

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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)**

**SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO  
THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the annual report of 蘭州莊園牧場股份有限公司 Lanzhou Zhuangyuan Pasture Co., Ltd.\* (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 (the “**Annual Report**”). Unless otherwise defined, capitalized terms used herein shall bear the same meanings as defined in the Annual Report.

The Company would like to provide the following updates and supplementary information in relation to the Annual Report.

## **I. SUPPLEMENTARY INFORMATION IN RELATION TO DONGFANG DAIRY**

On 31 October 2018, the Company acquired Dongfang Dairy Co., Ltd. (“**Dongfang Dairy**”) (the “**Acquisition**”). Upon the Acquisition, the Company recognised, among others, a goodwill of HK\$58.7 million in its financial statements for the year ended 31 December 2018.

As disclosed in the Annual Report, Dongfang Dairy has realised a net profit after deducting non-recurring profit or loss of RMB12.5 million, which failed to fulfil the performance undertaking of RMB22 million for the year ended 31 December 2019 given by the vendor at the time of the Acquisition. The Company expects that the performance undertaking in 2020 would still be unable to be fulfilled.

The recoverable amount of Dongfang Dairy was assessed to be RMB263 million, which is lower than its carrying value of RMB312 million. An impairment loss of RMB48.7 million on goodwill was recognized accordingly (the “**Impairment**”).

### **Reasons for the significant Impairment made and the significant drop in net profit in 2019**

The Company completed the acquisition of Dongfang Dairy on 31 October 2018. Upon completion of the Acquisition, the Company made corresponding adjustment to the operation strategy, channel building, management team and other aspects of Dongfang Dairy in light of the overall development strategy of the Company. As there was a run-in period for the team of the Company and the team of Dongfang Dairy after the merger and acquisition, the above adjustment had not yet produced beneficial results in 2019, resulting in a drop in the performance in 2019.

**The valuation method, major assumptions or details of the value of inputs used between the valuation performed at the time of (a) the Acquisition; (b) the impairment assessment, and the reasons for any changes in the valuation approach, inputs and assumptions from those previously adopted**

#### ***Specific Methods and Parameters Adopted in stage (a)***

Specific Method:

On 31 March 2018, pursuant to the Indicative Announcement Regarding the Current Preparation Stage for the Acquisition of Equity Interests in An Affiliated Company by Lanzhou Zhuangyuan Pasture Co., Ltd. (《蘭州莊園牧場股份有限公司關於收購參股子公司股權處於籌劃階段的提示性公告》), for the Company’s proposed acquisition of the equity interests in Dongfang Dairy, it is required to determine the value of all interests of shareholders as at the valuation benchmark date. Therefore, in accordance with certain requirements such as Asset Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》) and the Accounting Standards for Business Enterprises (《企業會計準則》), a valuation agency was engaged to conduct valuation on the audited assets and liabilities as reported by Dongfang Dairy. The specific methods are as follows:

Pursuant to Practicing Standards for Asset Valuation — Enterprise Value (《資產評估執業準則企業價值》), the valuation agency adopted the asset-based approach and income approach according to the purpose of this assets valuation for valuation of the value of all interests of shareholders of Dongfang Dairy based on the characteristics of the appraised assets and the type of appraised value of assets adopted. In view of the fact that the purpose of the valuation in the stage of acquisition is to provide value reference for the Company’s proposed acquisition of equity interests, it is more important to evaluate the future operating conditions and profitability of the appraised entity instead of simply evaluating the value of each elemental asset of the enterprise, and the valuation results of the income approach can objectively and comprehensively reflect the fair value of the appraised entity in the open market. Therefore, the results of the income approach are more applicable to the purpose of the valuation in the stage of acquisition. It is more reasonable to use the valuation results of income approach as compared to the asset-based approach. As a result, for the valuation in the stage of acquisition, the valuation results of the income approach are used as the final valuation conclusion.

