of the year	190,681				553,631	23,251			43,387	353,213	1,117,662
III. Increase/decrease amount during the period					(204)					(19,949)	(20,153)
(I) Total comprehensive income										(9,462)	(9,462)
(II) Invested and reduced capitals of shareholders					(204)						(204)
1. Common share contributed by shareholders											
2. Capital contributed by other equity instrument holders											
3. Amount of share-based payment included in shareholders' equities					(204)						(204)
4. Others											
(III) Appropriation of profits										(10,487)	(10,487)
1. Withdrawal of surplus reserve										(10,487)	(10,487)
2. Distributions to shareholders										(10,487)	(10,487)
3. Others											
(IV) Internal carry-over of shareholders' equity											
1. Share capital transferred with capital reserves											
2. Share capital transferred with surplus reserves											
3. Surplus reserve to cover the losses											
4. Transferred the balance of defined benefits plan to retained earnings											
5. Transferred other comprehensive income to retained earnings											
6. Others											
(V) Special reserve											
1. Withdraw amount in the period											
2. Utilized amount in the period											
(VI) Others											
IV. Balance at the end of the period	190,681				553,427	23,251			43,387	333,264	1,097,509



Statement of Changes in Shareholders' Equity of the Parent Company (Continued)

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

Item	January - June 2019										
	Other equity instruments				Capital reserves	Less: treasury shares	Other			Retained earnings	Total shareholders' equity
	Share capital	Preferred shares	Perpetual bonds	Others			comprehensive income	Special reserves	Surplus reserves		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
I. Balance at the end of the previous year	187,340				531,302				37,194	310,215	1,066,052
Add: Change in accounting policies											
Prior-period error correction											
Others											
II. Balance at the beginning of the year	187,340				531,302				37,194	310,215	1,066,052
III. Increase/decrease amount during the Period	3,341				19,910	23,251			1,712	2,670	4,382
(I) Total comprehensive income										17,121	17,121
(II) Invested and reduced capitals of shareholders	3,341				19,910	23,251					
1. Common share contributed by shareholders	3,341				19,910	23,251					
2. Capital contributed by other equity instrument holders											
3. Amount of share-based payment included in shareholders' equities											
4. Others											
(III) Appropriation of profits									1,712	(14,451)	(12,739)
1. Withdrawal of surplus reserve									1,712	(1,712)	0
2. Distributions to shareholders										(12,739)	(12,739)
3. Others											
(IV) Internal carry-over of shareholders' equity											
1. Share capital transferred with capital reserves											
2. Share capital transferred with surplus reserves											
3. Surplus reserve to cover the losses											
4. Transferred the balance of defined benefits plan to retained earnings											
5. Transferred other comprehensive income to retained earnings											
6. Others											
(V) Special reserve											
1. Withdraw amount in the period											
2. Utilized amount in the period											
(VI) Others											
IV. Balance at the beginning of the period	190,681				551,212	23,251			38,907	312,885	1,070,434

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

I. 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, and the “Accounting Standards for Business Enterprises – Basic Standards” (issued by the Ministry of Finance Order No. 33 and amended by the Ministry of Finance Order No. 76), the 42 specific accounting standards issued and amended on 15 February 2006 and thereafter, the Application Guideline of the Accounting Standards for Business Enterprises, the Interpretation of the Accounting Standards for Business Enterprises and other relevant provisions (collectively, the “Accounting Standards for Business Enterprises”) as well as the disclosure requirements of the Information Disclosure Rule No. 15 of Public Offerings Company — Financial Reporting General Provisions (2014 Amendments) issued by CSRC. The interim financial report was authorised to issue on 10 August 2020.

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 2020. 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 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 publication of 2019 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 WUYIGE Certified Public Accountants LLP in accordance with the China’s Auditing Standards for the Chinese Certified Public Accountants No. 2101 — Review of Financial Statements.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1 Accounts receivable

(1) *The analysis on accounts receivable classified by bad debts provision method is as follows:*

Type	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Accounts receivable making provision for bad debts individually		
Accounts receivable making provision for bad debts by group	33,763	30,527
Sub-total	33,763	30,527
Less: Provision for bad debts	1,010	878
Total	32,753	29,649

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

Ageing	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year	32,604	29,261
Over 1 year but within 2 years	233	237
Over 2 years but within 3 years	294	397
Over 3 years	632	632
Sub-total	33,763	30,527
Less: Provision for bad debts	1,010	878
Total	32,753	29,649

(3) *Provision for bad debts made, recovered or reversed during this year:*

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Balance at the beginning of the year	878	813
Provision made during this year	132	210
Provision recovered or reversed during this year		(44)
Written off during this year		(101)
At 30 June / 31 December	1,010	878

