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

(a joint stock limited liability company incorporated in the People's Republic of China)
(Stock Code: 1533)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

FINANCIAL HIGHLIGHTS

Results

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue	322,214	293,284
Gross profit	111,578	90,709
Profit for the period attributable to equity shareholders of the Company	37,625	30,116
Earnings per share (RMB) ⁽¹⁾	0.27	0.29

- Revenue increased by 9.9% as compared to the corresponding period in 2015.
- Gross profit increased by 23.0% as compared to the corresponding period in 2015.
- Profit for the period attributable to equity shareholders of the Company increased by 24.9% as compared to the corresponding period in 2015.

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

The board (the “**Board**”) of directors (the “**Directors**”) of Lanzhou Zhuangyuan Pasture Co., Ltd.*蘭州莊園牧場股份有限公司 (the “**Company**”) is pleased to present the unaudited consolidated interim results (the “**Interim Results**”) of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2015.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2016 – unaudited

(Expressed in RMB)

		Six months ended 30 June	
		2016	2015
	<i>Note</i>	RMB'000	RMB'000
Revenue	3	322,214	293,284
Cost of sales		<u>(210,636)</u>	<u>(202,575)</u>
Gross profit		111,578	90,709
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		4,900	3,471
Loss arising from changes in fair value less costs to sell of biological assets		(28,281)	(9,054)
Other net income	4	18,509	13,656
Distribution costs		(26,247)	(20,419)
Administrative expenses		<u>(25,405)</u>	<u>(30,918)</u>
Profit from operations		55,054	47,445
Net finance costs	5(a)	<u>(8,246)</u>	<u>(12,801)</u>
Profit before taxation	3, 5	46,808	34,644
Income tax	6	<u>(9,183)</u>	<u>(4,528)</u>
Profit for the period		<u>37,625</u>	<u>30,116</u>
Attributable to:			
Equity shareholders of the Company		<u>37,625</u>	<u>30,116</u>
Profit for the period		<u>37,625</u>	<u>30,116</u>
Earnings per share			
– Basic and diluted (RMB)	7	<u>0.27</u>	<u>0.29</u>

Details of dividends payable to equity shareholders of the Company are set out in note 11 on page 13.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>37,625</u>	<u>30,116</u>
Total comprehensive income for the period	<u>37,625</u>	<u>30,116</u>
Attributable to:		
Equity shareholders of the Company	<u>37,625</u>	<u>30,116</u>
Total comprehensive income for the period	<u>37,625</u>	<u>30,116</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 – unaudited

(Expressed in RMB)

		At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
	Note		
Non-current assets			
Property, plant and equipment		694,790	651,945
Available-for-sale financial assets		33,720	33,720
Lease prepayments		19,432	20,116
Biological assets	8	109,734	133,500
Deferred tax assets		3,856	5,222
Other non-current assets		33,793	27,045
		<u>895,325</u>	<u>871,548</u>
Current assets			
Inventories		53,938	86,350
Trade receivables	9	27,115	28,538
Deposits, prepayments and other receivables		38,627	86,310
Pledged deposit		6,123	36,334
Cash and cash equivalents		330,742	231,702
		<u>456,545</u>	<u>469,234</u>
Current liabilities			
Trade and bills payables	10	87,109	94,530
Receipts in advance		8,484	20,697
Accrued expenses and other payables		72,157	44,368
Non-current liabilities due within one year		6,348	9,403
Bank loans		346,500	356,000
Current taxation		11,889	15,047
		<u>532,487</u>	<u>540,045</u>
Net current liabilities		<u>(75,942)</u>	<u>(70,811)</u>
Total assets less current liabilities		<u>819,383</u>	<u>800,737</u>

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Non-current liabilities		
Bank loans	52,000	59,500
Deferred income	45,434	46,052
Obligations under finance leases	–	857
	<u>97,434</u>	<u>106,409</u>
 NET ASSETS	 <u>721,949</u>	 <u>694,328</u>
 CAPITAL AND RESERVES		
Share capital	140,500	140,500
Reserves	581,449	553,828
 Total equity attributable to equity shareholders of the Company	 <u>721,949</u>	 <u>694,328</u>
 TOTAL EQUITY	 <u>721,949</u>	 <u>694,328</u>

NOTES:

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (the “IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 30 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The interim financial report has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 30 June 2016. The Directors are of opinion that, based on the working capital forecast of the Group, the Group will have necessary liquid funds to finance its working capital expenditure requirements for a reasonable period of time.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

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

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 1, *Presentation of financial statements: Disclosure initiative*

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

3 SEGMENT REPORTING

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

- Dairy farming – breeding dairy cows to produce and sell raw milk.
- Dairy products production – producing and selling Pasteurised Milk, Ultra High Temperature Milk (“UHT Milk”), Modified Milk, Yogurt and Other Dairy Products.

