CHINA SHENGMU ORGANIC MILK LIMITED
中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1432)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

HIGHLIGHTS

- The Group entered into an agreement with Mengniu Group to dispose 51% of its equity interests in the down-stream liquid milk business. The Company has been able to obtain harmonious development in its dairy business, while supplementing its demand for working capital efficiently.
- The Group entered into an acquisition agreement with 12 individual shareholders to acquire minority interests in the joint ventured farms located at the core area of the organic industry system. In the coming future, the Group will devote further efforts to dairy farming business and raw milk business.
- In the BIOFACH CHINA Organic Trade Fair(中國國際有機食品博覽會), organic dairy products of Shengmu were awarded the "Gold Medal of BIOFACH CHINA Organic Trade Fair" for the seventh time. In the Chinese Dairy Industry Exhibition, Shengmu was honored "Excellent Enterprise" among the outstanding dairy product processing enterprises for 2018.
- Liquid milk business of the Company has strictly implemented the high-price strategy through unified retail price, sales-oriented production and cash on delivery. Therefore, there was no increase in receivables during the year.
- Online business achieved sustainable growth by deepening cooperation with various platforms including Jingdong and Yunji, as well as developing exclusive ranches and customized products.
- In 2018, the Group's revenue increased from RMB 2,706.8 million in 2017 to RMB 2,887.2 million, nevertheless, the net cash inflow of the Group's operating activities was approximately RMB972.5 million, representing an increase of RMB1,085.7 million from the net cash outflow of approximately RMB113.2 million in the year of 2017.

In this announcement "**we**", "**us**" and "**our**" refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exists are unofficial translations for identification purpose only.

The board (the "**Board**") of directors (the "**Directors**") of China Shengmu Organic Milk Limited (the "**Company**" or "**China Shengmu**") hereby to announce the consolidated financial results of the Company and its subsidiaries (the "**Group**" or "**Shengmu**") for the year ended December 31, 2018, together with the comparative figures for the year ended December 31, 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended December 31, 2018	2017 Restated*
		RMB'000	RMB'000
CONTINUING OPERATIONS			
REVENUE	4	**2,164,449**	1,860,722
Cost of sales		**(1,468,427)**	(792,295)
Gross profit		**696,022**	1,068,427
Loss arising from changes in fair value less costs to sell of biological assets		**(1,321,554)**	(595,479)
Other income and gains/(losses)	4	**12,576**	(13,550)
Selling and distribution expenses		**(63,723)**	(34,907)
Administrative expenses		**(119,262)**	(76,171)
Impairment losses on financial and contract assets		**(91,345)**	—
Other expenses		**(36)**	—
Finance costs	6	**(144,995)**	(146,015)
Share of losses of associates		**(15,180)**	(2,937)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	5	**(1,047,497)**	199,368
Income tax credit/(expense)	7	**280**	(23)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(1,047,217)**	199,345
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	8	**(1,264,000)**	(1,053,135)
LOSS FOR THE YEAR		**(2,311,217)**	(853,790)
(Loss)/profit attributable to:			
Owners of the parent		**(2,225,200)**	(1,015,266)
Non-controlling interests		**(86,017)**	161,476
		(2,311,217)	(853,790)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Notes	For the year ended December 31, 2018	2017 Restated*
		RMB'000	RMB'000
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic			
– For loss for the year		**(RMB 0.350)**	(RMB0.160)
– For (loss)/profit for continuing operations		**(RMB 0.151)**	RMB0.006
Diluted			
– For loss for the year		**(RMB 0.350)**	(RMB0.160)
– For (loss)/profit for continuing operations		**(RMB 0.151)**	RMB0.006
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(2,360)**	3,081
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(2,360)**	3,081
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR, NET OF TAX		**(2,360)**	3,081
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(2,313,577)**	(850,709)
(Loss)/profit attributable to:			
Owners of the parent		**(2,227,560)**	(1,012,185)
Non-controlling interests		**(86,017)**	161,476
		(2,313,577)	(850,709)

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, refer to Note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018**	31 December 2017 Restated*	1 January 2017 Restated*
		As at		
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment		**2,087,045**	2,798,328	2,710,368
Prepaid land lease payments		**18,845**	36,550	37,566
Other intangible assets		**11,463**	13,611	14,847
Investments in associates		**90,328**	105,784	112,658
Available-for-sale investments		**—**	2,007	1,427
Biological assets	11	**2,667,427**	3,867,389	3,884,257
Prepayments for property, plant and equipment and biological assets		**1,014**	6,209	11,963
Long term receivables		**11,516**	14,059	19,684
Deferred tax assets		**410**	32,197	24,634
Other non-current assets		**9,930**	39,212	16,565
Total non-current assets		**4,897,978**	6,915,346	6,833,969
CURRENT ASSETS				
Inventories		**604,060**	860,828	928,816
Biological assets	11	**7,492**	33,511	—
Trade and bills receivables		**246,715**	1,100,006	1,108,787
Prepayments, other receivables and other assets		**599,092**	898,837	393,550
Available-for-sale investments		**—**	—	120,000
Pledged deposits		**150,617**	128,884	66,791
Cash and bank balances		**74,052**	582,283	1,047,382
Assets of a disposal group classified as held for sale	8	**978,355**	—	—
Total current assets		**2,660,383**	3,604,349	3,665,326

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 31 December 2018	31 December 2017 Restated*	1 January 2017 Restated*
		RMB'000	RMB'000	RMB'000
CURRENT LIABILITIES				
Trade and bills payables	12	**997,085**	1,188,964	920,631
Receipts in advance		**—**	14,700	13,152
Other payables and accruals		**486,235**	482,387	449,742
Derivative financial instruments		**81,238**	—	—
Interest-bearing bank and other borrowings		**2,218,864**	2,654,046	918,404
Income tax payable		**—**	1,455	1,581
Liabilities directly associated with the assets classified as held for sale	8	**790,006**	—	—
Total current liabilities		**4,573,428**	4,341,552	2,303,510
NET CURRENT LIABILITIES		**(1,913,045)**	(737,203)	1,361,816
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,984,933**	6,178,143	8,195,785
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings		**49,518**	720,201	1,751,950
Long term payables		**56,528**	82,829	107,900
Total non-current liabilities		**106,046**	803,030	1,859,850
Net assets		**2,878,887**	5,375,113	6,335,935
EQUITY				
Equity attributable to owners of the parent				
Share capital	13	**50**	50	50
Reserves		**2,017,863**	4,315,612	5,327,797
		2,017,913	4,315,662	5,327,847
Non-controlling interests		**860,974**	1,059,451	1,008,088
Total equity		**2,878,887**	5,375,113	6,335,935

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, refer to Note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Net cash flows from/(used in) operating activities	**972,503**	(113,158)
Net cash flows from/(used in) investing activities	**7,516**	(947,725)
Net cash flows (used in)/from financing activities	**(1,207,750)**	453,788
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(227,731)**	(607,095)
Cash and cash equivalents at beginning of year	**297,672**	932,382
Effect of foreign exchange rate changes, net	**7,142**	(27,615)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**77,083**	297,672

