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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	Years ended 31 December	
	2021	2020
	RMB'000	RMB'000
Operating income	1,021,432	739,821
Gross profit	242,928	186,431
Profit for the year attributable to equity shareholders of the Company	53,533	10,453
Earnings per share (RMB) ⁽¹⁾	0.23	0.05
Proposed dividend per share (RMB)	4.70 cents	2.00 cents

- Operating income increased by approximately 38.06% as compared to the year ended 31 December 2020.
- Gross profit increased by approximately 30.30% as compared to the year ended 31 December 2020.
- Profit for the year attributable to equity shareholders of the Company increased by approximately 412.11% as compared to the year ended 31 December 2020.

⁽¹⁾ The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number 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 2021 (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 2021	31 December 2020
	<i>Note</i>	<i>RMB’000</i>	<i>RMB’000</i>
Assets			
Current assets:			
Monetary funds		403,689	846,729
Accounts receivable	3.1	38,981	41,586
Prepayments		2,752	7,998
Other receivables		9,130	20,792
Inventories		176,459	113,625
Other current assets		2,428	10,738
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Total current assets		633,438	1,041,467
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Non-current assets:			
Other equity instrument investments		44	44
Fixed assets		1,466,961	1,179,537
Construction in progress		1,979	152,093
Bearer biological assets	3.2	534,964	494,691
Right-of-use assets		47,079	53,784
Intangible assets		97,827	97,156
Long-term deferred expenses		3,495	4,246
Deferred income tax assets		2,399	2,502
Other non-current assets		22,193	55,037
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Total non-current assets		2,176,941	2,039,091
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Total assets		2,810,380	3,080,558
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	31 December	31 December
	2021	2020
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities and shareholders' equity		
Current liabilities:		
Short-term borrowings	214,666	322,337
Bills payable	80,000	431,160
Accounts payable	253,385	214,105
Contract liabilities	18,717	10,669
Employee remuneration payable	5,940	6,226
Taxes payable	4,606	6,419
Other payables	42,906	52,990
Non-current liabilities due within one year	110,349	48,422
Other current liabilities	2,429	1,448
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Total current liabilities	732,998	1,093,777
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Non-current liabilities:		
Long-term borrowings	353,448	311,281
Lease liabilities	40,942	40,483
Estimated liabilities	506	490
Deferred income	36,493	37,059
Deferred income tax liabilities	5,300	5,633
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Total non-current liabilities	436,689	394,947
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Total liabilities	1,169,687	1,488,724
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Shareholders' equity:		
Share capital	232,381	233,681
Capital reserve	846,834	854,580
Less: Treasury stocks	14,206	23,251
Surplus reserve	45,321	43,387
Undistributed profits	530,362	483,437
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Total equity attributable to shareholders of the parent company	1,640,693	1,591,834
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Total shareholders' equity	1,640,693	1,591,834
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Total liabilities and/or shareholders' equity	2,810,380	3,080,558
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CONSOLIDATED INCOME STATEMENT

		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
I. Operating income	3.4	1,021,432	739,821
II. Operating cost	3.4	778,504	553,389
Taxes and surcharges		9,510	7,745
Selling expenses	3.5	60,732	52,676
Administrative expenses	3.6	101,257	68,815
Research and development expenses		9,247	9,103
Financial expenses	3.7	12,607	23,891
Including: Interest expenses		18,693	27,550
Interest income		6,587	5,470
Add: Other income	3.8	7,082	6,503
Investment income		(3,344)	(12,925)
Gain on derecognition of financial assets measured at amortized cost		(3,344)	(12,925)
Gains from changes in fair value	3.9	9,901	74,263
Impairment losses on credit		297	(1,513)
Impairment loss on assets		(591)	(75,838)
Gains from asset disposal		(575)	313
		<hr/>	<hr/>
III. Operating profit		62,345	15,005
Add: Non-operating income		3,623	9,006
Less: Non-operating expenses		10,841	11,650
		<hr/>	<hr/>
IV. Total profit		55,128	12,361
Less: Income tax expenses		1,594	1,907
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V. Net profit	3.11	53,533	10,453
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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 2021 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 2021, and its consolidated financial performance and financial performance and the consolidated cash flows and cash flows for 2021.

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 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Accounts receivable from affiliates		
Accounts receivable from non-affiliated companies	<u>39,939</u>	<u>42,912</u>
Sub-total	39,939	42,912
Less: Provision for bad debts	<u>958</u>	<u>1,326</u>
Total	<u>38,981</u>	<u>41,586</u>

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

Ageing	31 December 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Within 1 year	38,316	41,052
Including: 0-6 months	37,165	38,021
7-12 months	1,151	3,031
Over 1 year but within 2 years	825	727
Over 2 years but within 3 years	126	208
Over 3 years	<u>673</u>	<u>925</u>
Sub-total	39,939	42,912
Less: Provision for bad debts	<u>958</u>	<u>1,326</u>
Total	<u>38,981</u>	<u>41,586</u>

Ageing is calculated from the date of recognition of accounts receivable.

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

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Balance at the beginning of the year	1,326	878
Provision made during this year	—	449
Provision recovered or reversed during this year	368	—
Written off during this year	—	—
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Balance at the end of the year	958	1,326
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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:

	2021 Number	2020 Number
Calves	2,740	3,550
Heifers	5,748	4,308
Milkable cows	9,085	8,236
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Total	17,573	16,094
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In general, 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	Heifers	Milkable cows	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Closing balance of 2021	<u>36,611</u>	<u>150,301</u>	<u>348,051</u>	<u>534,964</u>

3 Accounts payable

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

	31 December 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year (inclusive)	248,047	203,441
Over 1 year but within 2 years (inclusive)	1,714	9,369
2-3 years (inclusive)	2,665	786
Over 3 years	958	508
Total	<u>253,385</u>	<u>214,105</u>

4 Operating income and costs

Item	2021		2020	
	Income	Costs	Income	Costs
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Principal business	994,128	758,107	722,152	546,384
Other business	27,303	20,396	17,669	7,005
Total	<u>1,021,432</u>	<u>778,504</u>	<u>739,821</u>	<u>553,389</u>

5 Selling expenses

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Staff cost	22,015	25,314
Low cost and short-lived consumable items	13,341	10,627
Travel expenses	2,014	2,207
Promotional fees	9,835	6,893
Rents and property management fees	1,374	1,458
Depreciation and amortization expenses	2,274	2,635
Others	9,879	3,541
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Total	60,732	52,676

6 Administrative expenses

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Staff cost	31,644	20,652
Depreciation and amortization expenses	18,705	9,678
Maintenance fees	16,110	13,923
Professional service fees	6,586	4,410
Afforestation and sewage fees	3,870	3,297
Office expenses	6,069	4,925
Premium for property insurance	1,000	1,353
Utility and heating costs	2,449	1,927
Inspection fees	445	1,286
Share-based incentive expenses	—	(2,418)
Audit fees	2,452	1,811
Business entertainment expenses	1,017	864
Travel expenses	1,835	1,594
Freight and miscellaneous charges	1,733	746
Others	7,341	4,766
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Total	101,257	68,815