(a) Segment results, assets and liabilities

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

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

	Six months ended 30 June 2016		
	Dairy farming <i>RMB'000</i>	Dairy products production <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue			
Revenue from external customers	78	322,136	322,214
Inter-segment revenue	54,071	–	54,071
Reportable segment revenue	54,149	322,136	376,285
Reportable segment profit (adjusted EBITDA)	13,588	88,210	101,798
	At 30 June 2016		
	Dairy farming <i>RMB'000</i>	Dairy products production <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment assets	800,181	1,203,571	2,003,752
Reportable segment liabilities	633,190	652,468	1,285,658

	Six months ended 30 June 2015		
	Dairy farming	Dairy products production	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue			
Revenue from external customers	18	293,266	293,284
Inter-segment revenue	43,553	–	43,553
	<u>43,571</u>	<u>293,266</u>	<u>336,837</u>
Reportable segment revenue			
	<u>43,571</u>	<u>293,266</u>	<u>336,837</u>
Reportable segment profit (adjusted EBITDA)	<u>8,921</u>	<u>66,214</u>	<u>75,135</u>

	At 31 December 2015		
	Dairy farming	Dairy products production	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment assets	<u>650,908</u>	<u>1,103,775</u>	<u>1,754,683</u>
Reportable segment liabilities	<u>463,064</u>	<u>602,513</u>	<u>1,065,577</u>

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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment profit	101,798	75,135
Net finance costs	(8,246)	(12,801)
Depreciation and amortisation	(18,463)	(18,636)
Loss arising from changes in fair value less costs to sell of biological assets	(28,281)	(9,054)
	<u>46,808</u>	<u>34,644</u>
Consolidated profit before taxation		

4 OTHER NET INCOME

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	11,307	9,257
Net income from sales of materials	4,956	1,849
Others	2,246	2,550
	<u>18,509</u>	<u>13,656</u>
Total		

5 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Interest income	(1,131)	(542)
Interest expenses on bank loans	9,710	13,100
Finance charges on obligations under finance leases	116	243
Net foreign exchange gain	(449)	—
	<u>8,246</u>	<u>12,801</u>

(b) Other items

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Staff costs	23,402	18,618
Depreciation and amortisation	18,463	18,636
Bad debt provision net of reversals	(272)	(376)
	<u>41,593</u>	<u>47,278</u>

6 INCOME TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current taxation		
PRC income tax	7,817	4,923
Deferred taxation		
Origination and reversal of temporary difference	<u>1,366</u>	<u>(395)</u>
Total	<u>9,183</u>	<u>4,528</u>

Notes:

- (i) The Company and its subsidiaries are subject to the PRC Enterprise Income Tax statutory rate of 25% for the six months ended 30 June 2016.
- (ii) Pursuant to the Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy (《國家稅務總局關於深入實施西部大開發戰略有關企業所得稅問題的公告》) promulgated by the State Administration of Taxation on 6 April 2012 and effective on 1 January 2011, from 1 January 2011 to 31 December 2020, the Company and its subsidiaries established in the Western Region of the PRC are entitled to the preferential income tax rate of 15%.
- (iii) According to the PRC Enterprise Income Tax Law and the Implementation Rules, the Group's income arising from certain agricultural activities is exempted from Enterprise Income Tax.

7 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB37,625,000 (six months ended 30 June 2015: RMB30,116,000) and the weighted average of 140,500,000 ordinary shares (2015: 105,370,000 ordinary shares) in issue during the interim period.

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

8 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

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

The quantity of the dairy cows owned by the Group as at 30 June 2016 and 31 December 2015 is shown below. The Group's dairy cows are milkable cows held for raw milk production and heifers and calves that have not reached the age to produce raw milk.

