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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 AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

FINANCIAL HIGHLIGHTS

	Years ended 31 December	
	2019	2018
	RMB'000	RMB'000
Operating income	813,554	657,732
Gross profit	253,899	212,337
Profit for the year attributable to equity shareholders of the Company	51,321	63,533
Earnings per share (RMB) ⁽¹⁾	0.27	0.34
Proposed dividend per share (RMB)	5.50 cents	6.80 cents

- Operating income increased by 23.69% as compared to the year ended 31 December 2018.
- Gross profit increased by 19.57% as compared to the year ended 31 December 2018.
- Profit for the year attributable to equity shareholders of the Company decreased by 19.22% as compared to the year ended 31 December 2018.

⁽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 year.

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 audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019 (the “**Reporting Year**”), together with the comparative figures for the previous year, prepared in accordance with the China Accounting Standards for Business Enterprises.

CONSOLIDATED BALANCE SHEET

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Assets			
Current assets:			
Monetary funds	413,742	403,091	403,091
Trading financial assets	20,412		
Bills receivable		200	200
Trade receivables	29,649	36,474	36,474
Prepayments	16,185	13,352	13,352
Other receivables	17,694	12,860	12,860
Inventories	94,832	88,921	88,921
Other current assets	17,595	2,732	2,732
Total current assets	610,110	557,630	557,630
Non-current assets:			
Other equity instrument investments	44	44	44
Fixed assets	1,247,639	924,350	939,221
Construction in progress	59,188	37,670	37,670
Bearer biological assets	360,095	270,304	270,304
Right-of-use assets	43,437	53,238	
Intangible assets	90,609	74,720	74,720
Goodwill	9,971	58,691	58,691
Long-term deferred expenses	7,138	5,832	8,122
Deferred income tax assets	6,644	7,437	7,437
Other non-current assets	57,852	94,270	94,270
Total non-current assets	1,882,617	1,526,557	1,490,480
Total assets	2,492,727	2,084,186	2,048,109

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings	315,184	437,359	437,359
Bills payable	283,014	30,545	30,545
Accounts payable	228,221	164,947	164,947
Contract liabilities	16,470	26,619	26,619
Employee remuneration payable	2,621	3,137	3,137
Taxes payable	7,504	43,115	43,115
Other payables	50,725	41,232	41,232
Non-current liabilities due within one year	56,249	28,382	28,382
Total current liabilities	959,987	775,336	775,336
Non-current liabilities:			
Long-term borrowings	227,327	39,568	39,568
Lease liabilities	30,946	38,078	
Long-term payables			2,361
Estimated liabilities	515	371	11
Deferred income	39,518	40,129	40,129
Deferred income tax liabilities	9,027	6,298	6,298
Total non-current liabilities	307,332	124,443	88,366
Total liabilities	1,267,320	899,779	863,702
Shareholders' equity:			
Share capital	190,681	187,340	187,340
Capital reserve	531,119	508,791	508,791
Less: Treasury stocks	23,251		
Surplus reserve	43,387	37,194	37,194
Undistributed profits	483,471	451,082	451,082
Total equity attributable to shareholders of the parent company	1,225,407	1,184,407	1,184,407
Total Shareholders' equity	1,225,407	1,184,407	1,184,407
Total liabilities and/or Shareholders' equity	2,492,727	2,084,186	2,048,109

CONSOLIDATED INCOME STATEMENT

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
I. Operating income	813,554	657,732
II. Operating cost	559,656	445,395
Taxes and surcharges	6,267	5,009
Selling expenses	81,584	83,983
Administrative expenses	77,390	48,711
Research and development expenses	9,462	4,372
Financial expenses	22,201	21,201
Including: Interest expenses	20,996	24,136
Interest income	2,553	3,541
Add: Other income	7,372	13,437
Investment income	(8,823)	—
Gain on derecognition of financial assets measured at amortized cost	(8,823)	—
Gains from changes in fair value	47,252	175
Impairment losses on credit	(992)	(205)
Impairment loss on assets	(57,958)	(436)
Gains from asset disposal	(2)	2,637
III. Operating profit	43,843	64,670
Add: Non-operating income	24,828	3,059
Less: Non-operating expenses	3,693	2,545
IV. Total profit	64,979	65,185
Less: Income tax expenses	13,657	1,652
V. Net profit	51,321	63,533
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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise specifically indicated)

I. BASIS OF PREPARATION

The annual results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2019 but are extracted from those financial statements.

The financial statements of the Company have been prepared on the going concern basis.

II. SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY AND ACCOUNTING ESTIMATES

1. Statement of compliance

These financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance (“MOF”). These financial statements present truly and completely the consolidated financial position and financial position of the Company as at 31 December 2019, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows for 2019.

These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2019. These financial statements also comply with the applicable requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the Rules Covering the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Significant accounting estimates and judgements

The preparation of the financial statements requires management of the Group to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Judgment on key assumptions and uncertainties involved in estimates are reviewed on an ongoing basis. Effects of changes in accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets, intangible assets, right-of-use assets and long-term deferred expenses, fair value estimates of biological assets and contingent consideration, impairment of various types of assets and recognition of deferred income tax assets, there are no other significant accounting estimates in the Company.

3 Changes in significant accounting policies

(1) Changes and impacts of accounting policies incurred in the application of New Lease Standards

① Changes in policies and its basis

The Ministry of Finance issued the Accounting Standards for Business Enterprises No. 21 — Lease (Revised in 2018) (CK [2018] No. 35) (hereinafter referred to as the “New Lease Standards”) on 7 December 2018, and required the enterprises that are listed in both domestic and overseas markets and the enterprises that are listed overseas and use International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare financial statements to implement such new standards from 1 January 2019.