The Company evaluates the equity value of Dongfang Dairy based on the valuation benchmark date, namely 31 March 2018, and finally the valuation results of the income approach are used as the final valuation conclusion. The selection methods and principles of the parameters of the income approach shall be subject to the relevant requirements of Asset Appraisal Law of the People’s Republic of China (《中華人民共和國資產評估法》) and Practicing Standards for Asset Valuation (《資產評估執業準則》).

Specific Parameters:

A. Assumptions relevant to the operating income

Considering the macroeconomic conditions and the national policies on the industries related to the Company in the future, Dongfang Dairy has made a profit forecast for April to December 2018 and 2019 to 2022 based on the historical financial data in 2016, 2017 and March 2018. On the basis of understanding and analyzing the recent development trend of the market and the actual operating achievements of Dongfang Dairy in recent years, making necessary analysis, judgment on the profit forecasts of Dongfang Dairy for 2018 to 2022 and confirming the reasonability of the forecasts, the valuers believe the relevant data of the profit forecasts of Dongfang Dairy for 2018 to 2022. In 2018, Dongfang Dairy is in a regional monopoly position in the field of fresh milk in glass bottles (a form of packaging delivered to the consumers’ homes daily) and this product with monopoly channel has created high revenue for Dongfang Dairy and has established a solid brand image in the minds of the consumers. Therefore, it is expected that the operating revenue for April to September 2018 will increase by 10.47% compared to that of January to March 2018 and the average growth rate for 2019 to 2022 will be 6.37%.

B. Forecasts of the operating costs

The operating costs of Dongfang Dairy mainly consisted of raw material cost, labor cost, depreciation and amortization and other operating cost. Operating cost rates for 2016 to March 2018 are 60.37%, 60.26%, 57.33%, respectively, with an average cost rate of 59.32% and an average gross margin rate of 38.49%. The management of the Company has made a forecast on the cost rates of various costs in the future with reference to the conditions for 2016, 2017 and the benchmark date, namely 31 March 2018. The operating cost ratios for each forecast year are shown in the following table:

<b>April to December</b>					
<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Afterwards</b>
60.02%	60.03%	59.48%	58.86%	57.78%	60.02%

C. Calculation of the discount rate

The weighted average capital cost (WACC) is selected as the discount rate. The calculation formula is:

$$\text{WACC} = [K_e \times E / (D + E) + K_d \times D / (D + E) \times (1 - T)]$$

- (a) For equity capital cost  $K_e$ , the capital asset pricing model (CAPM) is adopted to determine the equity capital cost. The calculating formula is as follows:  $K_e = R_f + \beta (R_m - R_f) + R_c$ . Wherein:

The risk-free return rate ( $R_f$ ): The risk-free return rate is set at 3.75% based on the average interest rate of the middle- to long-term government bonds issued by the Ministry of Finance.

Risk premium,  $R_m - R_f$ : the stock exchange index is a composite index used to reflect the stock trading in the stock market. SSE Composite Index and SZSE Component Index are selected as the indicator of the return on stock investment of Shanghai Stock Exchange and Shenzhen Stock Exchange, respectively. The estimated risk premium is 6.05%.

Beta coefficient,  $\beta$ :  $\beta$  value is the indicator that measures the enterprise system risk. By collecting the  $\beta$  coefficient with financial leverage of the listed companies in the same industry, the coefficient is restored as the  $\beta$  coefficient without financial leverage based on the capital structure of the corresponding listed companies. On the basis of the  $\beta$  coefficient without financial leverage, it is translated into the  $\beta$  coefficient with financial leverage of the appraised enterprise based on the capital structure of the appraised enterprise. Based on the above-mentioned calculation, the risk coefficient  $\beta$  of the enterprise is 0.6144.

Enterprise risk adjustment coefficient,  $R_c$ : The risk adjustment coefficient specific to the enterprise is set at 3.40% after the comprehensive analysis based on the corporate size, market competition risk, product quality risk, animal epidemic disease risk and other potential risks and countermeasures.

Based on the parameters determined based on the above analysis, the cost of equity capital would be:

$$K_e = R_f + \beta (R_m - R_f) + R_s = 10.87\%$$

(b) Debt capital cost ( $K_d$ )

The debt capital cost is determined to be 4.75% based on the actual situation of Dongfang Dairy.

