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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)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus (the “**Prospectus**”) dated 30 September 2015 published by Lanzhou Zhuangyuan Pasture Co., Ltd.* (蘭州莊園牧場股份有限公司) (the “**Company**”, which together with its subsidiaries are referred to as the “**Group**”) in relation to the Global Offering and the interim report of the Company for the six months ended 30 June 2016 (the “**Interim Report**”). Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the context otherwise requires.

The H Shares of the Company were listed on the Main Board of the Stock Exchange on 15 October 2015. The net proceeds of the Global Offering (the “**Net Proceeds**”) amounted to approximately RMB116.0 million, after deduction of the underwriting commission and other listing expenses. As stated in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Group intended to use the Net Proceeds for the following purposes:

- approximately 32%, or approximately RMB37.1 million will be used to finance a portion of the funds required to build 3,000 community milk booths in Gansu as part of the Company’s effort to expand Cold Chain Liquid Milk Products distribution network;
- approximately 30%, or approximately RMB34.8 million will be used to finance a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand;
- approximately 20%, or approximately RMB23.2 million will be used to promote the Company’s brands;
- approximately 8%, or approximately RMB9.3 million will be used for the construction of the Company’s new technology centre to conduct product development activities; and
- approximately 10%, or approximately RMB11.6 million will be used for general working capital of the Group.

* *For identification purposes only*

As at 30 June 2016, the Group utilised an aggregate amount of approximately RMB48.2 million of the Net Proceeds, representing approximately 41.5% of the Net Proceeds. The unutilised Net Proceed amounted to approximately RMB67.8 million, representing approximately 58.5% of the Net Proceeds. For details, please refer to the section headed “Use of Proceeds from Listing” as set out in the Interim Report.

Since the H Shares of the Company have been listed for over 1 year and having considered the changes in the business environment, in order to utilise the Net Proceeds in a more effective way and to facilitate efficient allocation of the Company’s financial resources, the board (the “**Board**”) of directors (the “**Directors**”) of the Company reviewed the utilisation of the Net Proceeds and resolved to reallocate the portion of the use of Net Proceeds as follows:

	Intended amount to be used as disclosed in the Prospectus RMB’000 (%)	Revised intended use after reallocation of Net Proceeds RMB’000 (%)
Purposes as stated in the Prospectus		
Building 3,000 community milk booths in Gansu as part of the Company’s effort to expand the distribution network for Cold Chain Liquid Milk Products	37,130 (32%)	0 (0%)
Financing a portion of the funds required to import approximately 5,000 dairy cows from Australia or New Zealand	34,809 (30%)	81,222 (70%)
Promoting brands of the Company	23,206 (20%)	23,206 (20%)
Construction of new technology centre to conduct product development activities	9,283 (8%)	0 (0%)
Working capital and other general corporate purposes	11,603 (10%)	11,603 (10%)
Total	<u>116,031 (100%)</u>	<u>116,031 (100%)</u>

REASONS FOR CHANGE IN USE OF PROCEEDS

As disclosed in the Prospectus and the Interim Report, the Company’s goal is to further strengthen its regional market leading position and brand recognition in Gansu and Qinghai. To achieve this goal, the Company plans to implement the following strategies:

- Pursue branding strategies to strengthen its branding positions under different brands, increase market shares and enhance consumer loyalty;
- Upgrade cold chain distribution facilities to strengthen regional market leader position in Gansu and Qinghai and expand sales and distribution network;
- Improve raw milk production capacity and quality to satisfy the needs of the fast growing business; and

- Enrich product portfolio to address changing consumer preferences and offer new tasting experience to inspire demands for its products through continuous product development efforts.

The Group has been monitoring the utilisation of the Net Proceeds. As at 30 June 2016, the Net Proceeds allocated for building of community milk booths have not been utilised. As at the date of this announcement, the Company has established 179 community milk booths in large residential complex and high-end residential communities in Lanzhou to distribute its Cold Chain Liquid Milk Products. However, due to the change of market environment, the enhancement of consciousness of rights-safeguarding in respect of owners of housing estates and the impact of law enforcement agencies such as city management officers, the strategy of developing community milk booth is now at the bottleneck. The Board considered that, taking into account of the existing market conditions, the maximum number of community milk booths can only reach 300 units, which is far below the expected target of 3,000 units. In view of the fact that the original scale and the penetration rate of community milk booth project cannot be achieved, the Company plans to adopt alternative strategies, for instance, vending machines, to increase sales and capture market share.

As at the date of this announcement, the construction of the Company's new technology centre has not been carried out. The Company is in the process of identifying a suitable location for the new technology centre. The Board intended to adjust the location of the technology centre to closer to the Company's head office in Lanzhou which possesses transportation network to facilitate collaboration with institutions and universities for research and development. Moreover, a new location which is closer to the head office of the Company will facilitate internal communication amongst different departments. The Board considered that additional time is required for identifying a suitable location which can satisfy both the operational needs and the legal requirements for the new technology centre. The Board is of the view that the cash reserved for the construction of new technology centre can be used for other purposes and in a more effective manner for the time being. The Company intends to use its internal resources to fund the construction of the new technology centre in the future.

In light of the above, the Board considers to reallocate the idle cash from the Net Proceeds which are no longer needed from the originally designed purpose to support other purposes of use of proceeds as stated in the Prospectus:

Import of dairy cows

As at the date of this announcement, the Company has utilised approximately RMB33.0 million to import approximately 2,000 dairy cows from Australia and New Zealand. As disclosed in the Interim Report, the Company has been increasing the proportion of imported dairy cows to improve the quality of the dairy cows, thereby to improve the milk yield as the average milk yield per imported dairy cow is higher than that of domestic dairy cows. It is expected that, based on the latest current market price of the imported dairy cows, the Company will be able to utilize the reallocated Net Proceeds of approximately RMB48.2 million to import approximately 2,300 to 3,000 dairy cows from Australia or New Zealand to meet the target of importing approximately 5,000 dairy cows. All of the imported dairy cows funded by the reallocated Net Proceeds are expected to be housed at the dairy farms in Qinghai, i.e., Qinghai Shengya and Qinghai Shengyuan.

The Board considers that the above changes in the use of proceeds and the treatment of unutilised proceeds are fair and reasonable, and would meet the financial needs of the Group more efficiently and enhance the flexibility in financial management of the Company and are in the interests of the Company and its Shareholders as a whole. The Directors will continuously assess the business objectives of the use of proceeds as set out in the Prospectus, the Interim Report and above, and will revise or amend such plans to cope with the changing market conditions to ensure the business growth of the Group.

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

Lanzhou, the PRC, 26 October 2016

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