After the 24th meeting of the third session of the Board of the Company passed the resolution on 15 August 2019, the Company adopted the above-mentioned New Lease Standards from 1 January 2019 (hereinafter referred to as the “First Application Date” herein) as required by the Ministry of Finance, and made changes to relevant accounting policies in accordance with the requirements of New Lease Standards.

In accordance with the requirements of New Lease Standards, as for the contracts which have been existed before the First Application Date, the Company selects not to reevaluate whether they are leases or include leases on the First Application Date. As for the lease contracts of which the Company acts as the lessee, the Company elects to only make adjustments to the accumulative impact amount from the lease contracts which have not been completed as of 1 January 2019. We have adjusted the amounts of retained earnings and other relevant items of the financial statements at the beginning of the first application period (i.e. 1 January 2019) for the accumulative impact amount of the first application, and the information for the comparative period has not been adjusted. The details are as follows:

- A. As for the finance lease as at the First Application Date, the Company measures the right-of-use assets and lease liabilities at the original carrying amounts of the assets under finance lease and the finance lease payable, respectively.
- B. As for the operating lease as at the First Application Date, the Company measures the lease liabilities at the present value discounted at the incremental borrowing rate as at the First Application Date based on the amount of the remaining lease payment. The unpaid rents payable accrued based on the accrual system under the original lease standards shall be included in the amount of the remaining lease payment.

The Company measures the right-of-use assets at the amount equal to the lease liabilities and makes necessary adjustments based on prepaid rents.

- C. As at the First Application Date, the Company made impairment testing on the right-of-use assets and made corresponding accounting treatments in accordance with the requirements of Accounting Standards for Business Enterprises No. 8 — Assets Impairment.

② *The impacts of policy changes on the consolidation and financial statements of the Company are as follows:*

The lease term of the land assets and other land assets leased by the Company from the villagers' committees where the pastures of Gansu, Qinghai and Shaanxi are located is 5-30 years, which were originally accounted as operating leases, and according to the New Lease Standards, the right-of-use assets of RMB38,367,000 (including the prepaid rents of RMB2,290,000 and the reclamation fee of RMB360,000) and lease liabilities of RMB35,717,000 were recognized on 1 January 2019.

The lease term of the machinery and equipment assets of other companies leased by the Company is 3-5 years, which were originally accounted as financial leases, and according to the New Lease Standards, RMB14,871,000 originally presented in the fixed assets was reclassified to the right-of-use assets and the "financing lease payables" of RMB2,361,000 presented in the long-term payables was reclassified to the lease liabilities on 1 January 2019.

A Consolidated Balance Sheet:

Contents of the changes	Items in the statement	Amounts as at 1 January 2019 (after the changes) <i>RMB'000</i>	Amounts as at 31 December 2018 (before the changes) <i>RMB'000</i>
Fixed assets	Fixed assets	924,350	939,221
Right-of-use assets	Right-of-use assets	53,238	—
Long-term deferred expenses	Long-term deferred expenses	5,832	8,122
Lease liabilities	Lease liabilities	38,078	—
Long-term payables	Long-term payables	—	2,361
Estimated liabilities	Estimated liabilities	371	11

B Balance Sheet of the Parent Company:

Contents of the changes	Items in the statement	Amounts as at 1 January 2019 (after the changes) <i>RMB'000</i>	Amounts as at 31 December 2018 (before the changes) <i>RMB'000</i>
Fixed assets	Fixed assets	199,544	205,199
Right-of-use assets	Right-of-use assets	11,058	—
Lease liabilities	Lease liabilities	5,402	—

C The impacts on the consolidated profit statement and the profit statement of the Company for the Year 2019 are as follows:

Items of profit statement	Impacts on consolidated profit statement <i>RMB'000</i>	Impacts on profit statement of the Company <i>RMB'000</i>
Operating cost	(283)	(9)
Finance expense	795	117
Total	<u>512</u>	<u>108</u>

The present value discounted at 4.35%, 4.90%, 6.09% (the incremental borrowing rate as at the First Application Date) of the outstanding amount of minimum lease payment of the major operating lease of the Company at the end of 2018 amounts to RMB35,717,000 and the sum of the discounted amount and the long-term payables (finance lease) of RMB2,361,000 amounts to RMB38,078,000. And its difference from the lease liabilities as at the First Application Date is RMB0.

(2) *Changes in accounting policies arising from and impact of adopting the Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019 (Cai Kuai [2019] No. 06) issued by the Ministry of Finance*

① *Changes in accounting policies and its basis*

The Ministry of Finance issued the Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019 (Cai Kuai [2019] No. 06) on 30 April 2019:

- A The portion of “Deferred income” with an amortisation period of one year or less or expected to be amortised within a period of one year (inclusive) shall not be classified as current liabilities, which should still be included in this item instead of being categorized as “non-current liabilities due within one year”;
- B In the balance sheet, the previous “Bills receivable and trade receivables” shall be segregated into “Bills receivable” and “Trade receivables”; and the previous “Bills payable and trade payables” was segregated into “Bills payable” and “Trade payables”;
- C The reporting contents of the “other payables”, should be reported according to the closing balance of “interest payable” and “dividends payable” and “other payables”, of which the “interest payable” only reflects the interests for relevant financial instruments which are due and payable but are not paid on the balance sheet date. The interest of financial instruments calculated based on the effective interest rate method should be included in the carrying amounts of corresponding financial instruments.
- D In the income statement, “Less: Asset impairment loss” is adjusted to “Add: Asset impairment loss (loss presented as “-”); and “Less: Credit impairment loss” is adjusted to “Add: Credit impairment loss (loss presented as “-”), and both of which are the items after “Gains from fair value change”.

According to the requirements above, the Company will make adjustment to the relevant data.