(c) D and E refer to the market value of interest-bearing debts and the market value of equity of Dongfang Dairy, respectively

(d) T refers to corporate income tax. In accordance with Article 27, Paragraph 1 of Corporate Income Tax Law of the People's Republic of China, Article 86, Paragraph 1 (7) of Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China and Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Corporate Income Tax (for Trial Implementation) (Cai Shui [2008] No. 149) issued by the Ministry of Finance, Dongfang Dairy is exempted from the enterprise income tax for initial processing of dairy products, which include pasteurised milk and UHT milk, during the year. For dairy products other than pasteurised milk and UHT milk, the Company falls into the category of enterprises in encouraged industries in Western China under Article 2 of Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issues Concerning Preferential Tax Policies Related to Implementation of the Western Region Development Strategy (Cai Shui [2001] No. 202) (《財政部國家稅務總局海關總署關於西部大開發稅收優惠政策問題的通知》(財稅〔2001〕202號)) and is entitled to a reduced corporate income tax rate of 15% in the period from 2017 to 2020. Given the time limits for the preferential policies mentioned above and actual situation of the enterprise, 2021-perpetual annual income tax rate would be 25%, from the perspective of prudence. (Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on Extension of Income Tax Policies for Western Development Enterprises (Notice of the Ministry of Finance [2020] No. 23) (《財政部、稅務總局、國家發展改革委關於延續西部大開發企業所得稅政策的公告(財政部公告2020年第23號)》), companies fall into the category of enterprises in encouraged industries in Western China are entitled to a reduced corporate income tax rate of 15% in the period from 1 January 2021 to 31 December 2030.

With the assumptions and calculations above, the discounted rate is calculated based on the weighted average cost of capital before tax, applying the formula with the inputs as mentioned above: the WACC since April 2018 and up to 2021 is 10.39%, while 2022-perpetual annual WACC is 10.29%.

D. Surplus assets

Surplus assets can be considered as assets which are not necessary for the continuing operation of the business, such as cash surplus, marketable securities and other assets that are not directly related to the projection on cash flow of revenue. As checked out and reviewed, the surplus monetary fund as shown in the financial statements of Dongfang Dairy was nil, and the carrying amount may be directly reflective of its value, with an appraised value of nil.

E. The value of non-operating assets and non-operating liabilities

Non-operating assets refer to the assets that do not directly relate to the normal operating income of the enterprise, including unproductive assets as well as the assets not relating to the forecasted income in this valuation. Non-operating liabilities are liabilities not directly related to the income of an enterprise's operating activities and the value of which is not included in the income approach conclusion. The valuation of non-operational assets and non-operating liabilities are determined by adopting the assets-based method. As checked out and reviewed, the carrying amount of the non-operating assets stated in the financial statements of Dongfang Dairy was RMB 46,210,200, with an appraised value of RMB 46,210,200; and the carrying amount of non-operating liabilities was nil, with an appraised value of nil, and non-operating net assets of RMB 46,210,200.

F. Interest-bearing debts

Interest-bearing debts refer to the debts that an enterprise is required to pay interests on valuation benchmark date, which include short-term borrowings and bonds payables. Interest-bearing debts are determined according to the carrying amount of each interest-bearing debt after verification. As checked out and reviewed, the aggregate carrying amount of interest-bearing debts as stated in the financial statements of Dongfang Dairy was RMB99,305,700, with an appraised value of RMB99,305,700.

