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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 2020**

**FINANCIAL HIGHLIGHTS**

	<b>Years ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Operating income	<b>739,821</b>	813,554
Gross profit	<b>206,877</b>	253,899
Profit for the year attributable to equity shareholders of the Company	<b>10,453</b>	51,321
Earnings per share (RMB) <sup>(1)</sup>	<b>0.05</b>	0.27
Proposed dividend per share (RMB)	<b>2.00 cents</b>	5.50 cents

- Operating income decreased by 9.06% as compared to the year ended 31 December 2019.
- Gross profit decreased by 18.52% as compared to the year ended 31 December 2019.
- Profit for the year attributable to equity shareholders of the Company decreased by 79.63% as compared to the year ended 31 December 2019.

<sup>(1)</sup> 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 2020 (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 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
<b>Assets</b>		
<b>Current assets:</b>		
Monetary funds	846,729	413,742
Trading financial assets		20,412
Bills receivable		
Trade receivables	41,586	29,649
Prepayments	7,998	16,185
Other receivables	20,792	17,694
Inventories	113,625	94,832
Other current assets	10,738	17,595
<b>Total current assets</b>	<b>1,041,467</b>	<b>610,110</b>
<b>Non-current assets:</b>		
Other equity instrument investments	44	44
Fixed assets	1,179,537	1,247,639
Construction in progress	152,093	59,188
Bearer biological assets	494,691	360,095
Right-of-use assets	53,784	43,437
Intangible assets	97,156	90,609
Goodwill		9,971
Long-term deferred expenses	4,246	7,138
Deferred income tax assets	2,502	6,644
Other non-current assets	55,037	57,852
<b>Total non-current assets</b>	<b>2,039,091</b>	<b>1,882,617</b>
<b>Total assets</b>	<b>3,080,558</b>	<b>2,492,727</b>

	31 December 2020 RMB'000	31 December 2019 RMB'000
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Short-term borrowings	322,337	315,184
Bills payable	431,160	283,014
Accounts payable	214,105	228,221
Contract liabilities	10,669	16,470
Employee remuneration payable	6,226	2,621
Taxes payable	6,419	7,504
Other payables	52,990	50,725
Non-current liabilities due within one year	48,422	56,249
Other current liabilities	1,448	—
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>1,093,777</b>	<b>959,987</b>
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<b>Non-current liabilities:</b>		
Long-term borrowings	311,281	227,327
Lease liabilities	40,483	30,946
Estimated liabilities	490	515
Deferred income	37,059	39,518
Deferred income tax liabilities	5,633	9,027
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>394,947</b>	<b>307,332</b>
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<b>Total liabilities</b>	<b>1,488,724</b>	<b>1,267,320</b>
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<b>Shareholders' equity:</b>		
Share capital	233,681	190,681
Capital reserve	854,580	531,119
Less: Treasury stocks	23,251	23,251
Surplus reserve	43,387	43,387
Undistributed profits	483,437	483,471
	<hr/>	<hr/>
Total equity attributable to shareholders of the parent company	1,591,834	1,225,407
	<hr/>	<hr/>
<b>Total Shareholders' equity</b>	<b>1,591,834</b>	<b>1,225,407</b>
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<b>Total liabilities and/or Shareholders' equity</b>	<b>3,080,558</b>	<b>2,492,727</b>
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## CONSOLIDATED INCOME STATEMENT

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>I. Operating income</b>	<b>739,821</b>	813,554
<b>II. Operating cost</b>	<b>532,944</b>	559,656
Taxes and surcharges	7,745	6,267
Selling expenses	73,121	81,584
Administrative expenses	68,815	77,390
Research and development expenses	9,103	9,462
Financial expenses	23,891	22,201
Including: Interest expenses	27,550	20,996
Interest income	5,470	2,553
Add: Other income	6,503	7,372
Investment income	(12,925)	(8,823)
Gain on derecognition of financial assets measured at amortized cost	(12,925)	(8,823)
Gains from changes in fair value	74,263	47,252
Impairment losses on credit	(1,513)	(992)
Impairment loss on assets	(75,838)	(57,958)
Gains from asset disposal	313	(2)
<b>III. Operating profit</b>	<b>15,005</b>	43,843
Add: Non-operating income	9,006	24,828
Less: Non-operating expenses	11,650	3,693
<b>IV. Total profit</b>	<b>12,361</b>	64,979
Less: Income tax expenses	1,907	13,657
<b>V. Net profit</b>	<b>10,453</b>	51,321

## **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 2020 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 2020, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows for 2020.