② *The impact of implementing the new statements format due to policy changes on the consolidated and corporate statements is as follows:*

A Consolidated balance sheet:

Contents of the changes	Items in the statement	Amounts as at 31 December 2018 (after the change) RMB'000	Amounts as at 31 December 2018 (before the change) RMB'000
Deferred income due within one year	Non-current liabilities due within one year	28,382	33,752
Deferred income	Deferred income	40,129	34,759
Bills receivable and accounts receivable	Bills receivable and accounts receivable	—	36,674
Including: Bills receivable	Including: Bills receivable	—	200
Accounts receivable	Accounts receivable	—	36,474
Bills receivable	Bills receivable	200	—
Accounts receivable	Accounts receivable	36,474	—
Bills payable and accounts payable	Bills payable and accounts payable	—	195,492
Bills payable	Bills payable	30,545	—
Accounts payable	Accounts payable	164,947	—
Other payables	Other payables	41,232	41,599
Including: Interests payable	Including: Interests payable	—	368
Short-term borrowings	Short-term borrowings	437,359	437,000
Long-term borrowings	Long-term borrowings	39,568	39,559

B Balance sheet of the parent company:

Contents of the changes	Items in the statement	Amounts as at 31 December 2018 (after the change) RMB'000	Amounts as at 31 December 2018 (before the change) RMB'000
Deferred income due within one year	Non-current liabilities due within one year	3,782	5,308
Deferred income	Deferred income	14,787	13,260
Bills receivable and accounts receivable	Bills receivable and accounts receivable	—	23,421
Including: Bills receivable	Including: Bills receivable	—	200
Accounts receivable	Accounts receivable	—	23,221
Bills receivable	Bills receivable	200	—
Accounts receivable	Accounts receivable	23,221	—
Bills payable and accounts payable	Bills payable and accounts payable	—	76,861
Bills payable	Bills payable	27,600	—
Accounts payable	Accounts payable	49,261	—
Other payables	Other payables	57,188	57,547
Including: Interests payable	Including: Interests payable	—	359
Short-term borrowings	Short-term borrowings	420,359	420,000

3. NOTES TO THE ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounts receivable

(1) The analysis on accounts receivable classified by type of customers is as follows:

Type	31 December 2019 RMB'000	31 December 2018 RMB'000
Accounts receivable from affiliates		
Accounts receivable from non-affiliated companies	<u>30,527</u>	<u>37,287</u>
Sub-total	30,527	37,287
Less: Provision for bad debts	<u>(878)</u>	<u>(813)</u>
Total	<u><u>29,649</u></u>	<u><u>36,474</u></u>

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

Ageing	31 December 2019 RMB'000	31 December 2018 RMB'000
Within 1 year	29,261	36,031
Including: 0-6 months	29,261	35,939
7-12 months	—	93
Over 1 year but within 2 years	237	493
Over 2 years but within 3 years	397	106
Over 3 years	<u>632</u>	<u>555</u>
Sub-total	30,527	37,287
Less: Provision for bad debts	<u>(878)</u>	<u>(813)</u>
Total	<u><u>29,649</u></u>	<u><u>36,474</u></u>

Aging is calculated from the date of confirmation of accounts receivables.

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

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Balance at the beginning of the year	813	98
Provision made during this year	210	715
Provision recovered or reversed during this year	(44)	—
Written off during this year	(101)	—
	<u>878</u>	<u>813</u>
Balance at the end of the year	<u>878</u>	<u>813</u>

2 Bearer biological assets

(1) *Nature of the Group's agricultural activities*

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

The number of cows owned by the Group as at 31 December is as follows:

	2019 Heads	2018 Heads
Calves	1,380	2,069
Heifers	6,472	2,839
Milkable cows	5,560	5,196
	<u>13,412</u>	<u>10,104</u>
Total	<u>13,412</u>	<u>10,104</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. The male calves newly born are sold while the female calves are bred for 6 months and then transferred to the group of heifers for preparation of insemination.

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

	Calves <i>RMB'000</i>	Heifers <i>RMB'000</i>	Milkable cows <i>RMB'000</i>	Total <i>RMB'000</i>
Closing balance of 2019	<u>15,712</u>	<u>155,117</u>	<u>189,266</u>	<u>360,095</u>

3 Accounts payable

(1) The analysis on accounts payable by ageing is as follows:

	31 December 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Within 1 year (inclusive)	213,499	158,659
Over 1 year but within 2 years (inclusive)	12,618	3,149
2-3 years (inclusive)	1,106	2,589
Over 3 years	<u>997</u>	<u>551</u>
Total	<u>228,221</u>	<u>164,947</u>

4 Operating income and costs

Item	2019		2018	
	Income <i>RMB'000</i>	Costs <i>RMB'000</i>	Income <i>RMB'000</i>	Costs <i>RMB'000</i>
Principal business	792,315	547,090	631,744	428,573
Other business	<u>21,240</u>	<u>12,566</u>	<u>25,988</u>	<u>16,822</u>
Total	<u>813,554</u>	<u>559,656</u>	<u>657,732</u>	<u>445,395</u>

5 Selling expenses

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Staff cost	19,160	16,954
Freight and miscellaneous charges	23,358	23,936
Low cost and short-lived consumable items	11,875	10,963
Travel expenses	2,646	3,135
Promotional fees	12,734	6,746
Rents and property management fees	2,324	2,622
Depreciation and amortization	2,843	2,371
Others	6,645	17,256
Total	81,584	83,983

6 Administrative expenses

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Staff cost	24,575	14,727
Maintenance fees	11,162	11,187
Professional service fees	7,678	6,839
Travel expenses	2,019	2,155
Depreciation and amortization	9,267	4,866
Administrative expenses	4,683	3,391
Afforestation and sewage fees	3,941	1,439
Business entertainment expenses	732	519
Utilities expenses	2,459	1,711
Inspection fee	1,375	204
Premium for property insurance	1,477	61
Freight and miscellaneous charges	1,258	1,097
Share-based incentive expenses	2,418	0
Others	4,347	515
Total	77,390	48,711