7 Financial expenses

Item	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest expenses on loans and payables	26,141	29,620
Including: Interest expenses	29,781	33,670
Interest subsidies for policy-related preferential loans	(3,640)	(4,050)
Less: Capitalized interest expenses	7,448	2,070
Interest income from deposits	6,587	5,470
Net exchange losses/(gains)	10	(8)
Others	491	1,820
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Total	12,607	23,891
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8 Other income

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Related to assets/revenue
Amortization of deferred income	3,436	3,959	Related to assets
Government grants received during the year	3,621	2,443	Related to revenue
Others	25	101	
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Total	7,082	6,503	
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9 Gains from changes in fair value

Source of gains from changes in fair value	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
1. Bearer biological assets	9,901	74,263
Including: Gains on fair value less costs to disposal of bearer biological assets	(8,033)	59,148
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	17,934	15,115
2. Trading financial assets		
Including: Profits and losses arising from the changes in fair value due to contingent considerations		
Total	<u>9,901</u>	<u>74,263</u>

10 Government grants

(1) General information of governmental grants

	2021 RMB'000	Presented item	Amount included in profit or loss of the period RMB'000
Funds under Dairy Development Project of Bureau of Agriculture and Rural Affairs of Jinchuan District of Jincang City	1,000	Deferred income	58
Grants for Resource Utilization of Livestock and Poultry Manure from Liangzhou District Agriculture, Husbandry and Rural Bureaus	120	Deferred income	5
Guide Support Funds of Discount for Civil Trade and Products Loans Granted by Finance Bureau of Yuzhong County	3,640	Financial expenses	3,640
Funds for 2020 Grain-to-feed Program in Animal Husbandry Development Center of Linxia County	2,725	Non-operating income	2,725
2021 Special Funds for the High-quality Development of the Provincial Manufacturing Industry and the Development of the Data and Information Industry	1,000	Other income	1,000
Special Funds for the Vocational Skills Improvement Action of the Employment Service Center of Yuzhong County	806	Other income	806
Award of Enterprise with Outstanding Contribution	500	Other income	500
2021 Lanzhou City Key Talent Project “Selecting the Best Candidates via Open Competition Mechanism” Major Technical Project Fund	450	Other income	450
Subsidies for Semen Freezing	300	Other income	300
Funds for Rewarding, Supplementing and Supporting the Development of Agricultural Industrialization of Agriculture and Rural Bureau of Liangzhou District	115	Other income	115
Subsidies for the New Certification of “Three Products and One Standard” by the Agricultural Products Quality and Safety Supervision Center of Yuzhong County	10	Other income	10
Central Government Agricultural Production Disaster Relief Funds	90	Other income	90
Financial Awards and Subsidies for Enterprise	85	Other income	85
2021 Funds for Rewarding, Supplementing and Supporting Yuzhong County East West Collaborative Consumption	80	Other income	80
Others	184	Other income	184
Total	11,105		10,049

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

	31 December 2020 <i>RMB'000</i>	Increase of grants for the year <i>RMB'000</i>	Amount included in profit or loss for the year <i>RMB'000</i>	Other changes <i>RMB'000</i>	31 December 2021 <i>RMB'000</i>	Related to assets/revenue
Dairy farming project	19,945	1,750	2,256		19,439	Related to assets
Dairy product production project	4,698		417		4,280	Related to assets
Biogas products	3,751		262		3,489	Related to assets
Others	8,666	1,120	501		9,285	Related to assets
Total	37,059	2,870	3,436		36,493	

11 Income tax expenses

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Income tax expenses for the current period calculated based on tax law and relevant regulations	1,823	1,160
Deferred income tax expenses	(229)	747
Total	1,594	1,907

12 Basic earnings per share

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Net profit attributable to ordinary shareholders of the Company	53,533	10,453
Weighted average number of ordinary shares in issue of the Company	232,381	190,681
Basic earnings per share (RMB per share)	0.23	0.05

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

	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Numbers of ordinary shares in issue at the beginning of the year		233,681	190,681
Effect of new shares issued			43,000
Effect of share repurchase		(1,300)	
Weighted average number of ordinary shares at the end of the year		<u>232,381</u>	<u>233,681</u>

13 Segment reporting

Considering the framework of internal organisation, requirements of management and the system of internal reporting, the Group has determined two reportable segments, which are Dairy Farming and Dairy Products Production. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they 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 of 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, income, 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 Farming Segment		Dairy Products Production Segment		Elimination among Segments		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Operating income from external customers	197,802	70,800	823,630	669,021	—	—	1,021,432	739,821
Inter-segment operating income	265,223	213,957	—	—	(265,223)	(213,957)	—	—
Depreciation and amortization expenses	37,923	35,802	38,845	61,415	—	—	76,767	97,217
Interests income	3,364	253	3,223	5,218	—	—	6,587	5,470
Interests expenses	2,676	4,345	16,017	23,205	—	—	18,693	27,550
Total profit/(losses)	<u>8,001</u>	<u>(66,792)</u>	<u>47,126</u>	<u>79,152</u>	<u>—</u>	<u>—</u>	<u>55,128</u>	<u>12,361</u>
Income tax expenses	—	—	1,594	1,907	—	—	1,594	1,907
Net profit/(losses)	<u>8,001</u>	<u>(66,792)</u>	<u>45,532</u>	<u>77,245</u>	<u>—</u>	<u>—</u>	<u>53,533</u>	<u>10,453</u>
Total assets	<u>1,698,403</u>	<u>1,520,434</u>	<u>2,040,301</u>	<u>2,203,694</u>	<u>(928,324)</u>	<u>(643,571)</u>	<u>2,810,380</u>	<u>3,080,558</u>
Total liabilities	<u>1,063,305</u>	<u>893,338</u>	<u>1,034,705</u>	<u>1,238,957</u>	<u>(928,324)</u>	<u>(643,571)</u>	<u>1,169,687</u>	<u>1,488,724</u>
Additions on non-current assets	<u>71,489</u>	<u>154,282</u>	<u>66,362</u>	<u>2,191</u>	<u>—</u>	<u>—</u>	<u>137,851</u>	<u>156,473</u>

14 Dividends

Based on the total share capital of 232,381,032 shares (including 197,251,032 A shares and 35,130,000 H shares) as at the end of 2021, the Company proposed to distribute a cash dividend of RMB0.47 (tax inclusive, the actual distribution amount may vary slightly due to rounding) for every 10 shares, and the total proposed cash dividend will be RMB10,921,908.50. The profit distributed by the Company in cash in 2021 accounted for 20.40% of the distributable profit (and net profit attributable to shareholders of the listed company) realized for the year. In the event of any change in the total share capital of the Company before the equity registration date for equity distribution, the total distribution amount will be kept unchanged and the distribution amount per share will be adjusted in proportion accordingly. In the event of subsequent changes in the total share capital, the Company will make further announcement on specific adjustments.