	At 30 June 2016 <i>Heads</i>	At 31 December 2015 <i>Heads</i>
Milkable cows	2,012	2,791
Heifers	2,290	2,358
Calves	326	791
Total	<u>4,628</u>	<u>5,940</u>

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

(b) Value of the Group's biological assets

The amounts of the dairy cows are as below:

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Milkable cows	59,250	75,862
Heifers	47,083	49,714
Calves	3,401	7,924
Total	<u>109,734</u>	<u>133,500</u>

The fair value of the Group's dairy cows as at 30 June 2016 were estimated by using the same valuation techniques as adopted in the consolidated financial statements of the Group for the year ended 31 December 2015.

9 TRADE RECEIVABLES

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Trade receivables due from third parties	27,773	29,206
Less: allowance for impairment of doubtful debts	<u>(658)</u>	<u>(668)</u>
Total	<u>27,115</u>	<u>28,538</u>

(a) Ageing analysis

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Less than 3 months	22,748	23,391
More than 3 months but less than 6 months	3,107	4,244
More than 6 months but less than 12 months	1,238	821
More than 1 year but less than 2 years	<u>22</u>	<u>82</u>
Total	<u>27,115</u>	<u>28,538</u>

(b) Impairment of trade receivables

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

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
At 1 January	668	680
Impairment losses recognised	50	287
Impairment losses reversed	(60)	(275)
Uncollectible amounts written off	–	(24)
	<hr/>	<hr/>
At 30 June/31 December	658	668

At 30 June 2016, the Group's trade receivable of RMB658,000 (31 December 2015: RMB668,000) were individually or collectively determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Neither past due nor impaired	26,205	25,892
Past due but not impaired	910	2,646
	<hr/>	<hr/>
Total	27,115	28,538

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

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

10 TRADE AND BILLS PAYABLES

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Trade payable for purchase of raw milk, packing material and auxiliary material	68,148	61,817
Trade payable for purchase of forage and veterinary medicine	18,961	14,315
Bills payable	–	18,398
	<hr/>	<hr/>
Total	87,109	94,530

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

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Less than 3 months	58,640	75,877
More than 3 months but less than 6 months	18,785	5,850
More than 6 months but less than 12 months	5,530	7,815
More than 1 year but less than 2 years	988	821
More than 2 years	3,166	4,167
	<hr/>	<hr/>
Total	87,109	94,530

11 DIVIDENDS

- (i) There is no dividend payable to equity shareholders of the Company attributable to the interim period.
- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June 2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB7.12 cents per share (six months ended 30 June 2015: Nil)	10,004	–
	<hr/>	<hr/>
Total	10,004	–

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

We offer a broad range of dairy products tailored to the needs and taste preferences of different consumer groups. Our principal products sold to retail consumers, mainly through distributors and sales agents, include (i) liquid milk products, which comprise pasteurised milk (i.e., fresh milk), UHT milk, modified milk and yogurt, and (ii) milk beverages. We place strong emphasis on our product development to continuously develop new products that meet the evolving tastes and preference of our consumers, which differentiates us from our competitors in the region. Currently, we market our products mainly under two brands, namely Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖). Our Zhuangyuan Ranch (莊園牧場) and Shenghu (聖湖) brands are widely recognised in Gansu Province and Qinghai Province, respectively.

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

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

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 2016 and 31 December 2015:

	At 30 June 2016 <i>Heads</i>	At 31 December 2015 <i>Heads</i>
Milkable cows	2,012	2,791
Heifers	2,290	2,358
Calves	326	791
Total	<u>4,628</u>	<u>5,940</u>

The decrease in the number of our dairy cows during the Reporting Period was mainly due to the sale of 1,600 cows (comprising 173 calves, 658 heifers and 769 milkable cows) as at the end of May 2016.

- *Milk yield*

We produced approximately 10,209 tonnes of raw milk for the Reporting Period, representing an increase of approximately 58.8% from about 6,427 tonnes in the corresponding period in 2015. The improved results were mainly attributable to the increase in average milk yield per milkable cow per annum.

Our average milk yield per milkable cow per annum increased from 5.7~6.2 tonnes during the six months ended 30 June 2015 to 6.0~7.4 tonnes during the Reporting Period.

Dairy Products Production

During the Reporting Period, the level of competition in the market of domestic dairy products, especially liquid milk products, continuously increased due to the decrease in raw milk price. In response to such market conditions, we continuously optimized our product mix using our advantages of milk sources produced by our own dairy farms and of our quality dairy products with high protein and fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on increasing the market share of regional market along with expansion on national market.