The projection process at the Acquisition stage:

*Unit: RMB0'000*

Item	April to December 2018	2019	2020	2021	2022	Year with stable growth
Revenue from principal businesses	16678.89	22764.22	23783.72	25396.38	26772.01	26772.01
Cost of principal business	10011.32	13664.93	14147.04	14948.45	15469.29	15469.29
Sales taxes and surcharges	261.30	333.66	343.70	359.57	373.11	373.11
Profit of principal businesses	6406.27	8765.63	9292.98	10088.36	10929.61	10929.61
Profit of other business	0.00	0.00	0.00	0.00	0.00	0.00
Operating expenses	2815.43	3692.31	3807.92	3981.01	4127.60	4127.60
Administrative expenses	1283.31	1776.48	1841.92	1925.12	2003.97	2003.97
Loss on impairment of assets	0.00	0.00	0.00	0.00	0.00	0.00
Operating profit	2307.53	3296.84	3643.14	4182.23	4798.04	4798.04
Investment income	0.00	0.00	0.00	0.00	0.00	0.00
Non-operating income and expenses, net	0.00	0.00	0.00	0.00	0.00	0.00
Subsidy income	0.00	0.00	0.00	0.00	0.00	0.00
Earnings before interest and tax	2307.53	3296.84	3643.14	4182.23	4798.04	4798.04
Less: Income tax	342.98	448.37	495.47	568.78	652.53	1199.51
Net profit	1964.53	2848.47	3147.68	3613.45	4145.51	3598.54
Depreciation	1974.39	2632.52	2632.52	2632.52	2632.52	2632.52
Amortization	13.23	17.64	17.64	17.64	17.64	17.64
Capital expenditures	1987.62	2650.16	2650.16	2650.16	2650.16	2650.16
Increase in operating capital	-637.84	70.01	49.78	77.07	69.34	
Cash flow, net	2602.37	2778.46	3097.90	3536.38	4076.17	3598.54
<b>Present value of future cash flow</b>						35,763.21
<b>Addition: non-operating assets</b>						4,621.02
<b>Less: non-operating liabilities</b>						
<b>Less: Interest-bearing liabilities</b>						9,930.57
<b>Value of all interests of shareholders</b>						30,453.66

### ***Specific Methods and Parameters Adopted in Stage (b)***

#### Specific Method:

At the end of 2018 and 2019, the Company conducted the impairment test on relevant assets in accordance with the requirements of the “Accounting Standards for Business Enterprises”, the “Risk Warning for Accounting Regulation No. 8 — Impairment of Goodwill”, etc. The specific method is set out below:

The management of the Company classified the relevant assets of Dongfang Dairy that commonly generate separate cash flows into an asset group. At the end of the period, the Company compared the carrying amount of the asset group with its recoverable amount to determine whether the impairment of the asset group (including goodwill) has occurred. In the impairment test of the asset group, the Company applied the current value of the expected future cash flows of the asset group as its recoverable amount, while the estimation of the future cash flows of the asset group is based on the historical performance of the asset group and the expectation of the management of the Company on market with reference to the financial forecasts approved by the management of the Company, subject to fulfillment of certain assumption conditions. Meanwhile, the Company adopted a discount rate that can reasonably reflect the time value of money in the current market and the risks specific to assets in calculating the current value of the expected future cash flow of the asset group to determine its recoverable amount. An assessment is made for impairment by comparing the forecasted recoverable amount with the carrying amount of the asset group containing goodwill. When the impairment test is conducted on the relevant asset group containing goodwill, the impairment test will be made first on the asset group not containing goodwill and then on the asset group containing goodwill if there is an indication that the relevant asset group is impaired. The corresponding impairment loss is recognized if the recoverable amount of the relevant asset group is lower than its carrying amount (including goodwill).

The Company conducted impairment test on goodwill at the end of 2018 and 2019 and the method and principle for selecting parameters are consistent. After the testing, no provision for impairment was required at the end of 2018 but the provision for impairment was required at the end of 2019. Below is an example in 2019 where we analyzed the key parameters.

## Specific Parameters:

### A. Assumption relevant to the operating income

The management conducted a forecast for 2020 to 2024 taking into account the sales income and the growth status of the whole industry and market in 2017, 2018 and 2019, and concluded that the income was growing at an increasingly stable growth rate. Due to the impact of the COVID-19 outbreak, a public health emergency occurred in early 2020, which resulted in a drop in the production and sales volume of Dongfang Dairy in the first quarter of 2020, it recorded a lower operating income than that for the same period of the previous year. However, looking back to the historical data for 2003 when the “SARS” pandemic occurred, the consumption expenses of residents on dairy products will increase in the future as they, as daily consumption items, can enhance people’s immunity safely and economically. Therefore, it is expected that the operating income in 2020 will drop by 7.00% over that in 2019, and that it will resume back to its growth in 2021 at the rate of 4.57% higher than that in 2020 and the average growth rate from 2022 to 2024 will be 8.55%.