NOTES

1. CORPORATE INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Report Standards, International Accounting standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2018.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Going concern

The Group had net current liabilities of RMB1,913,045,000 and capital commitment of RMB418,257,000 as at 31 December 2018 (2017: net current liability of RMB737,203,000 and capital commitment of RMB225,565,000). In view of the net current liabilities position, the board of directors (the "Directors") have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB1,458,000,000 as at 31 December 2018, the entrusted loan facility of RMB1,000,000,000 with maturity date extended to 24 December 2020, and cash flow projections for the year ending 31 December 2019, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the directors have prepared the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The financial statements do not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*

2. **BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)**

Changes in Accounting Policies and Disclosures (Continued)

Except for the amendments to IFRS 4 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Groupable users statements, the nature and the impact of the new and revised IFRS standards are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share- based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

    With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position. Including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 Measurement					IFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	Amount RMB'000	Category
Financial Assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	–	–	–	–	FVOCI[5] (equity)
Debt investments designated at fair value through other comprehensive income		N/A	—	—	—	—	—	FVOCI (debt)
Financial assets at fair value through profit or loss	(i)	FVPL[3]	—	2,007	—	—	2,007	FVPL (mandatory)
Available-for-sale investments		AFS[1]	2,007	(2,007)	—	—	—	N/A
Long term receivables	(ii)		14,059	—	—	—	14,059	AC[4]
Trade and bills receivables	(ii)	L&R[2]	1,100,006	—	(41,483)	—	1,058,523	AC
Financial assets included in prepayments, other receivables and other assets		L&R	327,774	—	(28,706)	—	299,068	AC
Pledged deposits		L&R	128,884	—	—	—	128,884	AC
Cash and bank balances		L&R	582,283	—	—	—	582,283	AC
			2,155,013	—	(70,189)	—	2,084,824	
Other assets								
Contract assets			—	—	—	—	—	
Deferred tax assets			32,197	—	—	—	32,197	
			32,197	—	—	—	32,197	
Total assets			2,187,210	—	(70,189)	—	2,117,021	

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Classification and measurement (Continued)

		IAS 39 Measurement					IFRS 9 measurement	
	Notes	Category	Amount	Re-classification	ECL	Other	Amount	Category
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Financial liabilities								
Trade and bills payables		AC	1,188,964	—	—	—	1,188,964	AC
Long term payables		AC	82,829	—	—	—	82,829	AC
Financial liabilities included in other payables and accruals		AC	397,509	—	—	—	397,509	AC
Interest-bearing bank and other borrowings		AC	3,374,247	—	—	—	3,374,247	AC
Loans from associates		AC	—	—	—	—	—	AC
Due to the ultimate holding company		AC	—	—	—	—	—	AC
Financial guarantee contracts		FVPL	40,669	—	—	—	40,669	FVPL (mandatory)
Other liabilities		AC	—	—	—	—	—	AC
			5,084,218	—	—	—	5,084,218	
Other liabilities								
Defer tax liabilities			—	—	—	—	—	
Total liabilities			5,084,218	—	—	—	5,084,218	

1 AFS: Available-for-sale investments

2 L&R: Loans and receivables

3 FVPL: Financial assets at fair value through profit or loss

4 AC: Financial assets or financial liabilities at amortised cost

5 FVOCI: Financial assets at fair value through other comprehensive income

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Classification and measurement (Continued)

Notes:

(i) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in IFRS 9.

(ii) The gross carrying amounts of the trade and bills receivables and the financial assets included in prepayments, other receivables and other asset under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs.

(iii) The Group has remeasured the carrying amounts of the financial guarantees given to banks in connection with borrowing facilities granted to associates and extended distributors based on the ECL allowance.

As of 1 January 2018, the Group classified equity investments previously classified as available-for-sale investments as equity investments at cost method. These instruments didn't pass the contractual cash flow characteristics test in IFRS 9, which were held with the intention to sell.

The fair value of these instruments that the Group still held as at 31 December 2018 was nil. The change in fair value of these instruments in 2018, that would have been recorded in other income and loss had these instruments continued to be revalued through profit and loss, would have been nil.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Classification and measurement (Continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowances under IAS 39 at 31 December 2017 RMB'000	**Re-measurement RMB'000**	**ECL allowances under IFRS 9 at 1 January 2018 RMB'000**
Trade and bills receivables	740,486	41,483	781,969
Financial asset included in prepayments, other receivables and other assets	—	28,706	28,706
	740,486	70,189	810,675

Impairment on retained profits

The impact of transition to IFRS 9 on retained profits is as follows:

	Retained profits RMB'000
Balance as at 31 December 2017 under IAS 39	1,555,929
Recognition of expected credit losses for trade and bills receivables under IFRS 9	(41,483)
Recognition of expected credit losses for Financial assets included in prepayments, other receivables and other assets under IFRS 9	(28,706)
Balance as at 1 January 2018 under IFRS 9	1,485,740

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Classification and measurement (Continued)

(c) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as receipts in advance. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

(d) Amendments to IAS 40, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

Classification and measurement (Continued)

(e) IFRIC-Int 22, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3. CORRECTION OF PRIOR PERIOD ERRORS

During the year, the Group identified guarantees issued by the Group in previous years which had not been disclosed or accounted for in its financial statements. The guarantees were issued for bank facilities granted by banks to the Group's distributors and associated companies.

(1) During the year ended 31 December 2017, the Group provided joint guarantees to the banks for bank loans of RMB180,000,000 granted to its distributors.

(2) On 28 August 2017, the Group provided guarantees to the bank for the bank loans of RMB92,600,000 granted to Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("**Shengmu Forage**"), an associated company of the Group and a key supplier to the Group.

(3) Since 20 September 2016, the Group has provided a guarantee to the bank for the one-year bank loan of RMB30,000,000 of Shengmu Forage. The guarantee period was extended upon the renewal of the bank loan during the year ended 31 December 2017. The guarantee expired upon the repayment of the bank loan on 10 February 2019.

(4) On 13 October 2017, the Group provided a joint guarantee to the bank for the bank loans of RMB130,000,000 granted to Shengmu Forage, along with Mr. Tongshan Yao, a shareholder and a director of the Company.

(5) Since 21 October 2016, the Group has provided guarantees to the bank for the three-year revolving loan facility with a cap amounted to RMB133,000,000 granted to Food Union Shengmu Dairy Co., Ltd. ("Food Union Shengmu"), an associated company of the Group. As at 31 December 2017, the utilized balance of the bank loan was RMB102,880,000.

3. CORRECTION OF PRIOR PERIOD ERRORS (Continued)

The Group has quantified the financial impact of the guarantees on its financial statements and their impact on the Company's consolidated financial statements for the year ended 31 December 2017 and 1 January 2017 are provided in the tables below.

