



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

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



INTERIM REPORT 2016

* For identification purposes only

ABOUT US

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



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yap Kean Chong
Mr. Song Xiaopeng

Independent Non-Executive Directors

Ms. Liu Zhijun (appointed on 14 June 2016)
Mr. Bai Yongzhi (retired on 14 June 2016)
Ms. Xin Shihua
Mr. Wong Cho Hang Stanley

Supervisors

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

AUDIT COMMITTEE

Ms. Liu Zhijun (*Chairman*) (appointed on 14 June 2016)
Mr. Bai Yongzhi (retired on 14 June 2016)
Ms. Xin Shihua
Mr. Wong Cho Hang Stanley

REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Zhijun (*Chairman*) (appointed on 14 June 2016)
Mr. Bai Yongzhi (retired on 14 June 2016)
Mr. Wang Guofu
Ms. Xin Shihua

NOMINATION COMMITTEE

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

STRATEGY COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Ma Hongfu
Mr. Li Siu Bun

JOINT COMPANY SECRETARIES

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

STOCK CODE

1533

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

REGISTERED OFFICE

Sanjiaocheng Village
Sanjiaocheng Town
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Lanzhou, Gansu
PRC

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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PRC

H SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISOR (AS TO HONG KONG LAW)

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10 Chater Road
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PRINCIPAL BANK

Agricultural Development Bank of China, Yuzhong County Branch

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Yuzhong County
Lanzhou, Gansu
PRC

AUDITOR

KPMG

Certified Public Accountants
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10 Charter Road
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Hong Kong

COMPLIANCE ADVISOR

GF Capital (Hong Kong) Limited

29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

COMPANY WEBSITE

<http://www.lzzhuangyuan.com>

INTERIM RESULTS HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Results

	Six months ended 30 June	
	2016 RMB'000	2015 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.

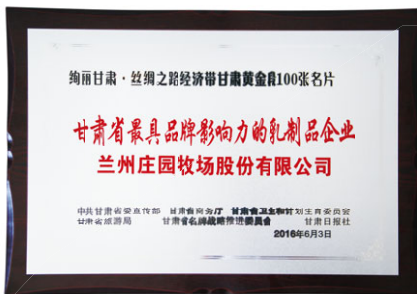
⁽¹⁾ The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of ordinary shares in issue during the interim periods.



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. As at 30 June 2016, we own and operate four self-operated 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 that approximately 60% of our raw milk requirement could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. At present, approximately 55% of our raw milk requirement is sourced internally. 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 six months ended 30 June 2016 (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 Heads	At 31 December 2015 Heads
Milkable cows	2,012	2,791
Heifers	2,290	2,358
Calves	326	791
Total	4,628	5,940

The decrease in the number of our dairy cows during the Reporting Period was mainly due to the disposal of 1,600 cows (comprising 173 calves, 658 heifers and 769 milkable cows) in May 2016. We disposed these dairy cows at selling prices which approximate to the market prices at the time of disposals. The disposals were part of our efforts to improve the quality of our dairy cows, especially milk yield, by increasing the proportion of imported dairy cows in the total number of dairy cows owned by us. As at 30 June 2016, the proportion of imported cows was 35% (31 December 2015: 17%).

- **Milk yield**

We produced approximately 10,209 tonnes of raw milk from the self-operated dairy farms 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, due to the increase of proportion of imported dairy cows of which the average milk yield per milkable cow per annum is higher than that of domestic dairy cows.

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, respectively.



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 for the six months ended 30 June 2015 to RMB9,527 per tonne during 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 to other provinces in China in the future. 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 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 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	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 (including raw milk purchased from self-operated dairy farms, collectively-operated dairy farms and third party suppliers) 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 with relatively higher gross margin ratio 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 on 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 RMB'000	2015 RMB'000
Distribution costs	26,247	20,419
Administrative expenses	25,405	30,918
Total operating expenses	51,652	51,337

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 Products.

The administrative expenses decreased primarily because there was no cost related to the Listing (as defined below) was 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 end 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.

We adopt a prudent approach towards its treasury policies. Our treasury function mainly involves the management of our cash flow.

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 net 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.