### B. Forecast on the operating costs

The operating costs of Dongfang Dairy mainly consisted of raw material cost, labor cost, depreciation and amortization and other operating costs. The operating cost ratios for 2017 to 2019 were 60.26%, 60.79% and 64.77%, respectively, with an average cost ratio of 61.94% and an average gross margin rate of 38.44%. The management of the Company has made a forecast the cost ratio of various types of costs in the future with reference to that in 2019. The operating cost ratio for each forecast year is set out in the table below:

<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Afterwards</b>
64.00%	63.93%	63.91%	63.97%	64.02%	64.02%

### C. Calculation of the discount rate

The weighted average cost of capital before tax (WACC) is selected as discount rate. The calculation formula is as follows:

$$\text{WACC} = [K_e \times E / (D+E) + K_d \times D / (D+E) \times (1-T)] / (1-T)$$

- (a) The cost of equity capital (Ke): The cost of equity capital is determined using the capital asset pricing model (CAPM). The calculation formula:  $K_e = R_f + \beta (R_m - R_f) + R_c$ .  
Wherein:

The risk-free return rate (Rf): The risk-free return rate is set at 3.98% based on the average interest rate of the middle- to long-term government bonds issued by the Ministry of Finance.

The risk premium ( $R_m - R_f$ ): The stock exchange index is a composite index used to reflect the stock trading in the stock market. SSE Composite Index and SZSE Component Index are selected as the indicator of the return on stock investment of Shanghai Stock Exchange and Shenzhen Stock Exchange, respectively. The estimated risk premium is 4.81%.

The beta coefficient ( $\beta$ ): The value of  $\beta$  is an index to measure an enterprise's systematic risks. After a  $\beta$  coefficient of the listed companies with financial gearing in the same industry is obtained, it will be converted into a non-financial gearing  $\beta$  coefficient based on the capital structure of the corresponding listed companies. Based on this non-financial gearing  $\beta$  coefficient, a financial gearing  $\beta$  coefficient can be calculated based on the capital structure of the companies assessed. Based on the above-mentioned calculation, the enterprise's risk coefficient is calculated at 0.8817.

The enterprise's risk adjustment coefficient ( $R_c$ ): The risk adjustment coefficient specific to the enterprise is set at 3.20% after the comprehensive analysis based on the corporate size, market competition risk, product quality risk, animal epidemic disease risk and other potential risks and countermeasures.

Based on the parameters determined based on the above analysis, the cost of equity capital would be:

$$K_e = R_f + \beta(R_m - R_f) + R_s = 11.42\%$$

(b) Debt capital cost ( $K_d$ )

The debt capital cost is determined to be 4.75% based on the actual condition of Dongfang Dairy.

(c) D and E represent market value of interest-bearing debts and market value of equity respectively.

- (d) T represents corporate income tax. In accordance with Article 27, Paragraph 1 of Corporate Income Tax Law of the People's Republic of China, Article 86, Paragraph 1 (7) of Implementation Regulations for the Corporate Income Tax Law of the People's Republic of China and Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Corporate Income Tax (for Trial Implementation) (Cai Shui [2008] No. 149) (《財政部、國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知》(財稅[2008]149號)) issued by the Ministry of Finance, the Company is exempted from the enterprise income tax for initial processing of dairy products, which include pasteurised milk and UHT milk, during the year. For dairy products other than pasteurised milk and UHT milk, the Company falls into the category of enterprises in encouraged industries in Western China under Article 2 of Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Issues Concerning Corporate Income Tax Related to Thorough Implementation of the Western Region Development Strategy (Cai Shui [2001] No. 202) (《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)) and is entitled to a reduced corporate income tax rate of 15% in the period from 2017 to 2020. Based on the time limit of above preferential policy and current actual condition of the enterprise, from the perspective of prudence, the perpetual year income tax in 2021 is determined to be 25%. (According to the Announcement on the Extension of Corporate Income Tax Policy for the Western Region Development Strategy (MOF Announcement 2020 No. 23) jointly issued by Ministry of Finance, State Taxation Administration and National Development and Reform Commission on 23 April 2020 (財政部稅務總局國家發展改革委關於延續西部大開發企業所得稅政策的公告(財政部公告2020年第23號))), companies located in the western region that fall into the catalogue of encouraged industries are subject to a reduced Corporate Income Tax rate of 15% from 1 January 2021 to 31 December 2030).