A summary of the effect of the restatement on the applicable line items within the Company's consolidated balance sheet as of 31 December 2017 and 1 January 2017 were as follows:

	Consolidated Statement of Financial Position As at 31 December 2017		
	As Reported RMB'000	Adjustments for guarantee RMB'000	Restated RMB'000
Other payables and accruals	441,718	40,669	482,387
Total current liabilities	4,300,883	40,669	4,341,552
Reserves	4,356,281	(40,669)	4,315,612
Total equity	5,415,782	(40,669)	5,375,113

	Consolidated Statement of Financial Position As at 1 January 2017		
	As Reported RMB'000	Adjustments for guarantee RMB'000	Restated RMB'000
Other payables and accruals	438,550	11,192	449,742
Total current liabilities	2,292,318	11,192	2,303,510
Reserves	5,338,989	(11,192)	5,327,797
Total equity	6,347,127	(11,192)	6,335,935

3. CORRECTION OF PRIOR PERIOD ERRORS (Continued)

A summary of the effect of the restatement on the applicable line items within the Company's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 were as follows:

	As Reported RMB'000	Adjustments RMB'000	Restated-Group RMB'000	Restated-Continuing operation RMB'000
Cost of sales	(1,622,474)	(1,358)	(1,623,832)	(792,295)
Other income and gains/(losses)	(732,855)	8,843	(724,012)	(13,550)
Selling and distribution expenses	(317,400)	(36,962)	(354,362)	(34,907)
(Loss)/profit before tax	(831,853)	(29,477)	(861,330)	199,368
(Loss)/profit for the year	(824,313)	(29,477)	(853,790)	199,345
Total comprehensive (loss)/profit for the year	(821,232)	(29,477)	(850,709)	202,426
(Loss)/profit attributable to owners of the parent	(985,789)	(29,477)	(1,015,266)	37,869
Total comprehensive (loss)/profit attributable to owners of the parent	(982,708)	(29,477)	(1,012,185)	40,950
Basic (loss)/profit per share attributable to ordinary equity holders of the parent	(0.155)	(0.005)	(0.160)	0.006
Diluted (loss)/profit per share attributable to ordinary equity holders of the parent	(0.155)	(0.005)	(0.160)	0.006

4. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue, other income and gains/(losses) is as follows:

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers		
Sales of products	**2,164,449**	1,860,722
Other income and gains/(losses)		
Government grants	**11,382**	261
Bank interest income	**6,855**	8,387
Foreign exchange differences, net	**4,502**	(27,968)
Loss on disposal of items of property, plant and equipment from continuing operation	**(1,074)**	(2,396)
Impairment losses of financial guarantee contract value and deductions	**—**	(1,201)
Fair value losses, net:		
Derivative financial instruments-transactions not qualifying as hedges	**(6,539)**	—
Others	**(2,550)**	9,367
	12,576	(13,550)
	2,177,025	1,847,172

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax from continuing operations is arrived at after charging/(crediting):

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Cost of inventories sold	**1,468,427**	792,295
Loss arising from changes in fair value less costs to sell of biological assets	**1,321,554**	595,479
Depreciation of items of property, plant and equipment from continuing operations	**151,168**	139,417
Amortisation of prepaid land lease payments from continuing operations	**1,431**	2,055
Amortisation of other intangible assets from continuing operations	**1,274**	1,109
Research and development costs	**5,156**	6,554
Minimum lease payments under operating leases	**1,200**	1,200
Auditor's remuneration	**4,283**	2,318
Impairment losses on financial and contract assets	**91,345**	—
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	**211,395**	204,562
Other social insurances and benefits	**11,955**	14,937
Pension scheme contributions	**11,318**	9,531
	234,668	229,030

6. FINANCE COSTS

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Interest on bank loans and other loans	**59,836**	60,233
Interest on short-term notes	**6,133**	14,300
Interest on corporate bonds	**77,234**	77,052
Interest on long term payables	**3,868**	5,040
Less: interest capitalised	**(2,076)**	(10,610)
	144,995	146,015

7. INCOME TAX

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current - PRC	**130**	23
Deferred	**(410)**	—
Total tax charge/(credit) for the year from continuing operations	**(280)**	23
Total tax charge/(credit) for the year from a discontinued operation (note 8)	**28,189**	(7,563)
	27,909	(7,540)

8. DISCONTINUED OPERATION

On 23 December 2018, the Company announced the decision of its board of directors to dispose of 51% of the equity interests of Inner Mongolia Shengmu High-tech Dairy Co.,Ltd. ("**Shengmu Dairy**") and Hohhot Shengmu High-tech Dairy Co.,Ltd. ("**Hohhot Dairy**") to an independent party. Shengmu Dairy and Hohhot Dairy engage in producing and distributing liquid milk products. The disposal of Shengmu Dairy and Hohhot Dairy is due to be completed in 2019. As at 31 December 2018, final negotiation for the transaction was in progress and Shengmu Dairy and Hohhot Dairy were classified as a disposal group held for sale and as a discontinued operation.

With Shengmu Dairy and Hohhot Dairy, which have comprised the majority of liquid milk business, being classified as a discontinued operation, presentation of operating segment information is no longer required as the Group only has dairy farming business retained upon the disposal of liquid milk business.

The results of Shengmu Dairy and Hohhot Dairy for the year are presented below:

	For the year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Revenue	**722,718**	846,120
Cost of sales	**(479,159)**	(831,537)
Gross profit from the discontinued operation	**243,559**	14,583
Other income and gains/(losses)	**14,692**	(710,462)
Selling and distribution expenses	**(277,361)**	(319,455)
Administrative expenses	**(32,395)**	(26,316)
Finance costs	**(10,760)**	(4,516)
Other expenses	**(60,822)**	(10,595)
Share of losses of associates	**(469)**	(3,937)
Impairment losses on financial and contract assets	**(1,112,255)**	—
Loss before tax from the discontinued operation	**(1,235,811)**	(1,060,698)
Income tax (expense)/credit	**(28,189)**	7,563
Loss for the year from the discontinued operation	**(1,264,000)**	(1,053,135)

8. DISCONTINUED OPERATION (Continued)

The major classes of assets and liabilities of Shengmu Dairy and Hohhot Dairy classified as held for sale as at 31 December are as follows:

	2018	2017
	RMB'000	RMB'000
Assets		
Property, plant and equipment	**588,815**	—
Prepaid land lease payments	**17,965**	—
Other intangible assets	**4,975**	—
Investments in associates	**184**	—
Deferred tax assets	**217**	—
Inventories	**32,888**	—
Trade and bills receivables	**97,434**	—
Prepayments, other receivables and other assets	**86,208**	—
Pledged deposits	**146,438**	—
Cash and bank balances	**3,231**	—
Assets classified as held for sale	**978,355**	—
Liabilities		
Trade payables and bills payables	**459,221**	—
Other payables and accruals	**228,945**	—
Interest-bearing bank and other borrowings	**101,840**	—
Liabilities directly associated with the assets classified as held for sale	**790,006**	—
Net assets directly associated with the disposal group	**188,349**	—

At 31 December 2018, certain machinery and equipment with net carrying amount of RMB30,000,000 (2017:nil) of the discontinued operation were pledged to secure other borrowings granted to the discontinued operation.

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended December 31, 2018 (2017: nil).

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic (loss)/earnings per share amount is calculated by dividing the loss for the year and (loss)/earnings for continuing operations attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 6,354,400,000 (2017: 6,354,400,000) in issue during the year.