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 constantly attaches great importance to the revitalisation and development of the dairy industry. On 11 June 2018, the “State Council Office’s Opinions on the Revitalisation of the Dairy Industry and Ensuring the Quality and Safety of Dairy Products” (《國務院辦公廳關於推進奶業振興保障乳品質量安全的意見》) was issued by the State Council. It encourages the implementation of rural revitalization strategies, and to aim at high quality, safe and green development in order to mainly promote supply side structural reform, and also to focus on reducing costs, optimizing structure, improving quality, creating brands, and increasing vitality. Further, it promotes the strengthening standards and norms, scientific and technological innovation, policy support, law enforcement supervision and consumption cultivation, so as to accelerate the setting up of a modern dairy industry system, production system, management system and quality and safety system, continuously improving the quality, efficiency and competitiveness of the dairy industry. Also it vigorously promotes the modernization of the dairy industry and thus the China’s dairy industry would grow bigger and stronger. The No.1 Central Documents for 2019, 2020 and 2021 all mentioned “Implementing the Revitalisation of the Dairy Industry Program”. The “14th Five-Year Plan for Economic and Social Development and Long-Range Objectives through the Year 2035 of the People’s Republic of China” (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) issued on 12 March 2021 clearly stated that “we should secure the supply of important agriculture products such as grain, cotton, oil, sugar, meat and milk”, navigating the remarkable development of China’s dairy industry. On 2 July 2021, the Ministry of Agriculture and Rural Affairs and the Ministry of Finance jointly issued the “Key Policies Toward Boosting Agriculture and Bringing Benefits to Farmers for 2021” (《2021年重點強農惠農政策》), in which “promoting the revitalisation of dairy industry” was explicitly incorporated.

In order to improve the quality and safety of dairy products and promote the high-quality development of dairy products industry, the State Administration for Market Supervision issued the “Action Plan for Improving the Quality and Safety of Dairy Products” (《乳製品品質安全提升行動方案》) at the end of 2020. With the national strict restrictions on the market access of dairy products processing industry and the rectification of existing dairy products processing enterprises, the market concentration of China’s dairy industry will enhance.

Amid the epidemic, the National Health Commission of the PRC issued the Nutritional Dietary Guidelines for the Prevention and Treatment of COVID-19, proposing to “try to ensure that 300 grams of milk and dairy products are consumed per day”, further affirming the importance of dairy products in high quality protein intake, calcium absorption and utilization and immunity enhancement, etc. At the same time, four industry associations including the National Health Industry Enterprise Management Association, the Chinese Nutrition Society, the Dairy Association of China, and the China Dairy Industry Association jointly issued the Guidelines for the Consumption of Milk and Dairy Products for Chinese Residents in order to promote, educate and recommend reasonable diet and daily consumption of dairy products to the residents. At the same time, since the outbreak of COVID-19, consumers’ health awareness has been continuously increased. Dairy products are favored by more consumers as they are healthy and nutritional. The market penetration rate of dairy products has been further increased. The overall consumption scale of dairy products shows a continuous growth trend.

Under the current situation of releasing the potential of domestic demand and constantly improving the new domestic circulation of China, the China’s dairy industry needs to continue to improve in the aspects of high quality development and serving consumers with high quality products. A majority of market shares will be seized by large enterprises with high brand awareness, great strength and remarkable scale benefits. This trend will become more obvious in the future. The nationwide market shares will be highly occupied by the national tier-1 brands and the regional market shares will be highly occupied by regional strong brands.

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 eight dairy farms as at 31 December 2021. Our strategy is to expand the herd size of dairy cows in our self-operated dairy farms and during the reporting period, more than approximately 60% of our raw milk requirement were sourced internally, which enabled 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 have three dairy brands, namely “Zhuangyuan Ranch” (莊園牧場), “Shenghu” (聖湖) and “Dongfang Duoxian Zhuangyuan” (東方多鮮莊園). The Company has fully played to its diversified characteristics of the company brand in recent years, and implemented the strategy of differentiation of products. The Company’s core and characteristic products, namely pasteurized milk, sterilized milk, modified milk and fermented milk have been widely accepted by the local consumers, which was nurtured with high brand loyalty consumer groups. Our products have a certain geographical advantage in Gansu, Qinghai, Shaanxi region, occupying a higher market position and with a certain brand effect. During the reporting period, the Company’s business scope and main business did not change significantly.

Key Financial Ratios

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

	2021	2020
Current ratio ⁽¹⁾	0.86	0.95
Quick ratio ⁽²⁾	0.62	0.85
Return on equity ⁽³⁾	3.31%	0.74%
Return on assets ⁽⁴⁾	1.82%	0.38%
Gearing ratio ⁽⁵⁾	41.62%	48.33%

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 2021 and 2020:

	At 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Dairy cows		
Milkable cows	348,051	338,928
Heifers	150,301	111,986
Calves	36,611	43,778
	<hr/>	<hr/>
Total	534,964	494,691
	<hr/> <hr/>	<hr/> <hr/>

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

	2021	2020
	(Number)	(Number)
Dairy cows		
Milkable cows	9,085	8,236
Heifers	5,748	4,308
Calves	2,740	3,550
	<hr/>	<hr/>
Total	17,573	16,094
	<hr/> <hr/>	<hr/> <hr/>

Diary Farming

- *Milk Production*

Our raw milk production was approximately 84,668 tons (2020: approximately 54,639 tons), representing a year-on-year increase of approximately 54.96%, mainly due to the increase in the number of milkable cows and the improved efficiency of dairy farms through refined management, which increased the proportion of the number of dairy cows with high milk yields.

During the Reporting Year, the average annual milk production per milkable cow was approximately 5.9 tons to 11.09 tons, which remained basically the same as compared with 5.96 tons to 11.39 tons in 2020.

Dairy Products Production

The industrial chain of dairy products manufacturing covers many links which are closely related such as forage, dairy farming, dairy products processing and end sales, and calls for a high degree of integration. With the narrowing of the gap between urban and rural per capita disposable income and consumption expenditure level, consumers pay more attention to healthy meals, and the overall dairy consumption market will continue to grow. In particular, given that consumers are paying more attention to the safety of milk sources, dairy enterprises will become more competitive in terms of milk sources.

As a regional dairy enterprise leader, the Company is supported by its own controllable milk sources as well as fresh and safe product quality. With over 20 years of operation experiences accumulated in the core regional market, the Company is able to take swifter actions and provide local consumers with products that meet their needs. It has established a high brand recognition and long-term emotional bond in the local consumer market and has been widely recognized by consumers. Given its regional brand influence, it has a certain market share in the regions of Gansu, Qinghai and Shaanxi.

In the Year of 2021, relying on stable and reliable milk sources and advanced production and processing technology, the Company consolidated traditional channels and adopted an aggressive sales policy. Meanwhile, on the premise of satisfying the needs of the production of our dairy products, the Company intended to diversify its development by selling its surplus own produced fresh milk from time to time to other dairy manufacturers, and it has sold part of its raw milk during the Reporting Year. In the Year of 2021, the Company achieved operating income of RMB1.02 billion, an increase of 38.06% over the same period of last year; and the net profit was RMB53.533 million, an increase of 412.11% over the same period of last year. As of the end of December 2021, the Company had total assets of RMB2.81 billion, net assets of RMB1.64 billion and asset-liability ratio of 41.62%.

In 2021, the “reconstruction and expansion project with daily processing 600 tons of liquid milk” project of the Company (production line number: CEMA-N032PL01) won the title of National “Quality Milk Engineering Demonstration Factory” (優質乳工程示範工廠) at the end of June 2021. Ninxia Ruiyuan Pasture Co., Ltd. (臨夏縣瑞園牧場有限公司) (Pasture No.: CEMA-N032DF001), Lanzhou Ruixing Animal Husbandry Co., Ltd. (蘭州瑞興牧業有限公司) (Pasture No.: CEMA-N032DF003) and Gansu Ruijia Animal Husbandry Co., Ltd. (甘肅瑞嘉牧業有限公司) (Pasture No.: CEMA-N032DF004), which are wholly-owned subsidiaries of the Company, were awarded the national title of “Demonstration Pasture for High Quality Milk Engineering”, respectively.