Based on the above assumption and calculation, the weighted average capital cost (WACC) is selected as the discount rate, and the discount rate is calculated with the above dates as: the WACC in 2020 is 11.33%, and the perpetual year WACC in 2021 is 13.21%.

Process of goodwill impairment test (2019):

*Unit: RMB0'000*

Item	2020	2021	2022	2023	2024	Year with stable growth
Revenue from principal businesses	18,499.73	19,344.49	21,365.56	23,653.72	24,715.75	24,715.75
Cost of principal business	11,839.38	12,367.42	13,655.41	15,131.42	15,822.95	15,822.95
Taxes and surcharges	171.19	175.65	185.92	197.27	202.44	202.44
Operating costs	2,539.88	2,656.05	2,888.67	3,149.40	3,293.06	3,293.06
Administrative expenses	1,723.58	1,808.47	1,940.79	2,083.78	2,189.28	2,189.28
Asset impairment loss	—	—	—	—	—	—
Changes in fair value	—	—	—	—	—	—
Non-operating income or expense	—	—	—	—	—	—
Depreciation	1,808.13	1,808.13	1,808.13	1,808.13	1,808.13	1,808.13
Amortization	138.77	138.77	138.77	138.77	138.77	138.77
Capital expenditures	1,303.70	1,303.70	1,303.70	1,303.70	1,303.70	1,946.90
Additional working capital	—402.11	45.19	99.01	110.74	55.49	—
Net cash flow	3,271.00	2,934.90	3,238.95	3,624.31	3,795.71	3,208.01
Discount rate	0.11	0.13	0.13	0.13	0.13	0.13
Discount period	1.00	2.00	3.00	4.00	5.00	—
Mid-value	0.50	1.50	2.50	3.50	4.50	—
Discount coefficient	0.95	0.83	0.73	0.65	0.57	4.33
Discounted value	3,100.06	2,436.50	2,375.16	2,347.62	2,171.76	13,898.78
<b>Present value of the cash flow</b>						26,329.89
<b>Value of an asset group containing goodwill</b>						31,201.82
<b>Impairment provisions for goodwill</b>						-4,871.93

**The detailed basis and assumptions considered by the Company in arriving at the expectation that Dongfang Dairy would not be able to fulfil the performance undertaking in 2020 with an expected net profit of RMB16,359,000**

The forecast of the Company on the net profits of Dongfang Dairy in 2020 was based on the 2020 financial budget approved by the management. The management forecasted that the revenue of Xi'an Dongfang would be RMB184,997,300 in 2020, representing a decrease of 7% from RMB198,923,100 in the previous year, the total operating cost was RMB165,750,900, representing a decrease of 9.86% from RMB183,889,100 in the previous year, the income tax expense was RMB2,886,900 in 2020, representing an increase of 12.84% from RMB2,558,500 in the previous year, and the net profit was RMB16,359,400, representing an increase of 26.64% from RMB12,917,600 in the previous year. The relevant details are as follows:

**(1) Revenue**

It was forecasted at RMB184,997,300. The assumption basis: The management of Dongfang Dairy conducted a forecast for the revenue in 2020 taking into account the sales income and the growth status of the whole industry and market in 2017, 2018 and 2019. Due to the impact of the COVID-19 outbreak, a public health emergency occurred in early 2020, which resulted in a drop in the production and sales volume of Dongfang Dairy in the first quarter of 2020, it recorded a significantly lower operating income than that for the same period of the previous year. However, looking back to the historical data for 2003 when the “SARS” pandemic occurred, the consumption expenses of residents on dairy products may increase in the future as they, as daily consumption items, can enhance people’s immunity safely and economically.