The diluted (loss)/earnings per share amount is calculated by dividing the loss for the year and (loss)/earnings for continuing operations attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares used in the calculation of the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	Number of shares	
	For the year ended December 31,	
	2018	2017
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**6,354,400,000**	6,354,400,000
Weighted average number of ordinary shares in issue during the year used in the diluted loss per share calculation	**6,354,400,000**	6,354,400,000

11. BIOLOGICAL ASSETS

The biological assets of the Group comprise primarily dairy cows held to produce raw milk and beef cattle raised for sale.

(A) Quantity of biological assets

The quantity of biological assets owned by the Group as at 31 December 2018 and 31 December 2017 is shown below. The Group's biological assets include heifers and calves, milkable cows and beef cattle. Heifers and calves are dairy cows that have not had their first calves. The Group's beef cattle are raised for sale.

	As at	
	December 31, 2018	December 31, 2017
	Head	Head
Heifers and calves	**38,453**	51,383
Milkable cows	**72,773**	72,959
Beef cattle	**1,379**	7,675
Total	**112,605**	132,017

(B) Value of biological assets

The value of Group's biological assets as at December 31, 2018 and 2017 is as follows:

	As at	
	December 31, 2018	December 31, 2017
	RMB'000	RMB'000
Heifers and calves	**642,091**	1,146,523
Milkable cows	**2,025,336**	2,720,866
Beef cattle	**7,492**	33,511
Total	**2,674,919**	3,900,900

The Group's biological assets in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), a firm of independent professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

12. TRADE AND BILLS PAYABLES

An aging analysis of the trade payables of the Group, based on the invoice date, is as follows:

	As at	
	December 31, 2018	December 31, 2017
	RMB'000	RMB'000
1 to 3 months	**789,020**	967,986
4 to 6 months	**109,151**	138,930
7 to 12 months	**65,068**	69,365
1 to 2 years	**27,110**	12,255
2 to 3 years	**6,449**	351
Over 3 years	**287**	77
	997,085	1,188,964

13. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As at December 31, 2018 and 2017, the Company has authorized share capital of HK$300,000, divided into 30,000,000,000 shares with a par value of HK$0.00001 each.

As at December 31, 2018 and 2017, the Company's share capital was HK$63,544 with 6,354,400,000 shares in issuance.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The dairy industry is an indispensable industry for healthy China and strong nations, a representative industry for safety of food, an iconic industry for modernization of agriculture, and a strategic industry for coordinated development of primary, secondary and tertiary industries. Currently, China's dairy industry is in a new stage of development and revitalization, achieving the historical highest level in terms of the dairy quality and the product safety.

In June 2018, in the "Comments on Promotion of Dairy Industry Revitalization and Protection of Quality Safety of Dairy Products" (the "**Comments**") issued by General Office of the State Council, comprehensive deployment to expedite dairy industry revitalization was introduced again. This will be beneficial for the overall improvement of the industry. Under the "Comments", by 2020, the percentage of domestic dairy farms with 100 or more cows should be more than 65% and the rate of self-supplying milk source should be maintained at more than 70%. By 2025, the dairy industry will revitalize in all respects with modernization basically achieved as well as bases for milk sources, product processing, quality of dairy products and industrial competitiveness achieving the global leading level in their entirety. In December 2018, "Certain Opinions on Further Promoting Prosperous Development of the Dairy Industry" (《關於進一步促進奶業振興的若干意見》) was jointly issued by the Ministry of Agriculture and Rural Affairs, the National Development and Reform Commission and other seven government ministries and commissions. It is proposed therein that, targeting to achieve overall prosperous development of the dairy industry, the government strives to realize an output of milk products up to 45.0 million tonnes nationwide by 2025 by optimizing the production layout of dairy industry and innovating the development way of dairy industry, so as to pragmatically boost the development quality, efficiency and competitiveness of the dairy industry in China. In China's No.1 Central Document in 2019, i.e. "Certain Opinions of Central Committee of the Communist Party of China and the State Council on Prioritizing the Development of Agriculture and Rural Areas and Providing Comprehensive Services for 'Agriculture, Rural Areas and Farmers'" (《中共中央國務院關於堅持農業農村優先發展做好"三農"工作的若干意見》), a further request was made on prosperous development of the dairy industry that "the government shall take steps for prosperous development of the dairy industry by intensifying the construction of high-quality milk source bases".

Looking back to 2018, the upstream farming enterprises still faced continuous pressure and the imbalanced development of farming and processing was still a severe problem. Against backdrop of this, in the 2018 China Top 20 Dairy Enterprises (D20) Summit held in Hulun Buir in September, a consensus has been reached in the industry in relation to benefits linkage between the upstream and downstream enterprises of the dairy industry and support from the downstream enterprises to the upstream enterprises. Under the leadership of the D20 enterprises, quality of raw milk in China constantly improved and harmonious development in industry was further promoted.

As the economy continues to develop, the average per capita consumption will increase continuously. Against such background, the market of the dairy product industry will increase in size and continue to mature and China will become the largest potential market worldwide in terms of the consumption of dairy products. At the same time, this will also spur further increase in the production of the dairy products in the PRC.

BUSINESS REVIEW

In 2018, the business of the Group comprised of dairy farming business and liquid milk business.

Shengmu is located in the Ulan Buh Desert, Inner Mongolia, a place formed by the alluviation of ancient channels of Yellow River for a thousand years, natural and unpolluted. The pure and untraveled desert environment forms a natural protection of Shengmu's base for milk sources as the desert keeps away external pollution and viruses as an effective isolation. Shengmu has implemented ecological development in the Ulan Buh Desert for many years. Shengmu has constantly planted trees and grass in the Ulan Buh Desert by using water from the Yellow River and cow dung as fertilizer and transformed desert ecological environment for over 200,000 mu while providing dairy cows with adequate and natural organic forage grass. The combination of planting and farming forms a natural and harmonious organic cycle. Shengmu has built many farms in the hinterland of the Ulan Buh Desert which have passed the organic standards of EU. Dairy cows live well in the natural and organic environment with low density, enjoying pure water, sunshine and organic grass. Shengmu respects the nature of animals, ensures the pure quality of milk sources and passes ECOCERT.

In 2018, the Company proposed internally to accelerate building of the corporate culture, brand, bases, cooperative partners and team. By exporting corporate culture, inspiration of career, strict training, the Company strives to create a great team; by conducting high-end pricing and adhering to the principle of "price and mark, first and exclusive", it strives to make its cooperative partners stronger, and share benefits with and achieve mutual success with them. In 2018, revenue of the Group reached RMB2.89 billion with a gross profit of RMB0.94 billion, of which, revenue from self-owned brand grass-to-glass organic liquid milk reached RMB0.79 billion, accounting for 27.3% of the revenue of the Group.

HIGH QUALITY, HIGH BRAND, HIGH PRICE, HIGH QUALITY TEAM AND HIGH-END CHANNELS

Focusing on high quality, Shengmu creates Shengmu grass-to-glass organic milk containing milk protein>=3.5g/100mL by fully taking the natural organic advantages of desert. This product has passed both the China Organic Food Certification and ECOCERT and was awarded the Gold Medal of Shanghai International Organic Food Expo for seven years consecutively.