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

In 2021, the recurring waves of COVID-19 caused not only a material negative impact on daily travelling, work and daily life as well as consumption and shopping of residents, but also an adverse impact on the low-temperature distribution of products to the door and the sales planning of the Company. For example, during the epidemic prevention and control period, the travel of community residents was reduced while the logistics and distribution were restricted, which forced the Company to suspend its low-temperature distribution of products to the door from time to time in compliance with epidemic prevention measures, and hence to adjust its production plan and sales plan, causing an adverse impact on its production and operation.

- *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 2021, we had entered into distribution agreements with 693 distributors and sales agents, as compared to 743 distributors and sales agents as at 31 December 2020. 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 2021. 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 RMB8,607 per tonne in 2020 to RMB7,931 per tonne in 2021.

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 (Hygiene Specifications for Factory Environment, Hygiene Specifications for Production and Processing, Hygiene Specifications for Workshops and Facilities, Hygiene Specifications for Personnel, Hygiene Specifications for Raw and Auxiliary Materials, Hygiene Specifications for Toxic and Hazardous Substances, Hygiene Specifications for Packaging, Storage and Transportation, Hygiene Specifications for Inspection, Hygiene Specifications for Pest 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

Adhering to the tenet of “Offering Excellent Quality and Creating a Brand of the Times”, the Company offers products in dozens of varieties under the series of “Zhuangyuan Ranch” (莊園牧場), “Shenghu” (聖湖) and “Dongfang Duoxian Zhuangyuan” (東方多鮮莊園), including pasteurised milk, sterilised milk, modified milk, fermented milk and milk-containing beverages, etc., in order to meet the needs of different consumer groups. As the star product of the Company, “Manor Concentrated Milk” was selected as the most influential product brand in Gansu Province in 2021.

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 over 60% of our own farm’s supply of raw milk a stable supply of raw milk from our suppliers with whom we have developed good relationship over the years.

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 2021 and 2020:

	2021			2020		
	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne	Sales Amount RMB'000	Sales Volume Tonne	Average Selling Price RMB/Tonne
Liquid Milk Products						
Pasteurised milk	82,529	9,802	8,420	60,218	7,673	7,848
UHT milk	320,379	43,196	7,417	209,178	29,714	7,040
Modified milk	320,516	35,527	9,022	267,311	29,716	8,995
Yogurt	153,413	12,810	11,976	177,581	15,392	11,537
Subtotal	876,837	101,335	8,653	714,287	82,495	8,659
Milk Beverage	5,336	965	5,532	7,450	1,396	5,338
Other Dairy Products	1,048	38	27,314	415	10	42,229
Raw milk	110,908	23,002	4,822	—	—	—
Total	994,128	125,339	7,931	722,152	83,901	8,607

Our income from principal activities increased by approximately 37.66% from approximately RMB722.2 million for the year ended 31 December 2020 to approximately RMB994.1 million for the year ended 31 December 2021, mainly due to the fact that the Group consolidated traditional channels and adopted an aggressive sales policy in 2021. Meanwhile, on the premise of satisfying the needs of the production of our dairy products, the Company intended to diversify its development by selling its surplus own produced fresh milk from time to time to other dairy manufacturers, and it has sold part of its raw milk during the Reporting Year. The Company's performance in 2021 improved significantly as compared to 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:

Products	2021			2020		
	Cost of Sales <i>RMB'000</i>	Gross Profit <i>RMB'000</i>	Gross Profit Margin %	Cost of Sales <i>RMB'000</i>	Gross Profit <i>RMB'000</i>	Gross Profit Margin %
Liquid milk products						
Pasteurised milk	56,505	26,024	31.53%	41,838	18,380	30.52%
UHT milk	291,331	29,048	9.07%	170,097	39,081	18.68%
Modified milk	238,520	81,995	25.58%	198,490	68,821	25.75%
Yogurt	110,582	42,831	27.92%	129,750	47,831	26.93%
Sub-total	696,939	179,898	20.52%	540,176	174,111	24.38%
Milk beverage	4,293	1,042	19.54%	5,920	1,530	20.54%
Other dairy products	1,520	(472)	(45.06%)	288	126	30.48%
Raw milk	55,355	55,553	50.09%	—	—	—
Total	758,107	236,021	23.74%	546,384	175,768	24.34%

Our total gross profit margin of our dairy products after taking into account biological asset fair value adjustments was approximately 24.34% for the year ended 31 December 2020 and approximately 23.74% for the year ended 31 December 2021. The overall gross margin during the Reporting Year decreased as compared to the previous year due to the slight decrease in gross profit resulting from the more aggressive sales policy of the Company to promote sales.

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

Our gain arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest increased from approximately RMB15.1 million for the year ended 31 December 2020 to approximately RMB17.9 million for the year ended 31 December 2021. The increase during the Reporting Year was primarily due to the increase in the price of raw milk as compared with the corresponding period of last year.

Other income

Other income mainly includes amortisation of deferred income and government grants received in the current period. Government grants are generally obtained from our agricultural activities. For the years ended 31 December 2021 and 2020, other income recognised by us amounted to approximately RMB7.1 million and approximately RMB6.5 million, respectively.

Qualification and independence of the valuers

Beijing Yatai Lianhua Assets Appraisal Co. Ltd. (“**Beijing Yatai Lianhua**”) was established in 1993 certified with the Licensed Certification for Appraisals in relation to Securities and Futures (《證券期貨相關業務評估資格》) jointly issued by the MOF and the CSRC. It possesses qualifications in the valuation of properties and land. Given the need of the Company for the preparation of financial statements for the year ended 31 December 2021, the Company engaged Beijing Yatai Lianhua to perform a valuation on the biological assets intended to be carried at fair value that are reported by seven wholly-owned subsidiaries and a wholly-owned sub-subsidiary under the Company, being Lanzhou Ruixing Farming Co., Ltd., Wuwei Ruida Pasture Co., Ltd., Qinghai Shengya Plateau Pasture Co., Ltd., Gansu Ruijia Animal Husbandry Co., Ltd., Linxia Ruiyuan Pasture Co., Ltd., Linxia County Ruian Pasture Co., Ltd., Yuzhong Ruifeng Pasture Co., Ltd. and Shaanxi Duoxian Animal Husbandry Co., Ltd.

Beijing Yatai Lianhua is a firm of independent qualified professional valuer. The asset valuation report was prepared in accordance with the Asset Evaluation Standards — Basic Standards (《資產評估基本準則》) issued by the MOF and the Asset Valuation Professional Ethical Standards (《資產評估職業道德準則》) issued by the China Appraisal Society. Beijing Yatai Lianhua, the party engaged in the valuation and preparation of the valuation results does not hold any interests in the Company or our related parties. The appointment of the valuer for the performance of valuation by the Company is based on the requirements under laws and regulations such as the Asset Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》), the Civil Code of the People’s Republic of China (《中華人民共和國民法典》), the Asset Evaluation Basic Standards (《資產評估基本準則》) and the Practicing Standards for Asset Valuation — Asset Valuation Engagement Contracts (《資產評估執業準則—資產評估委託合同》). The valuer of Beijing Yatai Lianhua obtained the appraisal results in accordance with the relevant PRC regulations on valuing assets and the principles of independence, objectiveness, fairness and science. Payment of valuation fees is not contingent upon the conclusion drawn in the valuation results.