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” issued by the China Securities Regulatory Commission (“CSRC”). 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 by the management of the Group 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. 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 2020 RMB'000	31 December 2019 RMB'000
Accounts receivable from affiliates		
Accounts receivable from non-affiliated companies	42,912	30,527
Sub-total	42,912	30,527
Less: Provision for bad debts	1,326	(878)
Total	41,586	29,649

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

Ageing	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	41,052	29,261
Including: 0-6 months	38,021	29,261
7-12 months	3,031	—
Over 1 year but within 2 years	727	237
Over 2 years but within 3 years	208	397
Over 3 years	925	632
Sub-total	42,912	30,527
Less: Provision for bad debts	1,326	(878)
Total	41,586	29,649

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 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Balance at the beginning of the year	878	813
Provision made during this year	449	210
Provision recovered or reversed during this year	—	(44)
Written off during this year	—	(101)
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Balance at the end of the year	<u><u>1,326</u></u>	<u><u>878</u></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:

	2020 Heads	2019 Heads
Calves	3,550	1,380
Heifers	4,308	6,472
Milkable cows	<u>8,236</u>	<u>5,560</u>
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Total	<u><u>16,094</u></u>	<u><u>13,412</u></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 2020	<u>43,777.50</u>	<u>111,985.50</u>	<u>338,927.80</u>	<u>494,690.80</u>

**3 Accounts payable**

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

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Within 1 year (inclusive)	203,441	213,499
Over 1 year but within 2 years (inclusive)	9,369	12,618
2-3 years (inclusive)	786	1,106
Over 3 years	<u>508</u>	<u>997</u>
Total	<u>214,105</u>	<u>228,221</u>

**4 Operating income and costs**

Item	2020		2019	
	Income <i>RMB'000</i>	Costs <i>RMB'000</i>	Income <i>RMB'000</i>	Costs <i>RMB'000</i>
Principal business	722,152	525,938	792,315	547,090
Other business	<u>17,669</u>	<u>7,005</u>	<u>21,240</u>	<u>12,566</u>
Total	<u>739,821</u>	<u>532,944</u>	<u>813,554</u>	<u>559,656</u>



## 5 Selling expenses

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Staff cost	25,314	19,160
Freight and miscellaneous charges	20,446	23,358
Low cost and short-lived consumable items	10,627	11,875
Travel expenses	2,207	2,646
Promotional fees	6,893	12,734
Rents and property management fees	1,458	2,324
Depreciation and amortization	2,635	2,843
Others	3,541	6,645
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Total	<b>73,121</b>	<b>81,584</b>

## 6 Administrative expenses

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Labor cost	20,652	24,575
Depreciation and amortization expenses	9,678	9,267
Maintenance fees	13,923	11,162
Professional service fees	4,410	5,885
Afforestation and sewage fees	3,297	3,941
Administrative expenses	4,925	4,683
Premium for property insurance	1,353	1,477
Utility and heating costs	1,927	2,459
Inspection fees	1,286	1,375
Share-based incentive expenses	(2,418)	2,418
Audit fees	1,811	1,792
Business entertainment expenses	864	732
Travel expenses	1,594	2,019
Freight and miscellaneous charges	746	1,258
Others	4,766	4,347
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Total	<b>68,815</b>	<b>77,390</b>

## 7 Financial expenses

Item	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses from loans and payables	29,620	30,738
Including: interest expenses	33,670	32,738
Interest subsidies for policy-related preferential loans	(4,050)	(2,000)
Less: capitalized interest expenses	2,070	9,742
Interest income from deposits	5,470	2,553
Net exchange losses/(gains)	(8)	57
Others	1,820	3,702
Total	<u>23,891</u>	<u>22,201</u>