Foreign currency risk

The directors of the Company (the "Directors") do not consider the currency risks material to the Group's financial performance for the Reporting Period and therefore, did not carry out any financial instruments like forward foreign currency exchange contracts to hedge such risks.

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:

	Actual amount used as of 30 June 2016 RMB'000 (%)	Intended amount to be used as disclosed in the prospectus of the Company dated 30 September 2015 RMB'000 (%)
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 bank 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 consolidated statement of profit or loss 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. The nomination committee and the remuneration and appraisal committee of the Company were set up for, among others, reviewing and making recommendations on remuneration policy and scheme for Directors, supervisors of the Company (the "Supervisors"), senior management of the Company and employees, taking into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

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 participated 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.



OTHER INFORMATION

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 of directors of the Company (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, 26 August 2016 and 14 September 2016, the circular of the Company dated 12 August 2016 and the supplemental circulars of the Company dated 26 August 2016 and 14 September 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 Rules (the “Listing Rules”) Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the Reporting Period.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules regarding directors’ securities transactions. Having made specific enquiry of all Directors and the Supervisors, 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.

PROPERTY, PLANT AND EQUIPMENT

Details of the changes in the property, plant and equipment of the Group during the Reporting Period are set out in Note 9 to the unaudited interim financial report.

SIGNIFICANT INVESTMENT HELD

Other than investments in subsidiaries, the Company has 18% equity interests in Xi’an Dongfang Dairy Co., Ltd.* (西安東方乳業有限公司). The Company has no significant influence on the investee during the Reporting Period.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Reporting Period, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

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

SHARE OPTION SCHEME

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

CAPITAL COMMITMENTS

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

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

As at 30 June 2016, the interests and/or short positions of the Directors, Supervisors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

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

Notes:

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

Save as disclosed above, as at 30 June 2016, none of the Directors, Supervisors or chief executive of the Company nor their associates had any interest and/or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2016, as far as known to the Directors, the following persons or entities (not being a Director, a Supervisor or a chief executive of the Company) who had interests and/or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Substantial Shareholder	Nature of Interest	Total Number of Shares	Approximate percentage of total issued Domestic Shares/ H Shares (as applicable)	Approximate percentage in the issued share capital of the Company
Domestic Shares				
Yang Xiuhua (Note 2)	Interest of spouse	78,092,100 (L)	74.11%	55.58%
Lanzhou Zhuangyuan Investment Co., Ltd. (Note 3)	Beneficial owner	30,894,700 (L)	29.32%	21.99%
Gansu Lucky Cow Investment Co., Ltd. (Note 3)	Beneficial owner	15,000,000 (L)	14.24%	10.68%
Chongqing Fukun Venture Investment Centre LLP	Beneficial owner	6,990,000 (L)	6.63%	4.98%
H Shares				
Hu Keliang	Beneficial owner	7,924,500 (L)	22.56%	5.64%
Li Yanling (Note 4)	Interests of spouse	7,924,500 (L)	22.56%	5.64%
Wang Wei (Note 5)	Beneficial owner	800,000 (L)	2.28%	0.57%
	Interest of controlled corporation	2,800,000 (L)	7.97%	1.99%
Li Qi (Note 5)	Interests of spouse	3,600,000 (L)	10.25%	2.56%
Venko Limited (Note 5)	Beneficial owner	2,800,000 (L)	7.97%	1.99%
Ren Qifeng (Note 6)	Interest of controlled corporation	3,523,000 (L)	10.03%	2.51%
Ren Songliu (Note 6)	Interests of spouse	3,523,000 (L)	10.03%	2.51%
Technoart Investments Limited (Note 6)	Beneficial owner	3,523,000 (L)	10.03%	2.51%
Zhang Chenbin	Beneficial owner	3,040,000 (L)	8.65%	2.16%
Hu Jiawu	Beneficial owner	3,000,000 (L)	8.54%	2.14%
Xi Xin (Note 7)	Interests of spouse	3,000,000 (L)	8.54%	2.14%

Notes:

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

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any other persons (other than Directors and chief executive of the Company) who had interests and/or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

REVIEW OF INTERIM RESULTS

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

DIVIDEND

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

SUFFICIENCY OF PUBLIC FLOAT

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

By order of the Board

Lanzhou Zhuangyuan Pasture Co., Ltd.