- *Optimizing Liquid Milk Product Mix*

Product mix has affected our revenue, gross profit and gross profit margin in the past. Following the success we achieved from our bottle packaging line which we installed in 2012 to expand our Cold Chain Liquid Milk Products, we made a strategic decision to increase the proportion of sales of Cold Chain Liquid Milk Products, which we believe will represent the consumer preferences in the near future and will provide higher selling prices and higher gross profit margin to us compared to other dairy products. We have established an extensive distribution network for our Cold Chain Liquid Milk Products in the Gansu and Qinghai regional market and purchased additional package lines which are designed for packaging of pasteurised milk and yogurt products to expand our production and increase the sales of Cold Chain Liquid Milk Products. As a result, our yogurt products experienced rapid growth in sales amount, which increased from RMB129.9 million in the six months ended 30 June 2015 to RMB151.2 million in the Reporting Period and accounted for approximately 44.3% and 46.9% of our total sales.

We have also gradually increased our sales of other high margin products such as condensed modified milk using brick shape of aseptic carton packaging.

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

- *Expansion of our Distribution Network*

We rely on our distribution network to sell our dairy products to end consumers. The effectiveness and geographic reach of our distribution network and sales force directly impact our sales. We have established a distribution network comprising various sales channels covering most of the local markets in Gansu Province and Qinghai Province. As at 30 June 2016, we had entered into distribution agreements with 255 distributors and 193 sales agents, as compared to 231 distributors and 170 sales agents as at 31 December 2015. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network and solidify our established position in our primary markets. Furthermore, we are also expanding our distribution network into the national market.

- *Average Selling Price of our Liquid Milk Products*

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition. The average selling price of our liquid milk products increased from RMB9,194 per tonne in the six months ended 30 June 2015 to RMB9,527 per tonne in the Reporting Period. We believe our ability to achieve increasingly higher average selling price for our liquid milk products was primarily due to the high quality of our products and our ability to develop and launch new products catered to the evolving tastes and preferences of local consumers, as well as our success in changing the product mix of our liquid milk products to focus on marketing and sales of Cold Chain Liquid Milk Products and other high margin products.

Quality Control

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

Our quality control centre subdivided into four units, namely, (i) inspection unit for finished goods; (ii) inspection unit for Cold Chain Liquid Milk Products; (iii) inspection unit for auxiliary raw materials; and (iv) technology centre lab for inspecting the level of microorganism, heavy metals, and melamine in our dairy products.

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

GMP is the foundation for our milk safety and milk quality programme. GMP is 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 Province and Qinghai Province received the HACCP Certification issued by the China Quality Certification Centre and Beijing Continental Hengtong Certification Co. Ltd., respectively.

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

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

Brand Building

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

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 Province and Qinghai Province and further in other provinces in 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 Province and Qinghai Province, our primary markets. We will also continue to develop the e-commerce sales channels to satisfy the demands and preferences of different consumer groups through the internet direct sales portal to reach a wider customer base and to adapt to consumers' purchase habit.

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 2016 and 2015:

	Six months ended 30 June					
	2016			2015		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
Liquid Milk Products						
Pasteurised Milk	9,572	1,131	8,463	10,687	1,221	8,753
UHT Milk	51,109	8,132	6,285	49,951	7,828	6,381
Modified Milk	107,215	12,073	8,881	96,754	11,393	8,492
Yogurt	151,212	12,159	12,436	129,859	10,800	12,024
Subtotal	319,108	33,495	9,527	287,251	31,242	9,194
Milk Beverage	2,075	428	4,848	4,314	878	4,913
Other Dairy Products	1,031	36	28,639	1,719	184	9,342
Total	322,214	33,959	9,488	293,284	32,304	9,079

Our revenue increased by 9.9% from RMB293.3 million for the six months ended 30 June 2015 to RMB322.2 million for the Reporting Period, primarily due to an increase in our sales of liquid milk products, particularly the yogurt products.

The growth of our liquid milk business was due to the slight increase in the total volume of liquid milk products sold and change in our liquid milk product mix. During the Reporting Period, the total volume of dairy products sold increased by 5.1% from approximately 32,304 tonnes for the six months ended 30 June 2015 to approximately 33,959 tonnes for the Reporting Period, primarily due to the growth of yogurt production and sales derived from our adjustment in product mix.