## 8 Other income

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	Related to assets/revenue
Amortization of deferred income	3,959	4,210	Related to assets
Government grants received during the year	2,443	3,162	Related to revenue
Others	101	0	Related to revenue
Total	<u>6,503</u>	<u>7,372</u>	

## 9 Gains from changes in fair value

Source of gains from changes in fair value	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
1. Bearer biological assets	74,263	26,840
Including: gains in fair value less costs to disposal of bearer biological assets	59,148	10,721
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	15,115	16,119
2. Trading financial assets		20,412
Including: profits and losses arising from the changes in fair value due to contingent considerations		20,412
Total	<u>74,263</u>	<u>47,252</u>

## 10 Government grants

### (1) General information of governmental grants

	2020 RMB'000	Presented item	Amount included in profit or loss of the period RMB'000
Special funds for optimizing the business environment and expanding utilization of foreign investment from Lanzhou Municipal Bureau of Commerce	200	Deferred income	8
Grants for resource utilization of livestock and poultry manure from Liangzhou District Agriculture, Husbandry and Rural Bureaus	600	Deferred income	25
Project on Utilization of Fecal Resources from Livestock and Poultry in 2019	500	Deferred income	4
Central Agricultural Production Development in 2019 Dairy Farming Cooperation in 2019	200	Deferred income	2
Interest grants for loans granted to enterprises of civilian trade and goods from 2018 to 2019	4,000	Financial expenses	4,000
Interest grants for loans granted to leading enterprises of agricultural industrialization in 2019	50	Financial expenses	50
Innovation Funds of Enterprises granted by Finance Bureau of Yuzhong County	71	Non-operating income	71
Funds for 2020 Grain-to-feed Project	365	Non-operating income	365
Skill enhancement through work-based training	260	Non-operating income	260
Payment for the second tranche of agricultural transfer in 2020	120	Non-operating income	120
Fund for Central Agricultural Production Development in 2020	370	Non-operating income	370
Fund for promoting ethnic unity and progress	10	Non-operating income	10
Subsidy from Management Committee of Industrial Park as Development Award for the First Quarter of 2020 in Supporting Key Industrial Enterprises	180	Other income	180
Special fund for provincial development of agricultural production in 2019	500	Other income	500
Subsidy from Management Committee of Industrial Park as Development Award for the Second Quarter of 2020 in Supporting Key Industrial Enterprises	190	Other income	190
Subsidy for the Third Quarter of 2020 in Supporting Key Industrial Enterprises	100	Other income	100
2020 Modern Silk Road Dry Agriculture and Modern Animal Husbandry Development Project Fund	1,000	Other income	1,000
Grants for employment stabilization granted by Provincial Department of Human Resources and Social Security in 2020	233	Other income	233
Others	241	Other income	241
<b>Total</b>	<b>9,189</b>	<b>—</b>	<b>7,728</b>

**(2) Projects involving government grants in deferred income**

	31 December 2019 <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 2020 <i>RMB'000</i>	Related to assets/revenue
Dairy farming project	21,932	200	2,187		19,945	Related to assets
Dairy product production project	5,205		507		4,698	Related to assets
Biogas products	4,127		377		3,751	Related to assets
Others	8,254	1,300	888		8,666	Related to assets
	<u>39,518</u>	<u>1,500</u>	<u>3,959</u>		<u>37,059</u>	
Total	<u>39,518</u>	<u>1,500</u>	<u>3,959</u>		<u>37,059</u>	

**11 Income tax expense**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Income tax expenses for the current period calculated based on tax law and relevant regulations	<b>1,160</b>	10,135
Deferred income tax expenses	<b>747</b>	3,523
Total	<b>1,907</b>	13,657

**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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net profit attributable to the Company's ordinary shareholders	<b>10,453</b>	51,321
Weighted average number of ordinary shares in issue by the Company	<b>190,681</b>	188,509
Basic earnings per share (RMB per share)	<b>0.05</b>	0.27

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

	<i>Note</i>	<b>2020</b> <b><i>RMB'000</i></b>	2019 <i>RMB'000</i>
Numbers of ordinary shares in issue at beginning of year		<b>190,681</b>	187,340
Effect of new shares issued		—	1,169
Weighted average number of ordinary shares at end of year		<b>190,681</b>	188,509