Ma Hongfu

Chairman, Executive Director and Chief Executive Officer

Lanzhou, the PRC, 30 August 2016

REVIEW REPORT TO THE BOARD OF DIRECTORS



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

INTRODUCTION

We have reviewed the interim financial report set out on pages 26 to 52 which comprises the consolidated statement of financial position of Lanzhou Zhuangyuan Pasture Co., Ltd. (the “Company”) as of 30 June 2016 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

30 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2016 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Revenue	4	322,214	293,284
Cost of sales		(210,636)	(202,575)
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	5	18,509	13,656
Distribution costs		(26,247)	(20,419)
Administrative expenses		(25,405)	(30,918)
Profit from operations		55,054	47,445
Net finance costs	6(a)	(8,246)	(12,801)
Profit before taxation	4, 6	46,808	34,644
Income tax	7	(9,183)	(4,528)
Profit for the period		37,625	30,116
Attributable to:			
Equity shareholders of the Company		37,625	30,116
Profit for the period		37,625	30,116
Earnings per share			
– Basic and diluted (RMB)	8	0.27	0.29

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited

(Expressed in RMB)

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 – unaudited

(Expressed in RMB)

	<i>Note</i>	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	9	694,790	651,945
Available-for-sale financial assets		33,720	33,720
Lease prepayments	10	19,432	20,116
Biological assets	11	109,734	133,500
Deferred tax assets		3,856	5,222
Other non-current assets		33,793	27,045
		895,325	871,548
Current assets			
Inventories		53,938	86,350
Trade receivables	12	27,115	28,538
Deposits, prepayments and other receivables	13	38,627	86,310
Pledged deposit	14	6,123	36,334
Cash and cash equivalents	14	330,742	231,702
		456,545	469,234
Current liabilities			
Trade and bills payables	15	87,109	94,530
Receipts in advance		8,484	20,697
Accrued expenses and other payables	16	72,157	44,368
Non-current liabilities due within one year		6,348	9,403
Bank loans	17(a)	346,500	356,000
Current taxation		11,889	15,047
		532,487	540,045
Net current liabilities		(75,942)	(70,811)
Total assets less current liabilities		819,383	800,737

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

Consolidated Statement of Financial Position
at 30 June 2016 – unaudited
(Expressed in RMB)

	<i>Note</i>	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current liabilities			
Bank loans	17(b)	52,000	59,500
Deferred income		45,434	46,052
Obligations under finance leases		–	857
		97,434	106,409
NET ASSETS		721,949	694,328
CAPITAL AND RESERVES			
Share capital	18	140,500	140,500
Reserves	18	581,449	553,828
Total equity attributable to equity shareholders of the Company		721,949	694,328
TOTAL EQUITY		721,949	694,328

Approved and authorised for issue by the board of directors on 30 August 2016.

Ma Hongfu
Director

Wang Guofu
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016 – unaudited

(Expressed in RMB)

	Attributable to equity shareholders of the Company				
	Share capital RMB'000 (Note 18(b))	Capital reserve RMB'000 (Note 18(c)(i))	PRC statutory reserves RMB'000 (Note 18(c)(ii))	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015	105,370	155,590	15,709	218,746	495,415
Changes in equity for the six months ended 30 June 2015:					
Profit for the period	–	–	–	30,116	30,116
Total comprehensive income	–	–	–	30,116	30,116
Balance at 30 June 2015	105,370	155,590	15,709	248,862	525,531
Changes in equity for the six months ended 31 December 2015:					
Profit for the period	–	–	–	43,130	43,130
Total comprehensive income	–	–	–	43,130	43,130
Issuance of shares under initial public offering	35,130	117,189	–	–	152,319
Share issuance expenses	–	(26,652)	–	–	(26,652)
Appropriation to reserves	–	–	6,012	(6,012)	–
Transaction with equity shareholders of the Group	35,130	90,537	6,012	(6,012)	125,667
Balance at 31 December 2015	140,500	246,127	21,721	285,980	694,328