The key members of Beijing Yatai Lianhua engaged in this valuation were Mr. Wang Ming and Ms. Chen Ying. Mr. Wang Ming is the deputy head and asset appraiser of Beijing Yatai Lianhua, and Ms. Chen Ying is the project manager and asset appraiser of Beijing Yatai Lianhua. They have provided valuation services in relation to the conversion, listing, transfer of equity interest, etc., to numerous companies in Mainland China and have extensive experience in asset appraisal.

Operating expenses

	Years ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Selling and administrative expenses	60,732	52,676
General and administration expenses	101,257	68,815
Total operating expenses	<u>161,990</u>	<u>121,491</u>

Operating expenses increased from approximately RMB121.5 million for the year ended 31 December 2020 to approximately RMB162.0 million for the year ended 31 December 2021.

The increase in selling and distribution expenses during the Reporting Year was mainly due to the fact that in the Reporting Year, compared with the year ended 31 December 2020, the dairy product consumption market fully recovered, and the sales expenses of the Company have increased with the increase of sales volume.

The increase in administration expenses was mainly due to the increase in staff costs, depreciation and amortisation expenses of the Company as compared with the corresponding period last year.

Financial expenses

Our net finance costs decreased by approximately 47.23% from approximately RMB23.9 million for the year ended 31 December 2020 to approximately RMB12.6 million for the year ended 31 December 2021, mainly due to the decrease in the amount of loans and lending rates as compared with the year ended 31 December 2020.

Current ratio

As at 31 December 2021, our current ratio (current assets/current liabilities) was approximately 0.86 compared to approximately 0.95 as at 31 December 2020.

Liquidity and capital resources

During the Reporting Year, we financed our operations primarily through net cash inflows from our daily operations. As at 31 December 2021, we had approximately RMB362.9 million in cash and cash equivalents, which was mainly denominated in RMB and primarily consisted of cash on hand and bank deposits.

Capital expenditures

We had capital expenditures of approximately RMB374.9 million and approximately RMB409.8 million for the years ended 31 December 2021 and 2020, respectively, which were primarily used in purchasing property, plant and equipment, and procuring dairy cows.

Working capital

As at 31 December 2021, we had net current assets of approximately RMB(99.6) million (31 December 2020: net current assets of approximately RMB(52.3) million).

Indebtedness

During the Reporting Year, our borrowings were denominated in RMB. As at 31 December 2021, our outstanding short-term bank loans, including long-term loans due within one year, amounted to approximately RMB319.7 million at interest rates ranging from 4.00% to 6.09% per annum. As at 31 December 2021, our outstanding long-term bank loans, net of amount due within one year, amounted to approximately RMB353.5 million at interest rates ranging from 4.10% to 5.70% per annum.

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

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

Asset-liability ratio

As at 31 December 2021, our asset-liability ratio was approximately 41.62% (the ratio of total liabilities to assets) compared to approximately 48.33% as at 31 December 2020.

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 2021, 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 2021, the book value of our restricted assets was approximately RMB227.2 million (31 December 2020: approximately RMB787.4 million). The types and book value of the restricted assets were as follows: (1) monetary capital of approximately RMB40.0 million (31 December 2020: approximately RMB215.2 million); (2) fixed assets of approximately RMB110.6 million (31 December 2020: approximately RMB454.8 million); (3) intangible assets of approximately RMB76.6 million (31 December 2020: approximately RMB82.2 million).

Contingent liabilities

As at 31 December 2021, we did not have significant contingent liabilities.

Capital Structure

Save as disclosed in paragraph headed "PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY" 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 utilisation 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 realised 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.

The completion and acceptance work for the “reconstruction and expansion project with daily processing 600 tons of liquid milk” has been completed during the year ended 31 December 2020, 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 staff costs; improve production standards and strengthen product quality control; and integrate the Group’s production resources for long-term development.

Currently, the Company is a professional dairy production enterprise integrating dairy farming, technology research and development, dairy processing and sales, and has formed a whole industrial chain management mode in which we process and sell liquid milk products with milk source from our own pasture as the main raw milk. The reliability of raw milk quality has been highly valued by the industry and consumers, and has become an important embodiment of our core competitiveness in the industry. In order to further strengthen the control of product quality at source, the Company invested in the construction of “Recycling Industrial Park Project of a Dairy Farm with 10,000 Dairy Cows in Jinchuan District” (金川區萬頭奶牛養殖循環產業園項目) in Shuangwan Town, Jinchuan District, Jinchang City, Gansu Province from 2019. As of 31 December 2021, the Company has made aggregate investments of approximately RMB312.9 million (31 December 2020: approximately RMB218.5 million) in the project, accounting for 11.14% (31 December 2020: approximately 7.09%) of its total assets of approximately RMB2,810.4 million (31 December 2020: approximately RMB3,080.6 million) as at 31 December 2021.

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 2021.

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

As at 31 December 2021, the Company had no future plans for material investments or capital assets.

Human Resources

We had 1,401 employees in Mainland China and Hong Kong as at 31 December 2021 (31 December 2020: 1,268 employees). During the Reporting Period, total staff costs, including the portion accounted for in the profit and loss statement and capitalised to assets but excluding independent non-executive directors' fees, were approximately RMB94.2 million (year ended 31 December 2020: approximately RMB71.1 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 3,341,000 restricted shares to the 84 incentive targets after adjustments"; "Application Materials for Completion of Registration of Equity Incentive Grant" was submitted to Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited on 27 June 2019; the registration of restricted shares grant was completed on 12 July 2019. The Resolution on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme was considered and approved at the Board meeting and general meeting convened by the Company on 15 January 2021 and 18 March 2021 respectively due to the Company's performance assessment failed to meet the releasing conditions in the First Release of Locked Period under the Restricted Shares Incentive Scheme, allowing the Company to repurchase and cancel a total of 874,728 Restricted Shares held by 77 Incentive Participants involved, and also allowing the Company to repurchase and cancel all of the 424,840 Restricted Shares granted but restrictions not yet released from the 7 Incentive Participants who have resigned. The procedures for the repurchase and cancellation of Restricted Shares were completed on 16 June 2021.

Corporate Social Responsibility

We believe that social responsibility is the foundation for the development of an enterprise. We will continue to give back to the society mainly by taking part in consolidating and expanding the achievements of poverty alleviation and comprehensively promoting rural revitalisation and social welfare activities, so as 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 to trigger research and development in order to satisfy consumption demands under different scenarios and maintain 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 2021

Continuing Connected Transaction — Raw Milk Purchase Agreement

On 18 January 2022, the Company (for itself and on behalf of its subsidiaries) entered into a raw milk purchase agreement (the “**Raw Milk Purchase Agreement**”) with Tianmu Dairy in relation to the possible purchase of raw milk from Tianmu Dairy for the period from 18 January 2022 to 31 December 2022.