### 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.

<b>Segment</b>	<b>Principal activities of segments</b>
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 receivables, 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 (loss) and segment assets and liabilities reviewed by the management of the Group or is otherwise regularly provided to the management of the Group, 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	
	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating income from external customers	70,800	40,936	669,021	772,619	—	—	739,821	813,554
Inter-segment operating income	213,957	216,971	—	—	(213,957)	(216,971)	—	—
Depreciation and amortization	35,802	24,501	61,415	52,542	—	—	97,217	77,043
Interests income	253	187	5,218	2,366	—	—	5,470	2,553
Interests expense	4,345	3,158	23,205	17,838	—	—	27,550	20,996
Total profit/(losses)	<u>(66,792)</u>	<u>(10,452)</u>	<u>79,152</u>	<u>75,430</u>	<u>—</u>	<u>—</u>	<u>12,361</u>	<u>64,979</u>
Income tax expense	—	—	1,907	13,657	—	—	1,907	13,657
Net profit/(losses)	<u>(66,792)</u>	<u>(10,452)</u>	<u>77,245</u>	<u>61,773</u>	<u>—</u>	<u>—</u>	<u>10,453</u>	<u>51,321</u>
Total assets	<u>1,520,434</u>	<u>970,763</u>	<u>2,203,694</u>	<u>2,189,997</u>	<u>(643,571)</u>	<u>(668,033)</u>	<u>3,080,558</u>	<u>2,492,727</u>
Total liabilities	<u>893,338</u>	<u>775,821</u>	<u>1,238,957</u>	<u>1,159,532</u>	<u>(643,571)</u>	<u>(668,033)</u>	<u>1,488,724</u>	<u>1,267,320</u>
Additions on non-current assets	<u>154,282</u>	<u>57,489</u>	<u>2,191</u>	<u>334,649</u>	<u>—</u>	<u>—</u>	<u>156,473</u>	<u>392,138</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Industry Review**

In China, dairy products are mainly divided into three categories: liquid milk, milk powder, and other dairy products. Liquid milk mainly includes UHT milk, modified milk, pasteurised milk (also known as fresh milk), and yogurt, categorised by different processing techniques. Other dairy products mainly include cheese, cream, condensed milk, lactose, and so on.

China has strong consuming power in dairy products, and Chinese consumers have increasingly realised the benefits of dairy products. The market has therefore been enjoying healthy growth in recent years. With the rising disposable income, ongoing urbanisation progress as well as consumers' rising health awareness, the consumption and the market share of pasteurised milk among liquid milk in China are expected to increase in the future. Similar with pasteurised milk, the market share of yogurt has also been increasing among liquid milk and has become the second largest segment in China's liquid milk product market.

Compared with the overall liquid milk market in China, the liquid milk markets in Gansu, Qinghai and Shaanxi provinces in China ("Gansu", "Qinghai" and "Shaanxi") were still at their growth stage. Pursuant to the rising per capita disposable income and increasing regional nominal GDP of Gansu, Qinghai and Shaanxi, the liquid milk markets in these regions are expected to grow faster in the future.

### **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 7 dairy farms as at 31 December 2020. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and existing collectively-operated dairy farms so as to maintain approximately 60% of our raw milk requirement that could be sourced internally in the near future, which will enable us to achieve balanced, complementary yet diverse sources of raw milk supply to satisfy our dairy product manufacturing need. We believe our vertically integrated business model allows stringent control over each important process of dairy production and thereby guarantees the high quality and safety of our dairy products.



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

	2020	2019
Current ratio <sup>(1)</sup>	<b>0.95</b>	0.64
Quick ratio <sup>(2)</sup>	<b>0.85</b>	0.54
Return on equity <sup>(3)</sup>	<b>0.74%</b>	4.26%
Return on assets <sup>(4)</sup>	<b>0.38%</b>	2.24%
Gearing ratio <sup>(5)</sup>	<b>48.33%</b>	50.84%

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 x 100%.