Gross profit and gross profit margin

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

	Six months ended 30 June					
	2016			2015		
	Cost of sales <i>RMB'000</i>	Gross Profit <i>RMB'000</i>	Gross profit margin %	Cost of sales <i>RMB'000</i>	Gross Profit <i>RMB'000</i>	Gross profit margin %
Liquid Milk Products						
Pasteurised Milk	5,072	4,500	47.0	5,969	4,718	44.1
UHT Milk	38,735	12,374	24.2	37,366	12,585	25.2
Modified Milk	70,119	37,096	34.6	69,095	27,659	28.6
Yogurt	94,128	57,084	37.8	85,133	44,726	34.4
Subtotal	208,054	111,054	34.8	197,563	89,688	31.2
Milk Beverage	1,478	597	28.8	3,422	892	20.7
Other Dairy Products	1,104	-73	-7.1	1,590	129	7.5
Total cost of sales/ Total gross profit/ Overall gross profit margin	210,636	111,578	34.6	202,575	90,709	30.9

Our overall gross profit margin of our dairy products after taking into account biological assets fair value adjustments was 34.6% for the Reporting Period and 30.9% for the corresponding period in 2015. The increase in the overall gross profit margin during the Reporting Period was primarily due to the following:

- (1) The decrease of raw milk price: The average raw milk purchase price decreased by about 4% from RMB3.75/kg for the six months ended 30 June 2015 to RMB3.60/kg for the Reporting Period. Due to the decrease in raw milk price, the gross profit for products with more milk components such as pasteurised milk, modified milk and yogurt increased.
- (2) The optimisation of products mix: Due to the consumer awareness on healthy products, their demand for the cold chain and high end products increased gradually, which are in high gross profit margin in general. In addition, the Company offered some new yogurt products (especially with PE bottle packaging) in the Reporting Period which increased the sales and gross profit.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from RMB3.5 million for the six months ended 30 June 2015 to RMB4.9 million for the Reporting Period. The increase was mainly due to the increase of milk yield during the Reporting Period compared to the corresponding period in 2015.

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

We recorded loss arising from changes in fair value less costs to sell of biological assets amounted to RMB28.3 million for the Reporting Period, which increased by 212.4% from RMB9.1 million for the corresponding period in 2015, primarily due to the increase in average breeding costs and other related fixed costs per dairy cow and the decrease of raw milk price during the Reporting Period.

Other net income

Other net income includes government grants, net income from sales of materials and other income. Government grants are generally obtained from our agricultural activities. For the six months ended 30 June 2016 and 2015, government grants we recognized amounted to RMB11.3 million and RMB9.3 million, and net income from sales of materials we recognized amounted to RMB5.0 million and RMB1.8 million, respectively.

Operating expenses

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Distribution costs	26,247	20,419
Administrative expenses	25,405	30,918
Total operating expenses	<u>51,652</u>	<u>51,337</u>

Our operating expenses increased slightly from RMB51.3 million for the six months ended 30 June 2015 to RMB51.7 million for the Reporting Period.

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

The administrative expenses decreased primarily because there was no IPO related cost incurred during the Reporting Period.

Net finance costs

Our net finance costs decreased by 35.6% from RMB12.8 million for the six months ended 30 June 2015 to RMB8.2 million for the Reporting Period, primarily due to lower interest expenses resulting from decreased average bank loans utilized during the Reporting Period.

Current ratio and net gearing ratio

As at 30 June 2016, our current ratio (current assets/current liabilities) was approximately 0.86 compared to 0.87 as at 31 December 2015. As at 30 June 2016, the net gearing ratio was 9.7% compared to 27.0% as at 31 December 2015. Net gearing ratio was calculated by net debt (aggregated bank loans and obligations under finance leases net of cash and cash equivalents as at the ending of the period/year) over total equity attributable to equity shareholders of the Company.

Liquidity and capital resources

During the Reporting Period, we financed our operations primarily through net cash inflows from our daily operations and proceeds from bank loans. As at 30 June 2016 and 31 December 2015, we had RMB330.7 million and RMB231.7 million in cash and cash equivalents, respectively, which was mainly denominated in Renminbi and primarily consisted of cash on hand and bank deposits.

Capital expenditures

We had capital expenditures of RMB72.3 million and RMB41.0 million for the six months ended 30 June 2016 and 2015, respectively, which were primarily used in purchasing property, plant and equipment, procuring dairy cows and settling land leases.

Working capital

As at 30 June 2016, we had net current liabilities of RMB75.9 million (31 December 2015: net current liabilities of RMB70.8 million).