7 Financial expenses

Item	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Interest expenses from loans and payables	30,738	23,556
Including: interest expenses	32,738	24,136
Interest subsidies for policy-related preferential loans	(2,000)	(581)
Less: capitalized interest expenses	9,742	—
Interest income from deposits	2,553	(3,541)
Net exchange losses/(gains)	57	(264)
Others	3,702	1,450
Total	<u>22,201</u>	<u>21,201</u>

8 Other income

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Amount included in non-recurring profit or loss for 2019 <i>RMB'000</i>
Amortization of deferred income	4,210	7,168	4,210
Government grants received during the year	<u>3,162</u>	<u>6,269</u>	<u>3,162</u>
Total	<u>7,372</u>	<u>13,437</u>	<u>7,372</u>

9 Gains from changes in fair value

Source of gains from changes in fair value	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
1. Bearer biological assets	26,840	175
Including: gains in fair value less costs to disposal of bearer biological assets	10,721	(9,037)
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	16,119	9,212
2. Trading financial assets	20,412	—
Including: profits and losses arising from the changes in fair value due to contingent considerations	20,412	—
Total	47,252	175

10 Government grants

(1) General information of governmental grants

	2019 <i>RMB'000</i>	Presented item	Amount included in profit or loss of the period in 2019 <i>RMB'000</i>
Dairy farming project	200	Deferred income	18
I&I specific integration fund subsidies	400	Deferred income	23
Special funds for provincial industrial transformation and upgrading & information industry development	3,000	Deferred income	25
Food to feed conversion subsidies	1,889	Other income	1,889
Discount for civil trade and products loans	2,000	Financial expenses	2,000
Cooperation fees of Xining Animal Disease Prevention and Control Center	112	Non-operating income	112
Emergency cash from Xi'an Industry and Commerce Association	400	Non-operating income	400
Others	1,273	Other income	1,273
Total	9,274		5,740

(2) Projects involving government grants in deferred income

	31 December 2018 <i>RMB'000</i>	Increase of grants for the period <i>RMB'000</i>	Amount included in profit or loss for the period <i>RMB'000</i>	Other changes <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>	Related to assets/ revenue
Dairy farming project	22,819	200	1,087	—	21,932	Related to assets
Diary product production project	6,876		1,671	—	5,205	Related to assets
Biogas products	4,574		447	—	4,127	Related to assets
Others	5,860	3,400	1,005	—	8,254	Related to assets
	<u>40,129</u>	<u>3,600</u>	<u>4,210</u>	<u>—</u>	<u>39,518</u>	
Total	40,129	3,600	4,210	—	39,518	

11 Income tax expense

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Income tax expenses for the current period calculated based on tax law and relevant regulations	10,135	(872)
Deferred income tax expenses	<u>3,523</u>	<u>2,523</u>
Total	<u>13,657</u>	<u>1,652</u>

12 Basic earnings per share

- (1) Basic earnings per share is calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Net profit attributable to the Company's ordinary shareholders	<u>51,321</u>	<u>63,533</u>
Weighted average number of ordinary shares in issue by the Company	<u>188,509</u>	<u>187,340</u>
Basic earnings per share (RMB per share)	<u>0.27</u>	<u>0.34</u>

(2) Calculation of weighted average number of ordinary shares is as follows :

	<i>Note</i>	2019 RMB'000	2018 RMB'000
Numbers of ordinary shares in issue at beginning of year		187,340	187,340
	<i>The Group granted Restricted Shares to 84 share incentive targets in 2019</i>		
Effect of new shares issued		1,169	
Weighted average number of ordinary shares at end of year		188,509	187,340

13 Segment reporting

Considering the framework of internal organisation, requirements of management and the system of internal reporting, the Group has presented two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and market strategies. The financial statements of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

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

(1) Segment results, assets and liabilities of reportable segments

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

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

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

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

	Dairy Products Production							
	Dairy farming Segment		Segment		Elimination among Segments		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating income from external customers	40,936	21,997	772,619	635,735	—	—	813,554	657,732
Inter-segment operating income	216,971	143,147	—	9,289	(216,971)	(152,435)	—	—
Depreciation and amortization	24,501	15,029	52,542	27,848	—	—	77,043	42,877
Interests income	187	477	2,366	3,064	—	—	2,553	3,541
Interests expense	3,158	121	17,838	23,435	—	—	20,996	23,556
Total amount of profit/(losses)	(10,452)	26,125	75,430	39,059	—	—	64,979	65,185
Income tax expense	—	—	13,657	1,652	—	—	13,657	1,652
Net profit/(losses)	(10,452)	26,125	61,773	37,408	—	—	51,321	63,533
Total assets	970,763	732,379	2,189,997	1,866,161	(668,033)	(550,431)	2,492,727	2,048,109
Total liabilities	775,821	757,550	1,159,532	656,584	(668,033)	(550,431)	1,267,320	863,702
Additions on non-current assets	57,489	324,822	334,649	234,031	—	—	392,138	558,853

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Vigorously developing animal husbandry, adjusting the structure of animal husbandry, focusing on the development of dairy products, actively promoting the industrialization of dairy industry, and increasing the proportion of milk in the national diet are the general ideas and guidance for agricultural development in China during the 13th Five-Year Plan and beyond. Since 2017, the General Office of the State Council, the Ministry of Agriculture, the National Development and Reform Commission and other departments have promulgated and issued the National Dairy Industry Development Plan (2016-2020), the National Nutrition Plan (2017-2030), the Opinions on Revitalizing Dairy Industry and Ensuring Dairy Product Quality and Safety, the Several Opinions on Further Promoting the Revitalization of Dairy Industry, Several Opinions of the Central Committee of the Communist Party of China and the State Council on Adhering to the Priority of Agriculture and Rural Development and Accomplishing Works on Agriculture, Countryside and Farmers (Central Document No. 1 in 2019). These documents define the status of the dairy industry in the national economy and the direction and goals for future development of dairy products.