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 2020 and 31 December 2019 is as follows:

	At 30 June 2020 Heads	At 31 December 2019 Heads
Calves	1,070	1,380
Heifers	7,361	6,472
Milkable cows	5,085	5,560
Total	13,516	13,412

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 RMB'000	Heifers RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at 31 December 2019	15,712	155,117	189,266	360,095
Balance as at 30 June 2020	12,879	195,724	174,893	383,496



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

3 Accounts payable

(1) Ageing analysis

Ageing	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year (inclusive)	195,499	213,499
Over 1 year but within 2 years (inclusive)	6,119	12,618
2-3 years (inclusive)	1,381	1,106
Over 3 years	1,125	997
Total	204,125	228,221

4 Operating income and operating costs

(1) Operating income and operating costs

	Six months ended 30 June			
	2020		2019	
	Income RMB'000	Cost RMB'000	Income RMB'000	Cost RMB'000
Principal activities	317,627	227,955	388,076	263,266
Other operating activities	7,361	3,398	8,823	4,818
Total	324,987	231,353	396,899	268,084

Details of operating income

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Operating income from principal activities		
— Sale of goods	317,627	388,076
Sub-total	317,627	388,076
Other operating income		
— Income from sales of feed		4,848
— Others	7,361	3,975
Total	324,987	396,899

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

5 Selling expenses

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Staff cost	8,694	9,287
Freight and miscellaneous charges	7,148	13,502
Low cost and short-lived consumable items	6,029	5,957
Travel expenses	1,011	1,228
Promotional fees	2,910	6,808
Rents and property management fees	755	1,059
Depreciation and amortization	1,354	1,452
Others	2,866	3,292
Total	30,767	42,585

6 Administrative expenses

	Six months ended 30 June	
	January to June in 2020	January to June in 2019
Staff cost	9,601	12,915
Depreciation and amortization	7,154	4,184
Maintenance fees	5,692	7,169
Professional service fees	2,257	1,978
Greening and sewage charges	1,483	2,151
Office expenses	1,036	2,021
Premium for property insurance	1,030	1,435
Utilities expenses	914	1,307
Auditing fees	860	1,421
Inspection fees	580	654
Freight and miscellaneous charges	463	699
Business entertainment expenses	282	296
Travel expenses	271	505
Others	2,807	2,809
Total	34,431	39,544



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

7 Research and development expenses

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Item		
Research and development of new products	5,178	5,290
Total	5,178	5,290

8 Financial expenses

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest expenses from loans and payables	15,750	12,708
Including: Interest expenses	15,800	12,708
Interest subsidies for policy-related loans	(50)	
Less: Capitalized interest expenses		
Interest income from deposits	2,241	870
Net exchange (gains)/losses	(12)	45
Others	2,993	1,854
Total	16,490	13,737

9 Gains/(losses) from changes in fair value

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Gains in fair value less costs to sell of bearer biological assets		293	(1,417)
Gain arising on initial recognition of agricultural products at fair value less costs to sell at the point of harvest		(5,457)	4,715
Total		(5,164)	3,298



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

9 Gains/(losses) from changes in fair value (Cont'd)

The Company's bearer biological assets are the cows. On the balance sheet date, the Company hired qualified and professional assets valuer to determine the fair value of these cows. Any change over each period is included in the profit or loss of the current period.

The agricultural products harvested from the Company's bearer biological assets are the raw milk. At the time of harvest, the fair value of such agricultural products less the selling expenses (subject to the quotation in the local market) is recognized as the initial costs of the inventory. Any profit or loss (that is, the fair value of agricultural products at the time of harvest less the selling expenses and farming costs) generated from the recognition based on such fair value on the date of harvest shall be recognized in the income statement. Thereafter, during the sales, the inventory amount initially recognized based on such fair value is transferred to selling costs.

10 Government grants

(1) Government grants related to assets

Subsidy projects	31 December 2019 RMB'000	Grant amount added during this period RMB'000	Amount included in the profit or loss during this period RMB'000	30 June 2020 RMB'000
Dairy farming project	21,932		1,093	20,839
Dairy product production project	5,205		254	4,951
Biogas project	4,127		188	3,939
Others	8,254		438	7,817
Total	39,518		1,972	37,546