Price is the best icon for a brand. Shengmu has strictly implemented the policy of high price in 2018 and ceased all low price promotion activities. Retail prices were increased at the same time to boost customers' confidence in cooperation and achieve win-win situation. Shengmu has presence in various national key chain shopping malls such as RT-Mart, Yonghui, METRO, Auchan, and Walmart, and achieved good sales results.

In 2018, the Company has developed 63 new base markets and 328 new business partners in total. Based on the trial in Haining market, a set of replicable codes for construction of a base has been concluded: model, brand and efficiency. Under the premise of adhering to adopting uniform price set by the Company, targeting to make sales to 1% of local total population, a team consisting of 3 to 5 persons will be established to enter base market and rapidly improve the presentation of products in the market together with business partners in 2 to 3 months to achieve No. 1 presentation of resources. Through promotion, Shengmu will create the best brand image and achieve good operations.

Throughout the year of 2018, Shengmu sold a total of 4.822 million sets of products through the Yunji platform on an accumulative basis. During the current year, Shengmu maintained active and good cooperation with Yunji and achieved daily presentation of all resources on the platform. They also achieved excellent results in brand linkage, including development of Yunji customized sets, development of Yunji proprietary farms, and Yunji SGS Quality 500 Certification, etc.. Shengmu will be recognized and accepted by more consumers through in-depth cooperation with Yunji platform.

Shengmu and JD.COM entered into strategic cooperation in January 2018 and jointly launched 3 JOY customized sets in May. In June, Shengmu's proprietary farm for JD.COM was established. The brand tracking team of JD.COM visited Shengmu's base in Dengkou with over ten media correspondents. The whole process was broadcast live online and viewed by more than 1 million times on an accumulative basis.

The Company established a regional office in the second year of cooperating with Easy Joy under Sinopec so as to facilitate communications with customers and handle feedback problems in time. The Company has implemented shop visits to understand the sales condition in terminal shops in a rapid and accurate way and formed a sales model of normal orders. An accumulation of approximately 1.23 million sets were sold in 2018.

ORGANIC FORAGE

Through many years of dedicated investment in the Ulan Buh Desert, Shengmu Forage has currently built an organic forage base of over 200,000 mu. Shengmu Forage has built an organic fertilizer processing plants with an annual capacity of 70,000 tons and 6 liquid fertilizer plants. It has installed 328 fertilizing systems of organic liquid fertilizer for the planting base and built 9 cow dung processing plants with annual capacity of 250,000 cubic meters for the farm. Shengmu Forage has currently been capable of guaranteeing the demand of organic forage planting for fertilizer. It has established a complete management system for planting organic forage, paving solid foundation for the development model of organic chain.

Corporate standard quality management systems “Organic Forage” and “Organic Grass” have been established and fully implemented by Shengmu Forage to further establish an industrial standard. Through standardization of planting management, grass-to-glass organic tracking, and organic product quality, Shengmu Forage has passed organic certification from authorized institutions within and outside the country for seven years consecutively and become the demonstration base for domestic large-scale organic planting industry.

ORGANIC FARMING

The Group takes the organic approach to management as its key priority. The Company has launched a stringent audit process for its products, focusing on internal audit in an organic approach to ensure the operation of each process along the industry chain is in compliance with the China organic standards of GB/T19630-2011 and the EU organic standards of EC834-2007.

In order to complement informatization management, the Group is committed to the refined management of nutrition and feeding, including but not limited to the formula management, feeding accuracy and efficiency comparison. It also upgrades Copartner (科派騰系統) and TMR from time to time and oversees the overall TMR process for the avoidance of man-made mistakes during the process of dosing and feeding. Control of feed formula and feeding accuracy at an ideal level allows the Group to trace back to the initial formula design, subsequent compound production and final feeding.

In respect of nutrition and feeding, the grass catchers are equipped with GPS to monitor the operation of mowers, improve minor aspects of on-site management and increase the intake of dry matters by the dairy cows. Advanced equipment, including thermal imager, anemograph and humiture meter, are used to determine the possibility of secondary fermentation for forage and reasonableness of the position and direction of fans and to monitor the cow barn environment to reduce the effect of heat stress on the dairy cows. Besides, upgrade of formula of fermentation material, cost control and new production process including silage wrapping and clyster are also adopted by the Group to improve the quality of raw material, strengthen the refined management of source, process and site, boost feed efficiency and maximize profit.

ADJUSTING STRATEGY TO FOCUS ON THE UPSTREAM AND BUILD SAFE MILK SOURCE BASE THROUGH EFFORTS IN THE FUTURE

In view of the intense competition in the dairy industry, our Group has devoted significant resources to secure sound development of the dairy industry over the past years. During the year, the Company has promptly adjusted its strategy to focus on the dairy farming business with establishing a safe base for milk sources and producing high quality organic milk as its core principle. An agreement was entered in to between the Group and Mengniu Group to dispose 51% of its equity interests in the down-stream liquid milk business. Meanwhile, another agreement was also entered into to acquire minority interests in 12 farms located at the Ulan Buh Desert, the core area of the whole-process organic industry system in the desert. By cooperating with Mengniu, the Company has been able to obtain harmonious development in its dairy business, while supplementing its demand for working capital efficiently. In addition, the Company has also consolidated high-quality assets in the upstream of dairy farming business, and devoted further efforts to dairy farming business and raw milk business capitalizing on its valuable experience accumulated and taking advantages of barrier of the whole-process organic industry system in the desert, which has contributed to sustainable development of the Company in the long run.

FINANCIAL REVIEW

In 2018, the Group's revenue increased by 6.7% from RMB2,706.8 million in 2017 to RMB2,887.2 million. Gross profit of the Group decreased by 13.2% from RMB1,083.0 million in 2017 to RMB939.6 million in 2018. Loss attributable to owners of the parent increased from RMB1,015.3 million in 2017 to RMB2,225.2 million in 2018.

As at December 23, 2018, a share purchase agreement was entered into between Mengniu Group and the Group. As at this reporting date, closing of the share purchase agreement has not taken place. The Group disposed 51% of its holding shares in the dairy business (Inner Mongolia Shengmu High-tech Dairy Co., Ltd. and Hohhot Shengmu High-tech Dairy Co., Ltd., being the liquid milk processing business segment of the Group, hereinafter referred to as the "**dairy business**") to Mengniu Group. According to the requirements under the IFRSs, the dairy business is stated as a held-for-sale business. With the exception of the dairy business, other businesses of the Group (hereinafter referred to as the "**farming business**") are stated as continuing operations.

Analysis on Consolidated Statement of Profit or Loss and Other Comprehensive Income

Revenue

Unit: RMB in thousands, except percentages

	Dairy farming business				Liquid milk business[3]				
For the year ended December 31,	**Segment revenue**	**Inter-segment sales[2]**	**External sales**	**External sales as % of total revenue**	**Segment revenue**	**Inter-segment sales**	**External sales**	**External sales as % of total revenue**	**Total revenue**
2018	**2,404,084**	**356,340**	**2,047,744**	**70.9%**	**839,423**	**—**	**839,423**	**29.1%**	**2,887,167**
2017	2,502,230	1,223,040	1,279,190	47.3%	1,439,172	11,520	1,427,652	52.7%	2,706,842

(1) The dairy business is still presented as the downstream business of the entire industrial chain instead of business held for sale during the current and prior years in this table and tables below. Such presentation can reflect and analyze the operating condition and changes of the Group for the current and prior years more reasonably.