In recent years, the domestic economy has shown a stable and good development trend. Per capita disposable income of residents across the country has grown faster than GDP, and the contribution of consumer spending to economic growth has increased year by year. Due to rising income among urban and rural residents, the current low consumption of dairy products per capita in China, the acceleration of urbanization and the milk drinking plan for students, and the implementation of universal two-child policy, the dairy market in China will continue to grow steadily in the future. In addition, the rapid development of convenience stores, e-commerce platforms, and mother and baby stores has fueled the growth of dairy market both online and offline. With improving living standards and accelerating food consumption upgrade, combined with the implementation of national strategies such as “Healthy China” and “Village Revitalization”, the scale of domestic dairy consumption will continue to expand in the future with a steady growth of the industry.

Business Review

We are one of the leading dairy companies in Gansu, Qinghai and Shaanxi where our operations and sales are primarily located and we operate a vertically integrated business model. Our vertically integrated business model covers the critical stages of the dairy industry value chain, from dairy farming, to manufacturing, and then to marketing and sales of dairy products. Our dairy farming operations aim to ensure stable supply of high quality raw milk for our dairy product manufacturing. We owned and operated five dairy farms and collectively operated two dairy farms through cooperation with local dairy farmers as at 31 December 2019. 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 64% of our raw milk requirement that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.

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

We are a major player in the sales of “Cold Chain Liquid Milk Products” (i.e. liquid milk product(s) that has a short shelf life between 3 days to 21 days and need to be stored at low temperature of 2°C – 6°C, which include pasteurised milk and yogurt products) in the Gansu, Qinghai and Shaanxi regional market. We believe that we are well positioned to compete in the Cold Chain Liquid Milk Product market in Gansu, Qinghai and Shaanxi due to our close proximity to the local market and our established local distribution network. We plan to continue to expand our cold chain production capacity and distribution network to increase the sales of Cold Chain Liquid Milk Products in the Gansu, Qinghai and Shaanxi regional market and then further expand into other provinces in the northwestern China market.

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

Key Financial Ratios

The table below sets out our key financial ratios as at the dates indicated:

	2019	2018
Current ratio ⁽¹⁾	0.64	0.72
Quick ratio ⁽²⁾	0.54	0.60
Return on equity ⁽³⁾	4.26%	5.50%
Return on assets ⁽⁴⁾	2.24%	3.30%
Gearing ratio ⁽⁵⁾	50.84%	42.17%

Notes:

- (1) Current assets/current liabilities.
- (2) (Current assets — inventory)/current liabilities.
- (3) Net profit for the year/(total equity attributable to equity shareholders of the Company as at the beginning of the year + total equity attributable to equity shareholders of the Company as at the end of the year)/2 x 100%.
- (4) Net profit for the year/(total assets as at the beginning of the year + total assets as at the end of the year)/2 x 100%.
- (5) Total liabilities/total assets.

Biological Assets

During the Reporting Year, our biological assets comprised dairy cows. Dairy cows are further categorised into calves, heifers and milkable cows. The following table sets out the value of our biological assets as at 31 December of 2019 and 2018:

	At 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Dairy cows		
Milkable cows	189,266	180,621
Heifers	155,117	68,662
Calves	15,712	21,021
Total	360,095	270,304

The numbers of dairy cows in our self-owned dairy farms are summarised as follows:

	2019	2018
	(Heads)	(Heads)
Dairy cows		
Milkable cows	5,560	5,196
Heifers	6,472	2,839
Calves	1,380	2,069
Total	13,412	10,104

Diary Farming

Milk Production

Our raw milk production was approximately 49,675 tons (2018: approximately 27,927 tons), an increase of approximately 77.87% year-on-year, mainly due to the increase in the number of adult cows.

During the Reporting Year, the average annual milk production per adult cow decreased from 5.6 to 10.9 tons in 2018 to 5.04 to 10.21 tons in 2019, which was basically the same as the previous year.

Dairy Products Production

In 2019, the domestic market of dairy products, especially liquid dairy products, was highly competitive. With household income on the rise, dairy companies began to focus on developing their marketing channels. Consumption upgrades led to demand for diversified and high-end dairy products and prompted dairy companies to focus on milk source development. Dairy companies have entered a period of competition in the entire industry chain of milk sources, products and channels. In view of the vast market for dairy products and increasing income levels, a balanced development of the entire industry chain will lead the dairy industry into a new round of rapid growth.

- *Development of milk source*

We started the “Recycling Industrial Park Project of a Dairy Farm for 10,000 Dairy Cows in Jinchuan District” during the Reporting Year. This project is conducive to further strengthening quality control from the source, ensuring the Company's product quality from the source, and realizing the Company's long-term sustainable development.

- *Development of production base*

In order to meet the growing demand for product diversification in the dairy consumer market, by leveraging on the improvement of advanced dairy production processes, such as filling technology, we implemented the “reconstruction and expansion project with daily processing 600 tons of liquid milk” in and around the original factory area of Sanjiaocheng Village, Sanjiaocheng, Yuzhong County, Lanzhou. The project reached the expected usable status during the Reporting Year. Upon completion, the production base is beneficial to optimizing production process and enriching product structure, which will help further consolidate and expand the market share of our products.

- *Development of distribution channels*

After 20 years of development, the Company has established a stable distribution network. The effectiveness and geographical coverage of the distribution network and sales team directly affect our sales. We have established a distribution network consisting of various sales channels, covering most markets in Gansu, Shaanxi and Qinghai.