The annual cap for the price payable by the Group to Tianmu Dairy for purchase of raw milk under the Raw Milk Purchase Agreement for the year ending 31 December 2022 is RMB200,000,000. In determining the annual purchase cap under the Raw Milk Purchase Agreement, the Directors have considered generally: (a) the historical amount of the purchase of raw milk; (b) the prevailing market price of the raw milk; and (c) the anticipated market demand of the Group on the raw milk during the term of the Raw Milk Purchase Agreement for the year ending 31 December 2022.

As a substantial Shareholder, Gansu Nongken Asset has accorded priority to fulfill the demand for quality raw milk from the Group. Since the completion of the expansion project for processing 600 tons of liquid milk per day of the Company pursuant to the Company’s announcement dated 15 May 2020, the production capacity of the Group’s milk products has increased and the demand for raw milk has increased accordingly. Nonetheless, the Group’s main source of raw milk has not provided sufficient supply. As such, taking into account the Group’s future business plans, the Group aims to procure raw milk from Tianmu Dairy, which is a relatively larger and more experienced raw milk supplier. As a result, the supply of raw milk will be more stable and the quality will be more assured.

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 Raw Milk Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual purchase cap under the Raw Milk Purchase Agreement exceeds 5%, the continuing connected transactions contemplated under the Raw Milk Purchase Agreement are subject to the reporting, announcement and the Independent Shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

The Raw Milk Purchase Agreement has been approved by the Shareholders at the extraordinary general meeting of the Company held on 25 February 2022.

Details of the entering into the Raw Milk Purchase Agreement are set out in the announcement of the Company dated 18 January 2022, and the circular of the Company dated 10 February 2022.

Continuing Connected Transaction — Silage and Wheatgrass Purchase Agreements

On 18 January 2022, the Company (for itself and on behalf of its subsidiaries) entered into a set of silage and wheatgrass purchase agreements (the “**Silage and Wheatgrass Purchase Agreements**”) with Nongken Jinchang in relation to the possible purchase of silage and wheatgrass from Nongken Jinchang for the period from 18 January 2022 to 31 December 2022.

The annual cap for the price payable by the Group to Nongken Jinchang for purchase of silage and wheatgrass under the Silage and Wheatgrass Purchase Agreements for the year ending 31 December 2022 is RMB30,000,000. In determining the annual purchase cap under the Silage and Wheatgrass Purchase Agreements, the Directors have considered generally: (a) the historical amount of the purchase of silage and wheatgrass from Nongken Jinchang and the Group’s other suppliers; (b) the prevailing market price of the silage and wheatgrass; and (c) the anticipated market demand of the Group on silage and wheatgrass during the term of the Silage and Wheatgrass Purchase Agreements for the year ending 31 December 2022. Such quantity is expected to be approximately 40,000 tonne to 42,000 tonne (in respect of silage) and approximately 800 tonne (in respect of wheatgrass).

Gansu Nongken Group and its subsidiaries have abundant agricultural resources. In particular, the procurement of silage and wheatgrass from Nongken Jinchang, a subsidiary of Gansu Nongken Group, fulfills the Group’s demand for silage and wheatgrass, which is one of the main raw materials for the Group’s production. Procuring from Nongken Jinchang would provide a stable source of silage and wheatgrass for the Group.

Nongken Jinchang is a wholly owned subsidiary of Gansu Nongken Group. Gansu Nongken Group is the Controlling Shareholder (as defined under the Listing Rules) and is interested in 68,826,365 A Shares, representing approximately 34.89% and 29.62% of (i) the total issued A Shares; and (ii) the total issued A Shares and H Shares, respectively. Accordingly, Nongken Jinchang is an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Silage and Wheatgrass Purchase Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual purchase cap under the Silage and Wheatgrass Purchase Agreements exceeds 0.1% but less than 5%, the continuing connected transactions contemplated under the Silage and Wheatgrass Purchase Agreements are subject to the reporting, announcement and annual review requirements but exempted from circular (including independent financial advice) and independent Shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

Details of the entering into the Silage and Wheatgrass Purchase Agreements are set out in the announcement of the Company dated 18 January 2022.

Continuing Connected Transaction — Dairy Products Sales Agreement

On 18 January 2022, the Company (for itself and on behalf of its subsidiaries) entered into a dairy products sales agreement (the “**Dairy Products Sales Agreement**”) with Gansu Nongken Group in relation to the possible sales of dairy products from the Group to Gansu Nongken Group for the period from 18 January 2022 to 31 December 2022.

The annual cap for the price payable by Gansu Nongken Group to the Group for purchase of dairy products under the Dairy Products Sales Agreement for the year ending 31 December 2022 is RMB5,000,000. In determining the annual cap under the Dairy Products Sales Agreement, the Directors have considered generally: (a) the historical amount of sales of dairy products to the Group’s other customers; (b) the prevailing market price of dairy products; and (c) the anticipated market supply of dairy products during the term of the Dairy Products Sales Agreement for the year ending 31 December 2022.

Gansu Nongken Group requires dairy products including but not limited to pasteurized milk, sterilized milk, modified milk and fermented milk for daily consumption by its employees and customers and the Group’s dairy products represent a near source of quality supply. The transactions contemplated under the Dairy Products Sales Agreement will contribute to the business of the Group by providing a stable source of revenue.

Gansu Nongken Group is the Controlling Shareholder (as defined under the Listing Rules) and is interested in 68,826,365 A Shares, representing approximately 34.89% and 29.62% of (i) the total issued A Shares; and (ii) the total issued A Shares and H Shares, respectively. Accordingly, Gansu Nongken Group is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Dairy Products Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual purchase cap under the Dairy Products Sales Agreement exceeds 0.1% but less than 5%, the continuing connected transactions contemplated under the Dairy Products Sales Agreement are subject to the reporting, announcement and annual review requirements but exempted from circular (including independent financial advice) and independent Shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

Details of the entering into the Dairy Products Sales Agreement are set out in the announcement of the Company dated 18 January 2022.

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 (the “**CG Code**”) 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 2021, except the following deviation.

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

Mr. Ma Hongfu (“**Mr. Ma**”) held the position of the chairman of the Board and the general manager of the Company, a position equivalent to a chief executive in the PRC, until 29 June 2021. This deviates from code provision C.2.1 of the CG Code as set out in Appendix 14 of the Listing Rules which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

The Board believed the vesting of the roles of both the chairman of the Board and the general manager of the Company in the same person can help to maintain the continuity of the policies and the stability of the operations of the Company.

The Company has been in compliance with code provision C.2.1 of the CG Code when Mr. Ma Hongfu ceased to act as the chairman of the Board and Mr. Yao Gexian was appointed as the chairman of the Board on 29 June 2021.

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 2021, save and except as follows:

As disclosed in the overseas regulatory announcement of the Company dated 12 March 2021, the shareholder Mr. Ma pledged (the “**Share Pledge**”) 30,000,000 of his A shares to Gansu Jinkong Investment Co. Ltd. (甘肅金控投資有限公司, “**Gansu Jinkong**”) for the purpose of third party financing guarantee.