## ***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 2020 and 2019:

	<b>At 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Dairy cows</b>		
Milkable cows	<b>338,928</b>	189,266
Heifers	<b>111,986</b>	155,117
Calves	<b>43,778</b>	15,712
	<hr/>	<hr/>
Total	<b>494,691</b>	360,095
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2020</b>	<b>2019</b>
	<b>(Heads)</b>	<b>(Heads)</b>
<b>Dairy cows</b>		
Milkable cows	<b>8,236</b>	5,560
Heifers	<b>4,308</b>	6,472
Calves	<b>3,550</b>	1,380
	<hr/>	<hr/>
Total	<b>16,094</b>	13,412
	<hr/> <hr/>	<hr/> <hr/>

## ***Diary Farming***

### ***Milk Production***

Our raw milk production was approximately 54,639 tons (2019: approximately 49,675 tons), representing a year-on-year increase of approximately 9.99%, mainly due to the increase in the number of milkable cows.

During the Reporting Year, the average annual milk production per milkable cow increased from 5.04 to 10.21 tons in 2019 to 5.96 to 11.39 tons in 2020, representing an increase as compared to that of the previous year.

## ***Dairy Products Production***

In 2020, the market of domestic dairy products, especially liquid milk products, was highly competitive. In response to these market conditions, we continuously optimized our product structure by making use of our own advantages of milk sources produced by our own dairy farms and high quality fresh dairy milk products, thus strengthening our differentiated competitiveness, and focused on developing the northwestern China market.

- ***Impact of COVID-19 on the Product Sales***

As the outbreak of COVID-19 in early 2020 had a significant impact on the product sales of the Company in the first half of the year, the products were sold at lower prices than in the previous years in response to the epidemic, resulting in lower annual average selling prices than that of the previous year, which in turn led to an overall decline in gross profit margin.

- ***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, Qinghai and Shaanxi. As at 31 December 2020, we had entered into distribution agreements with 743 distributors and sales agents, as compared to 765 distributors and sales agents as at 31 December 2019. To further promote our branded dairy products across the region, we aim to enhance our distribution network to deepen our regional sales and distribution network, solidify our established position in our primary markets and we have conducted an integrated management of our distributors and sales agents in 2020. Furthermore, we have also expanded our distribution network into the China national market, especially in the northwestern China region.

- ***Average Selling Price of our Liquid Milk Products***

Our revenue and profitability are affected by the average selling price of our liquid milk products, which in turn, is determined by prevailing market conditions, cost of raw materials, production costs and competition situation. We reduced the average selling price due to the impact of COVID-19. The average selling price of our liquid milk products decreased from approximately RMB8,916 per tonne in 2019 to approximately RMB8,607 per tonne in 2020.

## ***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 2020 and 2019:

	2020			2019		
	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>
<b>Liquid Milk Products</b>						
Pasteurised milk	60,218	7,673	7,848	49,609	6,136	8,085
UHT milk	209,178	29,714	7,040	193,179	28,368	6,810
Modified milk	267,311	29,716	8,995	279,751	30,399	9,203
Yogurt	177,581	15,392	11,537	255,975	22,416	11,419
<b>Subtotal</b>	<b>714,287</b>	<b>82,495</b>	<b>8,659</b>	<b>778,514</b>	<b>87,319</b>	<b>8,916</b>
<b>Milk Beverage</b>	<b>7,450</b>	<b>1,396</b>	<b>5,338</b>	<b>10,114</b>	<b>2,051</b>	<b>4,932</b>
<b>Other Dairy Products</b>	<b>415</b>	<b>10</b>	<b>42,229</b>	<b>3,687</b>	<b>158</b>	<b>23,309</b>
<b>Total</b>	<b>722,152</b>	<b>83,901</b>	<b>8,607</b>	<b>792,315</b>	<b>89,528</b>	<b>8,850</b>

Our income from principal activities decreased by approximately 8.86% from approximately RMB792.3 million for the year ended 31 December 2019 to approximately RMB722.2 million for the year ended 31 December 2020, mainly due to the impact of COVID-19 on the Group in the first and second quarters of 2020.