Indebtedness

During the Reporting Period, our borrowings were denominated in Renminbi. As at 30 June 2016, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB346.5 million at interest rates ranging from 4.35%~8.00% per annum. As at 30 June 2016, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB52.0 million at interest rates ranging from 4.90%~5.39% per annum.

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

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

The book value of our lease prepayments and property, plant and equipment that were used as guarantees was RMB667.2 million as at 30 June 2016 (31 December 2015: RMB626.5 million). The details of the pledge of assets are as follow: (1) Plants and buildings: RMB461.5 million (31 December 2015: RMB430.2 million); (2) Machinery and equipment: RMB188.0 million (31 December 2015: RMB178.6 million); and (3) Lease prepayments: RMB17.7 million (31 December 2015: RMB17.7 million).

Contingent liabilities

As at 30 June 2016 and 31 December 2015, we did not have significant contingent liabilities.

Use of Proceeds from Listing

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

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

	As of 30 June 2016	
	Actual amount used	Intended amount to be used
	<i>RMB'000 (%)</i>	<i>RMB'000 (%)</i>
Building 3,000 community milk booths in Gansu Province as part of our effort to expand the distribution network for Cold Chain Liquid Milk Products	0 (0%)	37,130 (32%)
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	33,000 (28.4%)	34,809 (30%)
Promoting our brands	3,560 (3.1%)	23,206 (20%)
Construction of our new technology centre to conduct product development activities	0 (0%)	9,283 (8%)
Working capital and other general corporate purposes	11,603 (10.0%)	11,603 (10%)
IPO proceeds not utilized	67,868 (58.5%)	N/A
Total	116,031 (100%)	116,031 (100%)

The balance of approximately RMB67.9 million has been deposited with banks and licensed financial institutions in Mainland China. We currently do not have any intention to change our plan for the use of proceeds as stated in the prospectus of the Company dated 30 September 2015.

Human Resources

We had 636 employees in Mainland China and Hong Kong as at 30 June 2016 (31 December 2015: 551 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 RMB23.9 million (the corresponding period in 2015: RMB18.7 million).

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

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

Corporate Social Responsibility

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

OUTLOOK

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

- Pursue our branding strategies to strengthen our branding positions under our different brands, increase our market shares and enhance consumer loyalty;
- Upgrade our cold chain distribution facilities to strengthen our regional market leader position in Gansu Province and Qinghai Province and expand our sales and distribution network;
- Improve our raw milk production capacity and quality to satisfy the needs of our fast growing business; and
- Enrich our product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for our products through our continuous product development efforts.

IMPORTANT EVENTS THAT HAVE OCCURRED SINCE 30 JUNE 2016

Subsequent to 30 June 2016, there had been no significant change in our principal business, pricing policy and costs structure, while the market price of raw milk experienced slight fluctuation.

On 1 August 2016, the Board passed the resolutions regarding the proposal on the application for initial public offering and listing of not more than 46,840,000 A Shares of the Company in the PRC on the Shenzhen Stock Exchange, which is subject to approval of extraordinary general meeting and class meetings to be held on 30 September 2016. For further details, please refer to the announcements of the Company dated 1 August 2016 and 26 August 2016, the circular of the Company dated 12 August 2016 and the supplemental circular of the Company dated 26 August 2016.

CORPORATE GOVERNANCE

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

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

Save for the above, the Company has complied with all applicable Code Provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules for the Reporting Period since the Company was listed on the Stock Exchange.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

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

SHARE OPTION SCHEME

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

REVIEW OF INTERIM RESULTS

The Company has established the audit committee (the “Audit Committee”) with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Ms. Xin Shihua and Mr. Wong Cho Hang Stanley. Ms. Liu Zhijun is the chairman of the Audit Committee. The Audit Committee is responsible for, amongst other matters, reviewing and supervising the Group’s financial reporting process and internal control system and providing advice and recommendations to the Board. The Audit Committee has amongst others, reviewed and discussed with the management the accounting principles and practices adopted by the Group and the Group’s internal controls and financial reporting matters, including the review of the unaudited interim results of the Group for the Reporting Period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period (the six months ended 30 June 2015: Nil).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the Company’s website (<http://www.lzzhuangyuan.com/>) and the Stock Exchange’s website (<http://www.hkexnews.hk>). The interim report of the Company for the Reporting Period will be despatched to the Shareholders and will be made available on the websites of the Company and the Stock Exchange in due course.

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

Lanzhou, the PRC, 30 August 2016

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

* For identification purpose only