The Board is aware that as at the date of the Share Pledge (i.e. 2 March 2021), the Directors were under the Company’s black-out period under Provision A.3(a)(i) of Appendix 10 to the Listing Rules. In addition, it is noted that the Share Pledge was not done under exceptional circumstances. Hence, the Board considers that Mr. Ma, albeit inadvertently, did not comply with the dealing prohibition as the Share Pledge occurred during the black-out period.

The Company has taken, amongst others, the following remedial actions to improve its internal control system to ensure compliance of the Model Code by the Company and its directors and supervisors and prevent similar incidents in the future:

- (1) reminding all directors and supervisors of their obligations in relation to dealings in securities as set out in the securities dealing code adopted by the Company (following the Model Code);
- (2) recommending all directors and supervisors to circulate a set of comprehensive training materials;
- (3) circulating the template of a notification letter which would be required to be submitted by the director and supervisor to the Company at least 5 working days before any proposed dealing of the securities of the Company; and
- (4) planning to organise training sessions in the near future for all directors and senior management of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 18 March 2021, the Company convened the first extraordinary general meeting in 2021, at which the Proposal on the Repurchase and Cancellation of All Restricted Shares in the First Release of Locked Period under the 2019 Restricted Shares Incentive Scheme was considered and approved, allowing the Company to repurchase and cancel a total of 874,728 Restricted Shares held by 77 Incentive Participants involved in the First Release of Locked Period due to the Company's performance assessment failed to meet the requirements under the Restricted Shares Incentive Scheme, and allowing the Company to repurchase and cancel 424,840 Restricted Shares granted but restrictions not yet released from the 7 Incentive Participants who have resigned.

During the Reporting Year, 1,299,568 A Shares were repurchased on the Shenzhen Stock Exchange and subsequently cancelled by the Company. The summary details of the repurchases are as follows:

Month	Number of A Shares repurchased	Price per A Share		Total price paid (RMB)
		Highest (RMB)	Lowest (RMB)	
June 2021	<u>1,299,568</u>	6.84	6.84	<u>9,044,993.28</u>
Total	<u><u>1,299,568</u></u>			<u><u>9,044,993.28</u></u>

The total amount of RMB9,044,993.28 of the repurchase was paid wholly out of self-owned funds and 1,299,568 repurchased A Shares were cancelled during the Reporting Year.

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

MATERIAL LITIGATION AND ARBITRATION PROCEEDINGS

1. On 13 February 2018, according to the Notice on the Closing and Relocation of Livestock Farms in the Livestock and Poultry Prohibited Area (《關於畜禽禁養區內養殖場關閉搬遷的通告》) issued by the People's Government of Litong District of Wuzhong City, Ningxia Zhuangyuan Pasture Co., Ltd. a wholly-owned subsidiary of the Company, was listed as the livestock farms planned to be closed and relocated, and the Company responded positively to the government's work arrangement and carried out the closure work. The Company has been actively negotiating compensation matters with the Litong District People's Government, but has not yet signed a compensation agreement with the People's Government of Litong District. The Company filed a lawsuit with the Intermediate People's Court of Wuzhong City and requested the People's Court to order the People's Government of Litong District of Wuzhong City to fulfil statutory obligations in accordance with the requirements of Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and make compensation for the loss caused by the closure and relocation of the Company's farms. Ningxia Manor received the administrative judgment issued by Wuzhong Intermediate People's Court of Ningxia Hui Autonomous Region in early August 2020 ((2020) Ning 03 Xing Chu No. 6). Wuzhong Intermediate People's Court of Ningxia Hui Autonomous Region held that, because the request for administrative compensation claimed by the plaintiff Ningxia Zhuangyuan Pasture Co., Ltd. (寧夏莊園牧場有限公司) is still subject to investigation and discretion by the people's government of Litong District, Wuzhong in order to determine the scope, standard and amount of compensation, the people's government of Litong District, Wuzhong City should handle the application for compensation for the closure and relocation submitted by the plaintiff Ningxia Zhuangyuan Pasture Co., Ltd. (寧夏莊園牧場有限公司). As of the date of this announcement, the parties are still in negotiation in respect of the specific amount of compensation.
2. On 25 July 2017, according to the notice on the Plan for Delineation of the Prohibited Area and Restricted Area of Livestock and Poultry in Xining City (Trial) (Ningzhengban 2017 No. 143) (《西寧市畜禽養殖禁養區限養區劃定方案(試行)》) issued by the General Office of the People's Government of Xining City, Qinghai Shengyuan Plateau Pasture Co., Ltd. a subsidiary of the Company, was included in the scope of the prohibited area. The Company respected environmental protection work arrangements and responded actively to close the relevant farm. The Company has requested the People's Government of Huangyuan County of Xining City to compensate for the relocation losses but has not yet received any response. Therefore, the Company submitted an administrative complaint to the Intermediate People's Court of Xining City in Qinghai Province in accordance with the requirements of Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》) and the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》), requesting the People's Government of Huangyuan County of Xining City to make compensation. Qinghai Shengyuan had received the Administrative Judgment ((2020) Qing 01 Xing Chu No. 16) served by the Intermediate People's Court of Xining City, Qinghai

Province at beginning of September 2020. The Intermediate People’s Court of Xining City, Qinghai Province held that the request for administrative compensation raised by the plaintiff Qinghai Shengyuan Pasture Co., Ltd. (青海聖源牧場有限公司) was still subject to investigation and assessment by the people’s government of the defendant Huangyuan County People’s Government of Xining City to determine the scope, standard and amount of compensation, therefore, the defendant Huangyuan County People’s Government of Xining City should handle the application for compensation for the closure and relocation submitted by the plaintiff Qinghai Shengyuan Ranch Co., Ltd.. After the judgment was made in the first instance, on 30 November 2020, the People’s Government of Huangyuan County sent the Reply Letter from the People’s Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. (Yuan Zheng Han 2020 No. 27) to the Qinghai Shengyuan Pasture Co., Ltd., and decided to grant land transfer fees of RMB498,000.00 to 80 households in Chihan Village, Dahua Town in 2019 and 2020 after the closure of the pasture of Shengyuan Pasture. In accordance with the Regulations on Expropriation and Compensation of Houses on State-owned Land (《國有土地上房屋徵收與補償條例》) and the Article 25 of the Regulations on the Prevention and Control of Pollution Caused by Scale Livestock and Poultry (《畜禽規模養殖污染防治條例》), the plaintiff Qinghai Shengyuan Pasture suffered from economic losses due to policy relocation, and the defendant Huangyuan County People’s Government of Xining City should compensate Qinghai Shengyuan Pasture according to the laws. However, the defendant Huangyuan County People’s Government of Xining City did not make substantive compensation plans or opinions on the losses incurred by the plaintiff Qinghai Shengyuan Pasture due to policy relocation, and its reply neither conformed to the objective fact that the plaintiff Qinghai Shengyuan Pasture suffered from huge economic losses due to policy relocation, nor conformed to the legal provisions. In order to safeguard the legitimate rights and interests of the Company and all shareholders, Qinghai Shengyuan Pasture submitted an administrative complaint to Xining Intermediate People’s Court of Qinghai Province on 18 February 2021. Qinghai Shengyuan Pasture received a court summons issued by Xining Intermediate People’s Court of Qinghai Province on 2 July 2021 on the administrative compensation case of Qinghai Shengyuan Pasture suing Huangyuan County People’s Government of Xining City. The summons informed that Qinghai Shengyuan Pasture sued Huangyuan County People’s Government of Xining City for administrative compensation, and a court hearing will be on 21 July 2021. After that, Qinghai Shengyuan Pasture received the notice of temporary change of hearing date from Xining Intermediate People’s Court on 20 July 2021, and the trial date for the case in which Qinghai Shengyuan Ranch sued Huangyuan County People’s Government of Xining for administrative compensation was changed to 3 August 2021. The above-mentioned case was heard normally on 3 August 2021.