As of 31 December 2019, we had entered into cooperation agreements with 765 re-sellers and distributors (2018: 1,039). During the Reporting Year, we integrated and optimized our distribution network and are committed to improving the effectiveness of our regional distribution network and sales team.

Quality Control

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

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

GMPs are the foundation for our milk safety and milk quality programme. GMPs are implemented in four main areas of our dairy processing, specifying control measures in respect of (i) personnel hygiene; (ii) building and facilities; (iii) equipment and utensils; and (iv) production and process control.

In addition, we have also applied the principles of HACCP in the management of our milk safety. Our HACCP plan focuses on areas where problems potentially may occur and requires that production facilities be prepared to deal with problems immediately if they occur. Under our HACCP plan, we conducted a hazard analysis in order to identify any hazardous biological, chemical or physical properties in raw materials and processing steps. Based on the analysis, we identified the critical control points and established monitoring procedures and use the monitoring results to streamline processes on a continuous basis. As a testament of our efforts in complying with HACCP, our production plants in Gansu and Qinghai received the HACCP Certification issued by the China Quality Certification Centre and Beijing Continental Hengtong Certification Co. Ltd., respectively.

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

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

Brand Building

The liquid milk product industry in China, including Gansu, Qinghai and Shaanxi, our major markets, is highly concentrated. The competitive landscape of the dairy product industry in China can be split into three categories: (1) national brands; (2) regional brands; and (3) foreign brands. As a regional brand, we are located near to the market with shorter transportation time that guarantees better freshness. Our products are also more tailored to the taste and spending habits of end consumers. Compared with our competitors, we benefited from a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years.

We believe the demand for premium Cold Chain Liquid Milk Products will continue to rise along with the increased awareness of the importance of nutritional products to the health and well-being of consumers. To capture the increasing demand for Cold Chain Liquid Milk Products, we plan to continue to expand our cold chain distribution network in Gansu, Qinghai and Shaanxi and further in northwestern China. We believe that one of the key factors to a successful cold chain distribution network is the strategic location of cold warehouses outside of our production plants as it allows our products to reach local markets within 300 kilometers radius of our cold warehouses and also allows us to have better control over the quality of the Cold Chain Liquid Milk Products during the distribution process.

We also seek to expand our third party distributors to deepen our regional sales and distribution network and solidify our established position in Gansu, Qinghai and Shaanxi, our primary markets. We will also continue to develop the e-commerce sales channels and satisfy the demands and preferences of different consumer groups through the internet direct sales portal to reach a wider customer base and to adapt to consumers' purchase preference.

Financial Overview

Operating Income

Principal Activities

The following table sets out the breakdown of sales amount, sales volume and average selling price by product types for the years ended 31 December 2019 and 2018:

	2019			2018		
	Sales Amount <i>RMB'000</i>	Sales Volume <i>Tonne</i>	Average Selling Price <i>RMB/Tonne</i>	Sales Amount <i>RMB'000</i>	Sales Volume <i>Tonne</i>	Average Selling Price <i>RMB/Tonne</i>
Liquid Milk Products						
Pasteurised Milk	49,609	6,136	8,085	27,459	3,922	7,001
Yogurt	193,179	28,368	6,810	229,944	32,052	7,174
UHT Milk	279,751	30,399	9,203	170,149	19,488	8,731
Modified Milk	255,975	22,416	11,419	199,739	16,551	12,068
Subtotal	778,514	87,319	8,916	627,291	72,013	8,711
Milk Beverage	10,114	2,051	4,932	1,347	410	3,285
Other Dairy Products	3,687	158	23,309	3,106	137	22,672
Total	792,315	89,528	8,850	631,744	72,560	8,707

Our income from principal activities increased by 25.42% from RMB631.7 million for the year ended 31 December 2018 to RMB792.3 million for the year ended 31 December 2019, mainly due to the contribution of Xi'an Dongfang Dairy acquired by the Group.

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 asset fair value adjustments, for the years indicated:

	2019			2018		
	Cost of sales	Gross profit	Gross profit margin	Cost of sales	Gross profit	Gross profit margin
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Liquid milk products						
Pasteurized milk	29,486	20,123	40.56%	17,536	9,923	36.14%
Sterilized milk	157,475	35,704	18.48%	170,949	58,995	25.66%
Modified milk	179,377	100,373	35.88%	106,383	63,766	37.48%
Fermented milk	170,073	85,902	33.56%	130,727	69,012	34.55%
Sub-total	536,411	242,103	31.10%	425,595	201,696	32.15%
Milk beverage	7,521	2,593	25.64%	1,096	251	18.63%
Other dairy products	3,158	529	14.34%	1,882	1,224	39.41%
Total	547,090	245,225	30.95%	428,573	203,171	32.16%

Operating expenses

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Selling expenses	81,584	83,983
Administration expenses	77,390	48,711
Total operating expenses	<u>158,974</u>	<u>132,694</u>

Operating expenses increased from RMB132.7 million for the year ended 31 December 2018 to RMB159.0 million for the year ended 31 December 2019. This was mainly because we invested more in promotion and branding in order to further strengthen our sales channels and product sales during the Reporting Year.

The increase in administration expenses was mainly due to the acquisition of Xi'an Dongfang Dairy Co., Ltd.

Financial expenses

Our net finance costs increased by 4.72% from RMB21.2 million for the year ended 31 December 2018 to RMB22.2 million for the year ended 31 December 2019, primarily because of the increase in long-term loans.

Current ratio

As at 31 December 2019, our current ratio (current assets/current liabilities) was approximately 0.64 compared to 0.72 as at 31 December 2018.

Indebtedness

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2019, our outstanding short-term bank loans, including long-term loans due within one year, amounted to RMB366 million at interest rates ranging from 4.35% to 6.09% per annum. As at 31 December 2019, our outstanding long-term bank loans, net of amount due within one year, amounted to RMB227.3 million at interest rates ranging from 4.75% to 5.7% 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.