## ***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:

	2020			2019		
	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>RMB'000</i>	<i>RMB'000</i>	%
<b>Liquid milk products</b>						
Pasteurized milk	39,527	20,690	34.36%	29,486	20,123	40.56%
UHT milk	170,097	39,081	18.68%	157,475	35,704	18.48%
Modified milk	187,524	79,787	29.85%	179,377	100,373	35.88%
Yogurt	122,582	54,998	30.97%	170,073	85,902	33.56%
<b>Sub-total</b>	<b>519,730</b>	<b>194,557</b>	<b>27.24%</b>	<b>536,411</b>	<b>242,103</b>	<b>31.10%</b>
<b>Milk beverage</b>	<b>5,920</b>	<b>1,530</b>	<b>20.54%</b>	<b>7,521</b>	<b>2,593</b>	<b>25.64%</b>
<b>Other dairy products</b>	<b>288</b>	<b>126</b>	<b>30.48%</b>	<b>3,158</b>	<b>529</b>	<b>14.34%</b>
<b>Total</b>	<b>525,938</b>	<b>196,214</b>	<b>27.17%</b>	<b>547,090</b>	<b>245,225</b>	<b>30.95%</b>

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was approximately 30.95% for the year ended 31 December 2019 and approximately 27.17% for year ended 31 December 2020. The overall gross margin during the Reporting Year slightly decreased as compared to the previous year.

## **Asset Impairment**

### ***(1) Goodwill Incurred from the Company's Acquisition of 82% Equity of Xi'an Dongfang Dairy Co., Ltd.***

The acquisition of a total of 82% equity of Xi'an Dongfang Dairy Co., Ltd. by the Company incurred goodwill of RMB58,690,500. The Company made a provision for impairment amounting to RMB48,719,300 in the annual report of 2019. At the end of 2020, the Company made an impairment provision of RMB9,971,200 as it considered that Dongfang Dairy had failed to achieve the expected performance, and the goodwill impairment exists.

## **(2) Impairment Loss on Fixed Assets**

Ningxia Zhuangyuan Pasture Co., Ltd. and Qinghai Shengyuan Pasture Co., Ltd., the wholly-owned subsidiaries of the Company, have been delimited into forbidden areas for animal and poultry and included in the area of closure and relocation. The Company has proactively responded to the work arrangement of the Government for relocation and closure, and has been proactively negotiating with local people's government in respect of the compensation matters. The Company has made provision for impairment in relation to the fixed assets of the above mentioned two wholly-owned subsidiaries that may be disposed of in advance due to such relocation and closure.

As disclosed in "Announcement Regarding the Signing of the Share Transfer Agreement by the Controlling Shareholder and the De Facto Controller and Proposed Change in Control of the Company" dated 25 January 2021 by the Company, Gansu Nongken Group Limited Liability Company is proposed to be the controlling shareholder of the Company, and Gansu People's Government Asset Supervisory Management Committee will become the ultimate de facto controller of Zhuangyuan Pasture.

According to the overall arrangement made by Gansu Nongken Group Limited Liability Company for optimizing dairy farming in the future, as the wholly-owned subsidiaries operating under the Company are likely to be at risk of consolidation in the next three years, the preparation for the provision for asset impairment for these subsidiaries is required.

A provision for impairment of fixed assets of a total of RMB65,866,800 has been prepared for the above two matters.

### **Operating expenses**

	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Selling and administrative expenses	<b>73,121</b>	81,584
General and administration expenses	<b>68,815</b>	77,390
<b>Total operating expenses</b>	<b>141,936</b>	158,974

Operating expenses decreased from approximately RMB159.0 million for the year ended 31 December 2019 to approximately RMB141.9 million for the year ended 31 December 2020, which was mainly due to a decrease in selling expenses along with a decrease in revenue affected by COVID-19 during the Reporting Year.

The decrease in administration expenses was mainly due to the improvement of management and efficiency of the Company.



### ***Financial expenses***

Our net finance costs increased by approximately 7.61% from approximately RMB22.2 million for the year ended 31 December 2019 to approximately RMB23.9 million for the year ended 31 December 2020, mainly due to the increase in the scale of debt financing.

### ***Current ratio***

As at 31 December 2020, our current ratio (current assets/current liabilities) was approximately 0.95 compared to 0.64 as at 31 December 2019.