Qinghai Shengyuan Pasture received the Administrative Judgement ([2021] Qing 01 Xingchu No. 27) issued by the Xining City Intermediate People’s Court of Qinghai Province on 16 November 2021. The main points of view of the Xining City Intermediate People’s Court of Qinghai Province as set out in the “Opinions of our Court” section of the judgement are as follows: (1) the litigation claim lodged by Qinghai Shengyuan Pasture for revoking the Reply Letter from the People’s Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. issued by the defendant, the People’s Government of Huangyuan County of Xining City, on 30 November 2020 (the “**Reply Letter**”) is established due to the lack of primary evidence for the Reply Letter and the fact that the defendant did not issue a comprehensive and complete response on the application for compensation made by the plaintiff, Qinghai Shengyuan Pasture, which was a significant irregularity, despite the fact that the defendant fulfilled its responsibilities with respect to the application for compensation made by the plaintiff by way of a reply letter pursuant to the Effective Judgement ([2020] Qing 01 Xingchu No. 16) by the Xining City Intermediate People’s Court. (2) The Xining City Intermediate People’s Court has taken into account that the closing and relocation plan of the government concerned did not specify the specific compensation scope and standards for reference. Moreover, during the trial at the Xining City Intermediate People’s Court, the plaintiff and the defendant were still willing to resolve the dispute on their own by way of negotiation, and from the perspective of resolving the dispute in substance, reducing the burden of litigation on both parties and saving national judicial and administrative resources, the defendant, the People’s Government of Huangyuan County of Xining City, should make a new decision on compensation based on the principle of making prompt and comprehensive compensation. Based on the above points of view, the Xining City Intermediate People’s Court made the following judgement in accordance with the requirements of Article 70 (1) and (2) of the Administrative Procedure Law of the People’s Republic of China and Article 91 of the Interpretation of the Supreme People’s Court on the Application of the Administrative Procedure Law of the People’s Republic of China: (1) to revoke the Reply Letter from the People’s Government of Huangyuan County on the Closing and Relocation of Qinghai Shengyuan Pasture Co., Ltd. issued by the defendant, the People’s Government of Huangyuan County of Xining City, on 30 November 2020; (2) to order the defendant, the People’s Government of Huangyuan County of Xining City, to make a new decision on compensation for the plaintiff, Qinghai Shengyuan Pasture Co., Ltd., within 60 days from the date on which the judgement takes effect.

For the dispute between Qinghai Shengyuan Pasture and the People’s Government of Huangyuan County of Xining City regarding the administrative compensation, as Qinghai Shengyuan Pasture was not satisfied with the Administrative Judgement ([2021] Qing 01 Xingchu No. 27) by the Xining City Intermediate People’s Court of Qinghai Province, Qinghai Shengyuan Pasture submitted an administrative appeal to the Higher People’s Court of Qinghai Province on 2 December 2021 to safeguard the legitimate rights and interests of the Company and all shareholders. Qinghai Shengyuan Pasture received the Administrative Judgement ([2021] Qingxingzhong No. 110) issued by the Higher People’s Court of Qinghai Province on 25 February 2022. The main points of view of the Higher People’s Court of Qinghai Province as set out in the “Opinions of our Court” section of the judgement are as follows: despite the fact that the appellee, the People’s Government of Huangyuan County of Xining City, issued a reply letter concerning the appeal pursuant to the effective judgement by the Xining City Intermediate People’s Court, which involved paying the appellant, Qinghai Shengyuan Pasture, the relevant land transfer fees after the closure, it did not define and clarify the scope of the economic loss suffered by the appellant resulting from the closure or relocation of Qinghai Shengyuan Pasture due to being designated as a no-breeding area for policy reasons, the basis for compensation and the amount of compensation, etc., neither from the perspective of the format or the substance of the reply letter. At the same time, it has also been taken into account the fact that the relocation of the farms (communities) on both sides of the Huangshui River by the People’s Government of Xining City is mainly to guide the relocation of farms to the new site, to strive for the key support of the national, provincial and municipal projects, or to encourage the conversion of production, and to provide relevant policy support, but no specific compensation methods and standards for monetary compensation are specified. The appellee, the People’s Government of Huangyuan County of Xining City, still has the “discretion” to deal with the compensation rights and interests of the appellant, Qinghai Shengyuan Pasture. It was not inappropriate for the court of first instance, the Xining City Intermediate People’s Court, to rule that the appellee, the People’s Government of Huangyuan County of Xining City, shall make a new decision on compensation within a time limit based on the above. The appellee, the People’s Government of Huangyuan County of Xining City, should further investigate the fact of the loss suffered by the appellant, Qinghai Shengyuan Pasture, determine the compensation method and scope as soon as possible, and clarify the basis for and the amount of compensation, so that the legitimate rights and interests of the appellant, Qinghai Shengyuan Pasture, are safeguarded. Based on the above, the court of first instance, the Xining City Intermediate People’s Court, found the fact clearly and applied the law properly, which should be upheld in accordance with the law. The appeal filed by the appellant, Qinghai Shengyuan Pasture, cannot be established. Based on the above points of view, the Higher People’s Court of Qinghai Province made the following judgement in accordance with the requirements of Article 89 (1) (1) of the Administrative Procedure Law of the People’s Republic of China: the appeal was dismissed and the original judgement was upheld.

SHARE OPTION SCHEME

There was no share option scheme (pursuant to Chapter 17 of the Listing Rules) 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 third session of the Audit Committee for the period 1 January 2021 to 29 June 2021 comprised three independent non-executive directors, namely Ms. Liu Zhijun, Mr. Zhao Xinmin and Mr. Wong Cho Hang Stanley, and Ms. Liu Zhijun was the chairman of the Audit Committee. The fourth session of the Audit Committee with effect from 29 June 2021 comprises three independent non-executive directors, namely Mr. Wang Haipeng, Mr. Zhang Yubao and Mr. Sun Jian, and Mr. Wang Haipeng 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 2021.

DIVIDEND

The Board has resolved to recommend the payment of final dividend of RMB4.70 cents per share (including tax) for the year ended 31 December 2021 (for the year ended 31 December 2020: RMB2.00 cents per share). The total dividend amounted to approximately RMB10.9 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 2021 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 2021.

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 2021 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.*
Yao Gexian
Chairman

Lanzhou, the PRC, 30 March 2022

As at the date of this announcement, the non-independent directors of the Company are Mr. Yao Gexian, Mr. Lian Enzhong, Mr. Zhang Yu, Mr. Yang Yi, Mr. Ma Hongfu and Ms. Zhang Qianyu; and the independent directors of the Company are Mr. Wang Haipeng, Mr. Zhang Yubao and Mr. Sun Jian.

* *For identification purpose only*