(2) Represents self-produced raw milk sold to the Group's liquid milk business.

(3) Liquid milk business includes the dairy business and the milk powder business.

Given the rising competition existing in the dairy products market, the Group required the market terminals to stabilize prices globally, to strictly implement the strategy of high price, cease all low price promotion activities, and increase uniform retail prices, so as to improve the brand image of Shengmu, boost customers' confidence in cooperation, and achieve win-win situation. As such, the Group proactively adapted the sales structure of its upstream and downstream products and optimized the quality of sales outstanding of the Group. On the basis of ensuring the effective operation of its self-owned brand organic liquid milk, the Group expanded the sales of raw milk to clients in the industry. Sales of the Group's raw milk increased from RMB1,279.2 million in 2017 to RMB2,047.7 million in 2018, representing an increase of 60.1% as compared to the same period of last year. Sales of self-owned brand liquid milk decreased from RMB1,427.7 million in 2017 to RMB839.4 million in 2018, representing a decrease of approximately 41.2% as compared to the same period last year.

Dairy farming business

	For the year ended December 31,							
	2018				2017			
	Revenue (RMB'000)	**Sales volume (Tonnes)**	**Average selling price (RMB/Tonne)**	**Revenue as % of dairy farming segment revenue**	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	**1,051,283**	**287,066**	**3,662**	**43.8%**	815,492	211,027	3,864	32.6%
Inter-segment sales(1)	**325,211**	**76,234**	**4,266**	**13.5%**	1,167,334	222,755	5,240	46.6%
Subtotal	**1,376,494**	**363,300**	**3,789**	**57.3%**	1,982,826	433,782	4,571	79.2%
Premium non-organic raw milk								
External sales	**996,461**	**282,772**	**3,524**	**41.4%**	463,698	137,412	3,375	18.6%
Inter-segment sales(2)	**31,129**	**9,222**	**3,375**	**1.3%**	55,706	14,736	3,780	2.2%
Subtotal	**1,027,590**	**291,994**	**3,519**	**42.7%**	519,404	152,148	3,414	20.8%
Daily farming segment	**2,404,084**	**655,294**	**3,669**	**100.0%**	2,502,230	585,930	4,271	100.0%

(1) Represents self-produced organic raw milk sold to the Group's organic liquid milk business.

(2) Represents self-produced premium non-organic raw milk sold to the Group's high-end non-organic liquid milk business.

In 2018, sales volume of raw milk increased by 11.8% from 585,930 tonnes in 2017 to 655,294 tonnes in 2018. Leveraging on its sound cooperation relationship with clients in the industry, the Group expanded the sales of raw milk to its clients in the industry. The external sales volume accounted for 87.0% of sales volume of raw milk in 2018, compared to 59.5% in 2017. Affected by (1) supply and demand factors in the dairy industry, some organic raw milk were sold at a proper lower price to the industry clients, as a result, selling price of the overall organic raw milk decreased by 17.1% from RMB4,571/tonne in 2017 to RMB3,789/tonne in 2018; and (2) the Group's adjustment of deployment of dairy farming business, some organic farms no longer held organic certification. The decrease in the number of organic farms resulted in the change in the production structure of organic and non-organic raw milk in the second half of the year and the selling price of non-organic raw milk declined more significantly as compared to that of organic raw milk, as a result, revenue from the daily farming segment decreased from RMB2,502.2 million in 2017 to RMB2,404.1 million in 2018.

Liquid milk business

Due to implementation of the Group's market strategy of "sales-oriented production for end product freshness" (以銷定產，保證終端產品的新鮮度), revenue from the Group's liquid milk business decreased by 41.2% from RMB1,427.7 million in 2017 to RMB839.4 million in 2018. Revenue from liquid milk business accounted for 29.1% of total revenue of the Group in 2018, a significant decrease from 52.7% in 2017. Despite a significant decrease in sales volume of liquid milk products, unit selling price of liquid milk products improved notably as compared to 2017 and quality of sales outstanding also improved significantly, showing the effect of new market strategy.

Organic liquid milk business

	For the year ended December 31,		
	2018	2017	Increase/ (Decrease)
Revenue (RMB’000)	**786,960**	1,400,277	(43.8%)
Sales volume (Tonnes)	**68,219**	145,949	(53.3%)
Average selling price (RMB/Tonne)	**11,536**	9,594	20.2%

Cost of Sales, Gross Profit and Gross Margin

Cost of sales of the Group increased from RMB1,623.8 million in 2017 to RMB1,947.6 million in 2018. Gross profit decreased from RMB1,083.0 million in 2017 to RMB939.6 million in 2018. Gross profit margin decreased from 40.0% in 2017 to 32.5% in 2018. As (1) the Group adjusted the product sales structure as a result of adjustment of operating strategy, which led to an obvious decrease in the sales of grass-to-glass organic liquid milk which has a high gross profit; (2) affected by factors including organic raw milk supply and demand, the unit price of external sales of organic raw milk decreased significantly; and (3) the Group adjusted its deployment of dairy farming business, which led to an obvious decrease in the sales volume of organic raw milk with relative high gross profit, cost of sales of the Group in 2018 increased by 19.9% from 2017 and gross profit of the Group in 2018 decreased by 13.2% from 2017.

***Other Income and Gains/(Losses) and Impairment Losses on Financial and Contract Assets** (Note)*

Other income and losses and impairment losses on financial and contract assets of the Group increased from net losses of RMB724.0 million in 2017 to net losses of RMB1,176.3 million in 2018, mainly attributable to the provision for impairment of trade receivables and other receivables referring to the recoverability of individual account receivables and other receivables using expected credit loss approach by the liquid milk business of Group.

Of which, other income and gains/(losses) and impairment losses on financial and contract assets of the farming business increased from net losses of RMB13.6 million in 2017 to net losses of RMB78.8 million in 2018, mainly attributable to the fact that an impairment loss of the dairy farming business was recognized in respect of the guarantee for the bank loans of Shengmu Forage, an associated company in 2018.

Note: Effective from 1 January 2018, impairment losses on financial and contractual assets are separately stated in the consolidated statement of profit or loss and other comprehensive income, while in 2017, impairment losses on assets were included in other income and losses in the consolidated statement of profit or loss and other comprehensive income. For the purpose of consistent analysis, other income and gains/(losses) and the impairment losses on financial and contractual assets are aggregated.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fees and relevant employees' remunerations. In 2018 and 2017, selling and distributing expenses of the Group amounted to RMB341.1 million and RMB354.4 million, respectively. The sales volume of liquid milk in 2018 declined significantly as compared to 2017. The less decrease in selling and distribution expenses was mainly attributable to the increase in the promotion expenses of liquid milk terminal market by the Group to implement the market strategy.