### ***Indebtedness***

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2020, our outstanding short-term bank loans, including long-term loans due within one year, amounted to approximately RMB364.7 million at interest rates ranging from 4.35% to 6.5% per annum. As at 31 December 2020, our outstanding long-term bank loans, net of amount due within one year, amounted to approximately RMB311.3 million at interest rates ranging from 4.15% 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 2020, our asset-liability ratio was 48.33% (the ratio of total liabilities to assets) compared to approximately 50.84% as at 31 December 2019.

### ***Foreign exchange risk and pledge of assets***

The Group operates in the PRC with most of its transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's assets and liabilities as at 31 December 2020 were denominated in the respective Group companies' functional currencies.

For the year ended 31 December 2020, 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.

As at 31 December 2020, the book value of our restricted assets was approximately RMB787.4 million (31 December 2019: approximately RMB601.7 million). The types and book value the restricted assets were as follows: (1) monetary capital of approximately RMB215.2 million (31 December 2019: approximately RMB165.5 million); (2) fixed assets of approximately RMB454.8 million (31 December 2019: approximately RMB346.1 million); (3) intangible assets of approximately RMB82.2 million (31 December 2019: approximately RMB54.8 million); (4) long-term equity investments of approximately RMB35.3 million (31 December 2019: approximately RMB35.3 million).

### ***Contingent liabilities***

As at 31 December 2020, we did not have significant contingent liabilities.

### ***Capital Structure***

Save as disclosed in paragraph headed “Non-public Issuance of A Shares under Specific Mandate” below, there was no change in the capital structure of the Group during the Reporting Year. The capital of the Group only comprises ordinary shares.

### ***Significant investments***

The Company was established in April 2000. Its production base located in Sanjiaocheng, Yuzhong County, Lanzhou City, Gansu Province was built according to the then market size, consumer demand and industry characteristics, and was completed and put into production in 2003. After nearly 20 years, some workshops became 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 demised. At the same time, new production lines will be purchased and built to increase the Company's production capacity. The capacity and output realized after the project is completed and put into operation will include the existing capacity and output of the Yuzhong processing base with some enhancement.

The Company invested approximately RMB14.5 million in 2018, and approximately RMB316.7 million in 2019. As of 31 December 2020, the cumulative investment was approximately RMB331.2 million, accounting for 10.75% of its total assets of RMB3,080.6 million as at 31 December 2020.

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

### ***Material acquisitions and disposals of subsidiaries, associates and joint ventures***

Save as disclosed in this announcement, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

### **Human Resources**

We had 1,268 employees in PRC and Hong Kong as at 31 December 2020 (31 December 2019: 922 employees).

During the Reporting Year, total staff costs were approximately RMB71.1 million (the corresponding period in 2019: RMB69.5 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 2020

On 9 February 2021, the Company entered into a master purchase agreement (the “**Master Purchase Agreement**”) with Gansu Nongken Tianmu Dairy Company Limited\* (甘肅農墾天牧乳業有限公司) (“**Tianmu Dairy**”, a limited company established under the laws of the PRC and is a fellow subsidiary of the holding company of Gansu Nongken Asset Operation Company Limited\* (甘肅省農墾資產經營有限公司) (“**Gansu Nongken Asset**”), a substantial shareholder of the Company) in relation to the possible purchase of raw milk from Tianmu Dairy for the year ending 31 December 2021.

As Tianmu Dairy is a fellow subsidiary of Gansu Nongken Asset, a substantial shareholder of the Company, Tianmu Dairy is regarded as an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Master Purchase Agreement is subject to the reporting, announcement and the Company’s independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The entering into the Master Purchase Agreement will contribute to the business of the Group by providing a stable source of quality raw milk required in the production process and operations of the Group. As a result of the increase in production, the Group’s revenue and net profit is expected to increase.

The Company considers that the entering into of the Master Purchase Agreement will allow the Group to secure a stable source of quality raw milk so as to achieve the increase in production capacity brought by the expansion of its production facilities for the processing of 600 tonnes of liquid milk per day in Sanjiaocheng Village, Sanjiaocheng Town, Yuzhong County, Lanzhou, Gansu in 2018.