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

10 Government grants (Cont'd)

(2) Government grants related to income

Category	Amount RMB'000	Item represented RMB'000	Amount included in the profit or loss of the current period RMB'000
Provincial special fund for development of agricultural production in 2019 (2019年省級農業生產發展專項資金)	500	Other income	500
Grant funding under the development awards for key enterprises supported by the Industrial Park Administrative Committee for the first quarter of 2020 (工業園區管委會扶持重點工業企業2020年一季度發展獎補助資金)	180	Other income	180
Subsidies for employment stabilization granted by Provincial Department of Human Resources and Social Security in 2020 (2020年省人力資源和社會保障廳穩崗補貼)	117	Other income	117
Award for property service enterprises (物業服務企業獎勵)	60	Other income	60
Revamp fund granted by Finance Bureau of Yuzhong County (榆中縣財政局挖潛改造資金)	71	Non-operating income	71
Subsidies to enterprises falling within the four categories of subsidizing enterprises (榆中縣工業和信息化局「四上」企業補助項目資金)	50	Other income	50
Interest subsidies for loans granted to leading enterprises of agricultural industrialization in 2019 (2019年農業產業化龍頭企業貸款貼息)	50	Financial expenses	50
Others	63	Other income	63
Total	1,091	—	1,091

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

11 Income tax expenses

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current tax expense	128	3,955
Deferred tax expense	(1,797)	(63)
Total	(1,669)	3,892

12 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	
	2020 RMB'000	2019 RMB'000
Consolidated net profit attributable to ordinary shareholders of the Company	(1,975)	26,696
Weighted average number of ordinary shares outstanding	190,681	190,681
Basic earnings per share (RMB/share)	(0.01)	0.14



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

13 Dividends

- (i) The board of directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2020.
- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

Item	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.055 per share (six months ended 30 June 2020: Nil)	10,487	12,739
Total	10,487	12,739

It was resolved at the 2019 annual general meeting of the Company convened on 29 June 2020 to distribute dividends in cash at RMB0.055 per share (tax inclusive) to all shareholders with the profit available for distribution realized in 2019 and the total dividends distributed amounted to approximately RMB10.5 million.

14. Segment reporting

Considering the framework of internal organization, management requirements and internal reporting system, the Group has determined 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 acquire different technology and market strategies. The financial statements of the different segments is regularly reviewed by the Company's management to determine the allocation of resources and assess the performance.

Segment

Dairy farming

Dairy products production

Principal activities

Breeding dairy cows to produce and sell raw milk

Production and sales of Pasteurized Milk, UHT Milk, Modified Milk, Yogurt and Other Dairy Products



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

14. Segment reporting *(Cont'd)*

(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 assets 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).

Operating results represent 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.



Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

14. Segment reporting (Cont'd)

(1) Segment results, assets and liabilities (Cont'd)

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 Group's management or is otherwise regularly provided to the Company's management, even if not included in the measurement of segment profit or loss and segment assets and liabilities:

Item	Dairy farming Segment		Dairy Products Production Segment		Elimination among Segments		Total	
	January to June in 2020	January to June in 2019	January to June in 2020	January to June in 2019	January to June in 2020	January to June in 2019	January to June in 2020	January to June in 2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external transactions	34,499	4,222	290,489	392,677			324,987	396,899
Revenue from inter-segment transactions	105,786	115,114			(105,786)	(115,114)		
Depreciation and amortization expenses	16,966	12,834	28,858	16,376			45,823	29,210
Interest income	93	60	2,147	810			2,241	870
Interest expense	1,851	900	13,899	11,807			15,750	12,708
Total profits /(losses)	2,431	6,165	(6,075)	24,423			(3,644)	30,588
Income tax expenses			(1,669)	3,892			(1,669)	3,892
Net profits /(losses)	2,431	6,165	(4,406)	20,530			(1,975)	26,696
Total assets	1,138,744	915,590	2,175,006	2,022,910	(654,820)	(566,120)	2,658,930	2,372,379
Total liabilities	771,370	707,030	1,329,639	1,033,106	(654,820)	(566,120)	1,446,189	1,174,016
Increase in non-current assets	73,457	24,962	(44,443)	129,566			29,014	154,527

(2) Geographic information

As the Group's revenue is derived from customers located in the Mainland China and non-current assets are mainly taken from and wholly located in Mainland China and all the branches are managed on a national basis due to their similar customer classifications or classification and similar regulatory environment in all regions, no information has been provided to the management of the Group by geographical area in Mainland China.

(3) Major customers

In period from January to June in 2020 and 2019, there is no case in which revenue to a single customer exceeds 10% of the total revenue of the Company.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

II. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

15. Rate of return on net assets and earnings per share

Unit: RMB

Profit during the report period	Earnings per share					
	Rate of return on weighted average net assets (%)		Basic earnings per share		Diluted earnings per share	
	January to June in 2020	January to June in 2019	January to June in 2020	January to June in 2019	January to June in 2020	January to June in 2019
Net profit attributable to the Company's ordinary shareholders	-0.16	2.23	-0.01	0.14	-0.01	0.14
Net profit attributable to the ordinary shareholders of the Company after a deduction of non recurring profit or loss	-0.39	1.98	-0.02	0.13	-0.02	0.13