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

Consolidated Statement of Changes in Equity
for the six months ended 30 June 2016 – unaudited
(Expressed in RMB)

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

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2016 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations		108,343	46,643
PRC income tax paid		(10,975)	(3,211)
Net cash generated from operating activities		97,368	43,432
Investing activities			
Payments for purchase of property, plant and equipment		(43,682)	(24,912)
Payments for breeding calves and heifers (breeding costs of calves and heifers capitalised other than depreciation and amortisation)		(14,030)	(12,914)
Payments for amount lending to a third party		(10,000)	–
Repayment of amount lending to a third party		50,000	–
Proceeds from receipts of financing products at maturity		10,000	–
Cash received from government grants		4,650	2,700
Decrease in pledged deposit		30,211	7,860
Other cash flows arising from investing activities		3,649	1,218
Net cash generated/(used) in investing activities		30,798	(26,048)
Financing activities			
Repayments of bank loans		(177,000)	(202,500)
Proceeds from new bank loans		160,000	190,000
Interest paid		(9,626)	(13,764)
Other cash flows arising from financing activities		(3,016)	(6,690)
Net cash used in financing activities		(29,642)	(32,954)
Net increase/(decrease) in cash and cash equivalents		98,524	(15,570)
Cash and cash equivalents at 1 January		231,702	215,454
Effect of foreign exchange rate changes		516	–
Cash and cash equivalents at 30 June	14	330,742	199,884

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 PRINCIPAL ACTIVITIES AND ORGANIZATION

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (the “IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 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 3.

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

The interim financial report has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 30 June 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. KPMG’s independent review report to the Board of Directors is included in this report.

2 BASIS OF PREPARATION *(Continued)*

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2016.

3 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.

4 SEGMENT REPORTING

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

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

4 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

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

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

The measure used for reportable segment cost of sales does not include "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest" and "loss arising from changes in fair value less cost to sell of biological asset".

The measure used for reportable segment gross profit does not include "gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest" and "loss arising from changes in fair value less cost to sell of biological asset".

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

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

4 SEGMENT REPORTING *(Continued)*

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

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

	Six months ended 30 June 2016		
	Dairy farming RMB'000	Dairy products production RMB'000	Total RMB'000
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 RMB'000	Dairy products production RMB'000	Total RMB'000
Reportable segment assets	800,181	1,203,571	2,003,752
Reportable segment liabilities	633,190	652,468	1,285,658

4 SEGMENT REPORTING (Continued)

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

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

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

4 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
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)
Consolidated profit before taxation	46,808	34,644

5 OTHER NET INCOME

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

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2016 RMB'000	2015 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)	–
Total	8,246	12,801

(b) Other items

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

7 INCOME TAX

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

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

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.

8 BASIC AND DILUTED EARNINGS PER SHARE

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

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment amounted to RMB64,204,000 (six months ended 30 June 2015: RMB35,859,000).

10 LEASE PREPAYMENTS

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

During the six months ended 30 June 2016, no material items of lease prepayments were acquired (six months ended 30 June 2015: RMB5,160,000).

11 BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

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

The quantity of the dairy cows owned by the Group as at 30 June 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 Heads	At 31 December 2015 Heads
Milkable cows	2,012	2,791
Heifers	2,290	2,358
Calves	326	791
Total	4,628	5,940

11 BIOLOGICAL ASSETS *(Continued)*

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

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

(b) Value of the Group's biological assets

The amounts of the dairy cows are as below:

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

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.

12 TRADE RECEIVABLES

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

(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 RMB'000	At 31 December 2015 RMB'000
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	22	82
Total	27,115	28,538

(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.