Key parameters: It was forecasted that the revenue in 2020 would decrease by 7% over that in 2019, taking into account the impact of the COVID-19 and the historical data for 2003 when the “SARS” pandemic occurred.

**(2) Total operating cost**

a) Cost of the principal businesses

It was forecasted at RMB118,390,000. The assumption basis: The Company conducted a forecast on the cost of the principal businesses in the future years based on the amount and price of raw milk purchased by the Company in the historical years with reference to the analysis and forecast of labor cost, depreciation and amortization, cost of raw material and other costs.

Key parameters: The cost ratio of the principal businesses was 64%, which was basically the same as that in 2019.

b) Sales tax and surcharges

It was forecasted at RMB1,710,000. The assumption basis: The sales tax and surcharges of Dongfang Dairy included urban maintenance and construction tax, education surcharge, local education surcharge, tenure tax payable, housing property tax payable, water conservancy fund and stamp duty. The management determined the taxes and surcharges in the future years at the tax rate applicable as at the assessment benchmark date based on the value-added tax payable in 2020.

Key parameters: The value-added tax payable, the urban construction tax rate, the education surcharge rate, the local education surcharge rate and the housing property tax rate were forecasted at RMB6,400,000, 7%, 3%, 2% and 1.2%, respectively.

c) Selling expenses

Forecast amount was RMB25,400,000. Basis for the assumption: it was determined by analysis on the growth in future operating income, the revenue for the forecast period, business policies, and the historical selling expense of similar business.

Key indicators: the ratio of expenses to sales (selling expense/sale income) was 13.73%, which was basically at the same level as that in 2019.

d) Administrative expenses

Forecast amount was RMB17,240,000. Basis for the assumption: the administrative expenses of the Company mainly consist of staff remuneration, research and development expense, business entertainment expenses, travel expenses, property rental, depreciation of fixed assets, depreciation charges, etc. The remuneration for management staff for coming years is forecasted by our management with reference to the historical level of staff remuneration, the human resources development strategies of the Company and the historical annual personnel growth. The customary enterprise accounting policies were adopted consistently regarding the depreciation charges which were provided for on straight-line method in accordance with the size of the actual fixed assets for the forecast year.

Key indicators: rate of the administrative expenses (administrative expense/operating income) remained at 9%, which was at the same level as that in 2019.

e) Loss of credit impairment

Forecast amount was RMB1,000,000. The management predicted that the size and structure of financial assets and forecast credit risks would at the same level as that in 2019, and so was the impairment loss of credit.

- f) Gains or losses from changes in fair value

The Company predicted that the gains or losses from changes in fair value for 2020 were RMB-2,010,000.

Key indicators: the average unit prices for milkable cows, heifers and calves remained at the same level as that in 2019.

The feeding costs for milkable cows, heifers and calves remained basically at same level as that in 2019.

The natural reproduction rate and the mortality and elimination rate of productive biological assets remained basically at same level as that in 2019.

- g) The income tax was calculated based on the total profit and at the applicable tax rate of 15%.

### **Supplementary information in relation to the Agreement on the Profit Estimation Compensation of Dongfang Dairy**

Pursuant to “Article II Profit Estimation Compensation” of the Agreement on the Profit Estimation Compensation of Dongfang Dairy, Entered into by Lanzhou Zhuangyuan Pasture Co., Ltd. with Hu Keliang and Ding Jianping (《蘭州莊園牧場股份有限公司與胡克良、丁建平關於西安東方乳業有限公司之盈利預測補償協議》):

***2.1 During the profit undertaking period, if the accumulative actual net profit of the targeted company as of the end of the current period is lower than the one committed, so the person who has committed for its performance should make compensation to Party A. As agreed between both parties, if there are circumstances that a compensation for performance commitment is required, the performance covenantors shall compensate Party A in cash.***