Asset-liability ratio

As at 31 December 2019, our asset-liability ratio was 50.84% (the ratio of total liability to asset) compared to 42.17% as at 31 December 2018.

Foreign exchange risk

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2018 were denominated in the respective Group companies' functional currencies.

For the year ended 31 December 2019, we were not subject to significant exposure to interest rate risk. Hence, no financial instrument for hedging was employed. The management will continue to monitor foreign currency risk and adopt prudent measures as and when appropriate.

Pledge of assets

As at 31 December 2019, the book value of our restricted assets was RMB601.7 million (31 December 2018: RMB339.4 million). The types and book value the restricted assets were as follows: (1) monetary capital of RMB 165.5 million (31 December 2018: RMB14.3 million); (2) fixed assets of RMB 346.1million (31 December 2018: RMB319.5 million); (3) intangible assets of RMB54.8 million (31 December 2018: RMB5.7 million); (4) long-term equity investments of RMB35.3 million (31 December 2018: RMB0 million).

Asset impairment

(1) Goodwill from the acquisition of 82% equity in Xi'an Dongfang Dairy Co., Ltd

The Company convened the sixth meeting of the third session of the Board of Directors on 26 July 2018 to consider and approve the Resolution on the Acquisition of Equity in Subsidiary Xi'an Dongfang Dairy Co., Ltd., in relation to acquiring a total of 82% equity in Xi'an Dongfang Dairy Co., Ltd. (hereinafter referred to as "Dongfang Dairy") with RMB249,000,000 in cash. The Company convened the second Extraordinary General Meeting and class shareholders' meeting of 2018 on 26 September 2018 to consider and approve the Resolution on the Acquisition of Equity in Subsidiary Xi'an Dongfang Dairy Co., Ltd. Dongfang Dairy completed the change to industrial and commercial registration on 1 November 2018, and obtained the Business License issued by the Xi'an Administration for Industry and Commerce. Following the change, the Company became the sole shareholder of Dongfang Dairy and owns 100% of Dongfang Dairy. The acquisition resulted in goodwill of RMB58,691,000.

The Company made a provision for goodwill impairment amounting to RMB48,719,000 for the goodwill resulting from the acquisition of 82% equity in Xi'an Dongfang Dairy Co., Ltd., which was included in the Company's profits and losses for 2019. According to the performance compensation agreement in respect of the acquisition, the Company recognized a compensation of RMB22,333,000 due from the original shareholders of Xi'an Dongfang Dairy, which was included in the non-operating income for the Period. The Company also recognized closing trading financial assets and the gains and losses from changes in fair value for the Period totaling RMB20,412,000 by calculating the compensation receivable based on result forecast of Xi'an Dongfang Dairy for 2020, discounted at 4.75%, being the Company's latest financing cost. The two items mentioned above totaling RMB42,745,000 related to performance compensation were included in the profits and losses for 2019.

(2) Fixed assets of wholly-owned subsidiaries Ningxia Zhuangyuan Pasture Co., Ltd. and Qinghai Shengyuan Pasture Co., Ltd.

The sites of the Company's wholly-owned subsidiaries Ningxia Zhuangyuan Pasture Co., Ltd. And Qinghai Shengyuan Pasture Co., Ltd. were classified as closed areas for livestock and poultry breeding and were included in the scope of closure and relocation. The Company actively responded to the government arrangements by carrying out the relocation and shutdown work, while actively negotiating with local governments on compensation. The Company made a provision for impairment of RMB9,239,000 for the fixed assets of the above two wholly-owned subsidiaries that may be terminated or disposed of in advance due to the relocation.

Contingent liabilities

As at 31 December 2018 and 31 December 2019, we did not have significant contingent liabilities.

Capital Structure

During the Reporting Year, the Company issued 3,341,000 restricted shares to 84 share incentive targets at the price of RMB6.96 per share in 2019, the share capital increased RMB3,341,000, the balance of RMB19,910,000 was included in capital reserve.

Significant investments

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

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

The Company invested RMB14.5 million in 2018 and RMB317.1 million in 2019, together accounting for 12.72% of its total assets of RMB2,492.7 million in 2019. As of the end of 2019, the cumulative investment was RMB331.6 million, accounting for 13.30% of its total assets of RMB2,492.7 million in 2019.

It is expected that the completion of the “reconstruction and expansion project with daily processing 600 tons of liquid milk” will help optimize the production process and enrich the product structure; improve production efficiency and reduce labor costs; improve production standards and strengthen product quality control; and integrate the Group's production resources for long-term development.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed herein, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2019.

Human Resources

We had 922 employees in PRC and Hong Kong as at 31 December 2019 (31 December 2018: 907 employees).

During the Reporting Year, total staff costs were RMB69.55 million (the corresponding period in 2018: RMB49.6 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 its employees in the PRC, the Group has participated in defined contribution benefit plans and social insurance plans organised by the relevant local governmental authorities.

The Restricted Shares Incentive Scheme for 2019 (draft) was considered and approved at the meeting of the board held by the Company on 11 March 2019; the general meeting was held on 23 May 2019 to consider and approve the Restricted Shares Incentive Scheme for 2019 (draft); the meeting of the board was held on 21 June 2019 to consider and approve “first granting 3,340,600 restricted shares to the 84 incentive targets after adjustments”; the Company completed the registration procedures of restricted shares grant of Lanzhou Zhuangyuan Pasture Co., Ltd. 2019 Restricted Share Incentive Scheme (Draft) with China Securities Depository and Clearing Corporation Limited Shenzhen Branch on 9 July 2019. The listing date of restricted shares granted firstly was 12 July 2019.