The Master Purchase Agreement has been approved by the Shareholders of the Company (“**the Shareholders**”) at the extraordinary general meeting of the Company held on 18 March 2021.

Details of the entered into the Master Purchase Agreement are set out in the announcement of the Company dated 15 January 2021 and 9 February 2021, the circular of the Company dated 3 March 2021 and the announcement of the Company dated 18 March 2021.

Save as disclosed herein, subsequent to 31 December 2020, 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.

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 2020.

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 holds the position of the chairman of the Board and the general manager of the Company. This deviates from code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

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



## 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 2020.

## NON-PUBLIC ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE

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

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

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

On 25 December 2020, an aggregate of 43,000,000 A Shares was allotted and issued (the “**Non-public Issuance**”) to 4 subscribers at the subscription price of RMB8.78 per A Share.

Subscriber	Number of A Shares subscribed	Subscription price
Gansu Nongken Asset	37,931,665	RMB8.78 per A Share
Xie Kai (謝愷)	2,050,113	RMB8.78 per A Share
Gao Aiping (高愛萍)	1,651,480	RMB8.78 per A Share
Su Guimin (蘇貴敏)	1,366,742	RMB8.78 per A Share
Total	43,000,000	

Each of Xie Kai, Gao Aiping and Su Guimin is a merchant. Gansu Nongken Asset is a company established in the PRC with limited liability and is principally engaged in equity investment and enterprise equity custody; project investment and investment management; enterprise asset reorganization, economic information, investment, financial advisory service. To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, each of Xie Kai, Gao Aiping, Su Guimin and Gansu Nongken Asset and its ultimate beneficial owner was a third party independent of the Company and its connected persons prior to the Non-public Issuance.

The subscription price of RMB8.78 per subscription A share represents (i) no less than 80% of the average trading price of the A Share for the 20 trading days preceding the price determination date, i.e. not be less than RMB8.78 per A Share (the average trading price of the A Shares of the Company for the 20 trading days prior to the price determination date = total trading amount of shares for the 20 trading days prior to the price determination date/total trading volume of A Shares for the 20 trading days prior to the price determination date); (ii) a discount of approximately 21.5% to the closing price of RMB11.18 per A share as quoted on The Shenzhen Stock Exchange on the price determination date of the Non-public Issuance, i.e. 20 November 2020, the first day of the issue period of the Non-public Issuance of the Company; and (iii) a discount of approximately 15.8% to the closing price of RMB10.43 per A share as quoted on The Shenzhen Stock Exchange on the day before the listing of A share.

The aggregate gross proceeds of the Non-public Issuance were approximately RMB377,540,000. The aggregate net proceeds of the Non-public Issuance, after the deduction of related expenses, were approximately RMB368,878,786.79. The net price of each A Share allotted and issued under the Non-public Issuance were approximately RMB8.78.

The Company intends to apply the net proceeds of the Non-public Issuance for the purpose to the repayment of bank loan and finance the investment project, which can further enhance the supply ratio of the Company's own raw milk, strengthen the product quality control, address the Company's increasing demand for raw milk in the future, optimize the product mix, improve its profitability, enhance the Company's core competitiveness and promote the Company's sustainable development, which is in the interests of the Company and all Shareholders.

Please refer to the circulars of the Company dated 31 December 2019 and 6 April 2020, and the announcements of the Company dated 5 November 2020 and 22 December 2020 for details of the Non-public Issuance.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

On 21 June 2019, 3,340,600 A shares were granted to 84 participants in accordance with the 2019 Restricted Share Incentive Scheme at a price of RMB6.96 per A share and the listing of these shares was completed on 12 July 2019.

Save as disclosed herein, during the year ended 31 December 2020, 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 2020.



## 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 2020.

## DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB2.00 cents per share (including tax) for the year ended 31 December 2020 (for the year ended 31 December 2019: RMB5.50 cents per share). The total dividend amounted to approximately RMB4.7 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 within 2 months upon the approval of the Shareholders at the AGM.

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.

## **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 2020 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 2020.

## **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 2020 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, 29 March 2021

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

*\* For identification purpose only*