***2.2 Upon the issue of the Audit Report issued by an accounting firm, the performance covenantors shall determine the amount of profit estimation compensation for the current period based on the following formula:***

The profit estimation compensation for the current period = (the accumulated actual net profits committed as of the end of the current period — the accumulative net profit realized as of the end of the current period) ÷ the aggregate net profit committed for the years during the compensation period × the consideration of the transactions of the disposal, by the performance covenantors, of the underlying assets of the targeted company-the accumulative compensation paid

**2.3 The performance covenantors shall pay Party A in cash within one month from the date of issue of the Audit Report for the current period upon the expiry of every accounting year during the profit undertaking period.**

The Audit Report of Lanzhou Zhuangyuan Pasture Co., Ltd. Concerning the Fulfillment of Performance Commitment for 2019 by Xi'an Dongfang Dairy Company Limited (Da Xin Zhuan Shen Zi [2020] No. 35-00016) (《蘭州莊園牧場股份有限公司關於西安東方乳業有限公司2019年度業績承諾實現情況的專項審核報告》(大信專審字[2020]第35-00016號)) was issued by PKF Daxin Certified Public Accountants LLP on 23 April 2020, pursuant to which Dongfang Dairy was believed to fail to fulfill the profit commitment for 2019 under the requirements in the Agreement on the Profit Estimation Compensation of Dongfang Dairy, Entered into by Lanzhou Zhuangyuan Pasture Co., Ltd. with Hu Keliang and Ding Jianping (《蘭州莊園牧場股份有限公司與胡克良、丁建平關於西安東方乳業有限公司之盈利預測補償協議》). According to the computation of performance commitment, as of 31 December 2019, Hu Keliang and Ding Jianping, each being a former shareholder of the Company, shall pay to the Company RMB17,358,124.99 and RMB4,975,124.24, respectively, as compensation.

As of 22 May 2020, the Company has received the payment for performance compensation of RMB17,358,124.99 and RMB4,975,124.24 from the performance covenantors, Hu Keliang and Ding Jianping, respectively.

## II. SUPPLEMENTARY INFORMATION IN RELATION TO REMUNERATION OF DIRECTORS AND SUPERVISORS

Category of personnel	Amount incurred for the year				Total
	Directors and Supervisors Fees	Wages, housing subsidies, other subsidies and physical benefits	Discretionary bonus	Retirement scheme contributions	
<b>Executive directors</b>					
Mr. Ma Hongfu		147,600.00	201,882.24	10,517.76	360,000.00
Mr. Wang Guofu		89,570.00	259,962.24	10,517.76	360,050.00
Mr. Chen Yuhai		100,130.00	261,402.24	10,517.76	372,050.00
Ms. Zhang Qianyu		68,227.00	105,162.24	10,517.76	183,907.00
<b>Independent non-executive directors</b>					
Ms. Liu Zhijun	30,000.00				30,000.00
Mr. Zhao Xinming	30,000.00				30,000.00
Mr. Wong Cho Hang Stanley	105,381.10				105,381.10
<b>Supervisors</b>					
Mr. Wei Lin	30,000.00				30,000.00
Mr. Sun Chuang					
Ms. Du Wei		78,685.55	62,741.69	10,517.76	151,945.00
Total	<u>195,381.10</u>	<u>484,212.55</u>	<u>891,150.65</u>	<u>52,588.80</u>	<u>1,623,333.10</u>

*Notes:*

1. No emolument was paid or payable by the Group during the year ended 31 December 2019 to any of the directors and supervisors of the Company as an inducement to join or upon joining the Group.
2. No compensation was paid or payable by the Group during the year ended 31 December 2019 to any of the directors and past directors and supervisors and past supervisors of the Company for loss of office.

The above additional information does not affect other information contained in the Annual Report and the content of the Annual Report remains unchanged.

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

Lanzhou, the PRC, 3 June 2020

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

\* For identification purpose only