Corporate Social Responsibility

We believe that social responsibility is the foundation for the development of an enterprise. We will take 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

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

4. The Company will continue to conduct various forms of on-the-job trainings, improve work skills, enhance work efficiency and tamp the construction of the middle-level team. The Company will strengthen the recruitment of professional talents with market qualifications or excellent skills and give full development space and positive incentive policies to ensure the stability of the talent team and the echelon construction of the talent reserve and enhance the core competitiveness of the Company.

IMPORTANT EVENTS THAT HAVE OCCURRED SINCE THE END OF 2019

Since the outbreak of pneumonia caused by the new coronavirus (the “**COVID-19 Outbreak**”) in January 2020, the prevention and control of the pneumonia epidemic have been continuously carried out nationwide in the PRC.

The COVID-19 Outbreak in some provinces and cities, as well as the overall economy, caused certain influence, to some extent, which could affect the business of the Group. The extent of influence will depend on the situation of the epidemic prevention and control, duration and the implementation of the regulation policies.

The Group will continue to pay close attention to the development of the COVID-19 Outbreak, and evaluate and actively respond to its impact on the Company’s financial position, operating results and other aspects. As of the date of this announcement, this assessment was still in progress.

Save as disclosed herein, subsequent to 31 December 2019, there had been no significant change in our business environment, principal business, pricing policy and costs structure.

CORPORATE GOVERNANCE

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

The Company has complied with all applicable Code Provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) for the year ended 31 December 2019.

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

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

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 year ended 31 December 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

3,340,600 A Shares were granted to 84 participants under the Restricted Share Incentive Scheme for 2019 on 21 June 2019 with the granting price of RMB6.96 per A Share and the listing was completed on 12 July 2019.

Save as disclosed herein, during the year ended 31 December 2019, there was no purchase, redemption or sale by the Company, or any of its subsidiaries, of any listed securities of the Company during the Reporting Year.

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

The Group has no material litigation or arbitration matters during the year ended 31 December 2019.

SHARE OPTION SCHEME

There is no share option scheme adopted for the Company during the Reporting Year.

AUDIT COMMITTEE

The Company has established the audit committee (the “**Audit Committee**”) with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley. Ms. Liu Zhijun is the chairman of the Audit Committee. The Audit Committee is responsible for, amongst other matters, reviewing and supervising the Group’s financial reporting process, risk management and internal control systems 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 audited final results of the Group for the year ended 31 December 2019.

DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB5.50 cents per share (including tax) for the year ended 31 December 2019 (for the year ended 31 December 2018: RMB6.80 cents per share). The total dividend amounted to approximately RMB10.5 million.

The proposed final dividend is subject to the consideration and approval of the Shareholders at the forthcoming annual general meeting (the “**AGM**”) of the Company. The Company will publish announcement, circular and notice of general meeting regarding the AGM in accordance with the Listing Rules and the articles of association of the Company. It is expected that the final dividend will be distributed before 31 August 2020.

The final dividend will be denominated and declared in RMB. The holders of A Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People’s Bank of China during the five business days prior to the date of declaration of the dividend at the AGM.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, will be deemed as shares held by non-resident enterprise shareholders. Therefore, enterprise income tax will be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H Shares as at the record date of the proposed final dividend.

In accordance with the “Circular on Certain Issues Concerning the Policies of Individual Income Tax” (Cai Shui Zi 1994 No.020) (《關於個人所得稅若干政策問題的通知》(財稅字1994020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, temporarily, exempted from the individual income tax for dividend or bonuses received from foreign invested enterprises. In accordance with the “Letter of the State Administration of Taxation concerning Taxation Issues of Dividends Received by Foreign Individuals Holding Shares of Companies Listed in China” (Guo Shui Han Fa 1994 No. 440) (《外籍個人持有中國境內上市公司股票所取得的股息有關稅收問題的函》(國稅函發1994440號)) as promulgated by the State Administration of Taxation on 26 July 1994, dividends (capital bonuses) received by foreign individuals holding B shares or overseas shares (including H Shares) from Chinese enterprises issuing such B shares or overseas shares are temporarily exempted from individual income tax. Accordingly, in the payment of final dividend, the Company will not withhold and pay the PRC individual income tax on behalf of individual Shareholders whose names appear on the register of members of H Shares of the Company.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES FOR AGM AND DIVIDEND DISTRIBUTION

For ascertaining H Shareholders' eligibility to attend and vote at the AGM, the register of members for H Shares of the Company will be closed from Saturday, 30 May 2020 to Monday, 29 June 2020, both days inclusive, during which period no transfer of H Shares of the Company will be registered. H Shareholders whose names appear on the register of members for H Shares of the Company at the close of business on Friday, 29 May 2020 are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with H share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Friday, 29 May 2020.

Please refer to A Share announcement as published by the Company on the website of the Shenzhen Stock Exchange for relevant information in respect of the Shareholders of A Shares attending the AGM.

For ascertaining the entitlements of the Shareholders to receive the final dividend (if any), the register of members for H Shares of the Company will be temporarily closed from Wednesday, 8 July 2020 to Monday, 13 July 2020 (both days inclusive), during which no transfer of H Shares of the Company will be registered. All transfer documents together with the relevant share certificates and form of transfer must be delivered to the Company's H share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 7 July 2020. If the proposed profit distribution plan is approved at the AGM, the final dividend will be paid to the Shareholders whose names are registered in the Company's register of members on Monday, 13 July 2020.

SCOPE OF WORK OF WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP

The figures in respect of this announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Company's external auditor, WUYIGE Certified Public Accountants LLP, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is published on the Company's website (<http://www.lzzhuangyuan.com>) and the Stock Exchange's website (<http://www.hkexnews.hk>). The annual report of the Company for the year ended 31 December 2019 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, 23 April 2020

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

** For identification purpose only*