Of which, selling and distribution expenses of farming business were mainly logistics and transportation expenses. Selling and distribution expenses increased by approximately 82.6% from RMB34.9 million in 2017 to RMB63.7 million in 2018, mainly attributable to (1) obvious increase in the sales volume of raw milk by 11.8% from 585,930 tonnes in 2017 to 655,294 tonnes in 2018, and (2) great change in the external and internal sales structure of sale volumes of raw milk, i.e., external sales volume increased by approximately 63.5% from 348,439 tonnes in 2017 to 569,838 tonnes. As a result, costs of logistics and transportation increased significantly as compared to last year.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees. In 2018 and 2017, administrative expenses of the Group increased, accounting for 5.3% and 3.8% of revenue respectively. Administrative expenses in the current year increased substantially as compared to the prior year, which was mainly attributable to the damage of inventories and obviously increase in the intermediary expenses arising from transactions such as disposal of liquid milk business during the current year.

Of which, in 2018 and 2017, administrative expenses of farming business increased, accounted for 5.5% and 4.1% of revenue respectively, which was mainly attributable to the damage of inventories during the current year.

Net Gains or Losses Arising from Changes in Fair Value less Costs to Sell of Biological Assets

Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows, due to the changes in physical attributes and market prices of the dairy cows and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases, as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases.

In 2018 and 2017, the Group's net losses arising from changes in fair value less costs to sell of biological assets were RMB1,321.6 million and RMB595.5 million respectively. The significant increase in net loss from changes in fair value less costs to sell of biological assets of the Group from 2018 to 2017 was mainly attributable to the combined effects of (1) the Group's control over its cow numbers in response to the weak demand for raw milk in the market, and (2) the sharp decline of raw milk price.

Share of Profits and Losses of Associates

The Group's associates include (a) the companies that were jointly established by the Group and its premium distributors in its key distribution cities to distribute the liquid milk products with the Group's self-owned brand; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; and (c) Food Union Shengmu and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests and which produces dairy products with the raw milk to be purchased by it from the Group. In 2018 and 2017, the Group recorded share of losses of associates of RMB15.6 million and RMB6.9 million, respectively.

Of which, in 2018 and 2017, the farming business recorded share of losses of associates of RMB15.2 million and RMB2.9 million, respectively.

Income Tax Credit/(expense)

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

In accordance with "The Notice of Tax Policies Relating to the Implementation of the Western China Development Strategy" jointly issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation (Cai Shui [2011] No.58) (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)), the Group's taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax expense of the Group was RMB27.9 million in 2018 while income tax credit was RMB7.5 million in 2017. Income tax expense of the Group in 2018 was due to the reversal of deferred income tax assets by the Group in the current year.

Loss Attributable to Owners of the Parent and (Loss)/profit Attributable to Non-Controlling Interests

Profit/(loss) attributable to non-controlling interests mainly represents the profit for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In 2018, loss attributable to non- controlling interests was RMB86.0 million and in 2017, profit attributable to non-controlling interests was RMB161.5 million.

In 2018, due to combined effects of (1) a significant decrease in the sales volume of the Group's self-owned brand organic liquid milk products; (2) a sharp decrease in the selling price of the Group's raw milk as compared to last year; (3) a substantial loss arising from changes in fair value less costs to sell of biological assets attributable to the parent; and (4) the provision for asset impairment of trade receivables and other receivables, loss attributable to owners of the parent of the Group was RMB2,225.2 million, increasing by 119.2% as compared with loss of RMB1,015.3 million in 2017.

(Loss)/profit for the year of the farming business recorded a loss of RMB1,047.2 million in 2018, decreased by 625.3% as compared with profit of RMB199.3 million in 2017. Excluding losses arising from changes in fair value less costs to sell of biological assets, profit for the year of the farming business was RMB274.3 million in 2018, decreased by 65.5% from RMB794.8 million in 2017, mainly due to the sharp decline of raw milk price of the Group as compared to the previous year.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at December 31, 2018, total current assets of the Group were RMB2,048.2 million (as at December 31, 2017: RMB3,604.3 million), primarily consisting of inventories of RMB637.0 million (as at December 31, 2017: RMB860.8 million), trade and bills receivables of RMB344.1million (as at December 31, 2017: RMB1,100.0 million), prepayments, other receivables and other assets of RMB685.3 million (as at December 31, 2017: RMB898.8 million), and cash and bank balances of RMB374.3 million (as at December 31, 2017: RMB711.2 million), and biological assets of RMB7.5 million (as at December 31, 2017: RMB33.5 million).

Trade and Bills Receivables

Unit: RMB in thousands, except percentages

	As at	
	December 31, 2018	December 31, 2017
Trade and bills receivables	**1,958,362**	1,840,492
Impairment	**(1,614,213)**	(740,486)
Total	**344,149**	1,100,006

	As at			
Aging	**December 31, 2018**		December 31, 2017	
	Amount	**Percentage**	Amount	Percentage
Within 6 months	**317,789**	**92.3%**	820,352	74.6%
7 to 12 months	**21,941**	**6.4%**	272,596	24.8%
Over 1 year	**4,419**	**1.3%**	7,058	0.6%
Total	**344,149**	**100.0%**	1,100,006	100.0%

Pursuant to the provision policy for asset impairment established by the Group based on its actual production and operation conditions, the Group determined the receivable group by using aging as a credit risk characteristic and, by expected credit loss approach, made provisions for bad debts in respect of account receivables, and also estimated the provisions for asset impairment with reference to the recoverability of individual trade receivables and customer creditworthiness. In 2018, the Group made a total provision of RMB832.2 million for the impairment of trade receivables.

Current Liabilities

As at December 31, 2018, total current liabilities of the Group amounted to RMB4,573.4 million (as at December 31, 2017: RMB4,341.6million), primarily consisting of trade and bills payables of RMB1,456.3 million (as at December 31, 2017: RMB1,189.0 million), receipts in advance of nil (as at December 31, 2017: RMB14.7 million), other payables and accruals of RMB715.2 million (as at December 31, 2017: RMB482.4 million), interest-bearing bank and other borrowings of RMB2,320.7 million (as at December 31, 2017: RMB2,654.0 million), derivative financial instruments of RMB81.2 million (as at December 31, 2017: nil), and income tax payable of RMB: nil (as at December 31, 2017: RMB1.5 million).

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and most transactions are conducted in RMB. As at December 31, 2018, the Group did not have significant foreign currency exposure from its operations, except for bank balances equivalent to approximately RMB6.7 million, RMB0.6 million and RMB0.3 million which were denominated in Hong Kong dollars, United States dollars and Euro, respectively. As at December 31, 2018, the Group did not enter into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Charge on Assets

As at December 31, 2018, the Group had pledged deposits of approximately RMB297.1 million (as at December 31, 2017: RMB128.9 million) in total to banks in China as deposits for the issuance of letters of credit and bank drafts. At 31 December 2018, certain of the Group's biological assets with a fair value of approximately RMB1,069.8 million (2017: nil) and equity interests in fourteen non-wholly owned subsidiaries with net assets amounted to RMB2,311.9 million in total (2017: nil) were pledged to entrusted loans amounting to RMB1,300.0 million granted to the Group.