12 TRADE RECEIVABLES *(Continued)*

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

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
At 1 January	668	680
Impairment losses recognised	50	287
Impairment losses reversed	(60)	(275)
Uncollectible amounts written off	–	(24)
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 RMB'000	At 31 December 2015 RMB'000
Neither past due nor impaired	26,205	25,892
Past due but not impaired	910	2,646
Total	27,115	28,538

12 TRADE RECEIVABLES *(Continued)*

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

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

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

13 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Receivable for disposal of dairy cows	11,265	3,874
Prepayments for producing dairy products	10,274	9,137
Amount lending to third parties <i>(Note)</i>	10,000	50,000
Advances to staff	1,817	2,636
Deductible value added tax	949	2,531
Deposits with third parties	907	528
Prepayments for equipments accessories	663	1,724
Amount receivable for wealth management products purchased	-	10,000
Prepayments for purchase of dairy cows	-	3,850
Others	4,356	3,896
Less: allowance for impairment of doubtful debts	(1,604)	(1,866)
Total	38,627	86,310

Note: The balance as at 30 June 2016 represents the amount lending to a third party with an annual interest rate of 4.785%, which is due for repayment by end of September 2016.

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

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

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
At 1 January	1,866	2,972
Impairment losses recognised	260	171
Impairment losses reversed	(522)	(770)
Uncollectible amounts written off	-	(507)
At 30 June/31 December	1,604	1,866

At 30 June 2016, the Group's deposits, prepayments and other receivables of RMB1,604,000 (31 December 2015: RMB1,866,000) were individually or collectively determined to be impaired. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

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

14 PLEDGED DEPOSIT, CASH AND CASH EQUIVALENTS

Pledged deposit, cash and cash equivalents in the consolidated statement of financial position and condensed consolidated cash flow statement comprise:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Pledged deposit	6,123	36,334
Cash at bank and on hand	330,742	231,702
Total	336,865	268,036

15 TRADE AND BILLS PAYABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
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
Total	87,109	94,530

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

15 TRADE AND BILLS PAYABLES *(Continued)*

As of the end of the Reporting Period, the ageing analysis of trade and bills payables is as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
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
Total	87,109	94,530

16 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Payables for acquisition of property, plant and equipment	32,006	11,776
Dividends payable	10,004	–
Conditional government grants received but not yet recognised	6,836	6,836
Employee benefits payables	6,197	8,267
Deposit from third parties	4,993	4,059
Payables for value added tax and other taxes	4,038	4,102
Payables for advertising and promotion expenses	2,371	1,689
Payables for accessories	2,156	1,864
Interest payable	467	384
Others	3,089	5,391
Total	72,157	44,368

17 BANK LOANS

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Short-term bank loans	340,000	350,000
Add: current portion of long-term bank loans	6,500	6,000
Total	346,500	356,000

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Secured by land use rights, property, plant and equipment of the Group (<i>Note (b)(i)</i>)	210,000	210,000
Secured by land use rights, property, plant and equipment of the Group and guaranteed by the intra-group entities (<i>Note (b)(i)</i>)	–	20,000
Secured by land use rights of third parties	70,000	90,000
Jointly guaranteed by the intra-group entities	50,000	30,000
Credit bank loans	10,000	–
Total	340,000	350,000

17 BANK LOANS *(Continued)*

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Long-term bank loans	58,500	65,500
Less: current portion of long-term bank loans	(6,500)	(6,000)
Total	52,000	59,500

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Jointly secured by land use rights of the Group and land use rights, property, plant and equipment of third parties and guaranteed by the intra-group entities <i>(Note (i))</i>	22,000	26,000
Jointly guaranteed by the intra-group entities and third parties	36,500	39,500
Total	58,500	65,500

Note:

- (i) As at 30 June 2016, the aggregate net book value of the pledged land use rights and property, plant and equipment of the Group was RMB667,162,000 (31 December 2015: RMB626,524,000).

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

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

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

- (i) There is no dividends 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 RMB'000	2015 RMB'000
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	–
Total	10,004	–

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

(b) Share capital

Ordinary shares, issued and fully paid:

	At 30 June 2016		At 31 December 2015	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
At 1 January	140,500	140,500	105,370	105,370
Issuance of H shares under initial public offering (RMB1 each)	–	–	35,130	35,130
At 30 June/31 December	140,500	140,500	140,500	140,500

18 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Nature and purpose of reserves

(i) Capital reserve

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

(ii) PRC statutory reserves

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

19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2016 and 31 December 2015.

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Contracted for	39,342	37,810
Authorised but not contracted for	-	11,646
Total	39,342	49,456

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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.