Liquidity, Financial Resources and Capital Structure

Throughout 2018, the Group financed its daily operations mainly from internally generated cash flows and bank and other borrowings. As at December 31, 2018, the Group had (a) cash and bank balances of RMB77.3 million (as at December 31, 2017: RMB582.3 million), and (b) interest-bearing bank and other borrowings of RMB2,370.2 million (as at December 31, 2017: RMB3,374.2 million), all denominated in RMB, of which, RMB49.5 million were repayable within five to eight years, while the remaining interest-bearing bank and other borrowings were repayable within one year. The gearing ratio (calculated as total debt (total bank borrowings) divided by total equity) was 82.3% as at December 31, 2018 (as at December 31, 2017: 62.3%). Except bank and other borrowings equivalent to RMB60.9 million which are denominated in Euros and bear fixed interest rates, the Group's remaining bank and other borrowings are denominated in RMB and bear fixed interest rates. For the year ended December 31, 2018, the annual interest rate of bank borrowings ranged from 1.55% to 12.97% (for the year ended December 31, 2017: 1.55% to 6.98%).

Environmental Policies and Performance

The Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC in 2018.

Capital Commitments

As at December 31, 2018, the Group's capital commitments amounted to RMB418.3 million (as at December 31, 2017: RMB225.6 million). The Group's capital commitments at the end of 2018 increased significantly as compared to the end of 2017, which was mainly attributable to the fact that the Group proposed to acquire minority interests in 12 farming companies with partial consideration of RMB300.0 million in cash pursuant to the equity transfer framework agreement entered into with 12 natural person shareholders.

HUMAN RESOURCES

As at December 31, 2018, the Group had a total of 3,814 employees (as at December 31, 2017: 3,803 employees). Total staff costs throughout 2018 (including the emoluments of Directors and senior management of the Company) amounted to RMB293.3 million (2017: RMB285.9 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

Contingent Liabilities

During the year and as at December 31, 2018, the Group provided guarantees with amount of RMB155,000,000 (2017: RMB252,600,000), RMB123,419,000 (2017: RMB102,880,000) and RMB22,070,000 (2017: RMB180,000,000) for the bank borrowings of Shengmu Forage, Food Union Shengmu and some distributors, respectively. The external guarantees provided by the Group were recognized in the financial statements for 2017 and 2018 on the basis of the valuation of the guarantees provided by the independent professional valuer regarded as the best estimates required to pay for the performance of the current relevant obligations in accordance with the requirements of IFRSs.

Material Acquisitions And Disposals

As at December 21, 2018, the Company and Shengmu High-tech entered into the Equity Transfer Framework Agreement with 12 individual shareholders to acquire minority interests in the 12 indirectly holding subsidiaries. A circular regarding the acquisition of minority interests in the 12 Farming Companies and the issue of consideration shares under specific mandate was published as at March 12, 2019. This resolution was passed at the extraordinary general meeting on March 28, 2019.

Future Plans for Material Investments or Acquisition of Capital Assets and Expected Source of Funding

Save as disclosed above in “Capital Commitments” and in the prospectus under the section headed “Future Plans and Use of Proceeds”, the Group does not have any plan for material investments or acquisition of capital assets as at the date of this announcement.

OUTLOOK

The production of quality-assured dairy products is conditional upon the buildup of a quality milk source base. In view of this, Shengmu selected the Ulan Buh Desert as its milk source base and conducts control over each aspect, including environment, planting, farming, processing and products, allowing the entire production chain to be traceable and resulting in high-quality milk with international and EU organic certification.

Grass Planting, ensuring high quailty forage grass

The Group proactively communicates and cooperates with domestic and international universities and research institutes and introduces cutting-edge solutions to the whole process of organic planting. It improves the technology of forage grass planting in the desert, continuously optimizes the scientific management of the organic pasture and improves the production capacity of quality forage grass to satisfy the demand for quality forage grass from dairy farming and ensure the safety and quality of dairy products.

Cow Breeding, Demonstrating Dairy Farming with High Welfare

We have been adhering to the comprehensive outlook of integrating the development of China into the world and the present with the future. In combination with the fact that China Shengmu is highly intensive and standardized in its development, and by introducing standardized management philosophy, the Company's operating quality and efficiency was further enhanced. In terms of cow breeding, the Company will promote the optimization of dairy cow variety by integrating superior resources worldwide. In terms of the healthcare of dairy cows, the Company focuses on the welfare of dairy cows to reduce the risk of disease by capitalizing its regional advantages. In terms of breeding, the Company will optimise breeding formula and provide accurate nutrition based on locally grown plants, so as to enhance the digestibility of feed and reduce the feed cost for each kilo of milk. In terms of the operation and maintenance of the milking halls, the Company will enhance operating efficiency of the milking halls by integrating the resources from globally leading equipment manufacturers, such as GEA.

Produce Premium Milk through Management and Control with Strict Standards and System

Shengmu raw milk mainly supplies high-end products such as Shengmu organic pure milk, Mengniu Deluxe (including organic Deluxe), and Mengniu milk for students, as a result, it requires higher standards of management and control of the quality of raw milk. Shengmu has established and operated a raw milk quality management system that covers every part of operation to pursue premium raw milk better than industrial standard.

Ecological Farming with Recycling Economy in Response to Policies

Adhering to the strategy of "co-development of planting and farming", Shengmu uses organic forge grass to feed its cows and uses cow dung as fertilizer for soil for the duel effect of land development and desert management. In developing planting based on farming and forming harmonious match between forge grass and herds, Shengmu pushes forward synergetic development of production and ecology, effectively achieving mutual development of ecological, economic, and social effects.

CORPORATE GOVERNANCE PRACTICES

The Company ensures that the Company and its subsidiaries are committed to achieving and maintaining high standards of corporate governance. The Board understands the influence and importance of high standards of corporate governance on the value of the Company, and that good corporate governance is in the interest of the Group and shareholders as a whole.

We have adopted, applied and complied with the code provisions contained in the Code on Corporate Governance and Corporate Governance Report (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the year ended December 31, 2018, except for provision A2.1 of the Corporate Governance Code as disclosed below.

Pursuant to provision A2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. SHAO Genhuo currently performs these two roles (chairman and chief executive officer). The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning and implementation for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board reviewed and considered splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole. On 16 January 2019, Mr. Shao Genhuo has resigned as the acting executive officer of the Company but remained as chairman of the Company, and Mr. Zhang Jiawang has been appointed as the chief executive officer of the Company.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended December 31, 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended December 31, 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company were approximately RMB801.2 million. The relevant net proceeds are intended to be or have been used in accordance with the proposed usages as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus of the Company dated June 30, 2014.

As at December 31, 2018, the net proceeds were applied as follows:

	Funds utilized as at December 31, 2018 RMB'000
Constructing six additional organic dairy farms	**182,525**
Acquiring dairy cows domestically and from overseas	**145,644**
Sales and marketing activities and expansion of distribution network	**40,102**
Expanding the Group's liquid milk production capacity	**120,306**
Repayment of loans	**120,306**
Additional working capital and general corporate purposes	**80,204**
Total	**689,087**

AUDIT COMMITTEE

The Company established the Audit Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on January 1, 2016. As at December 31, 2018, the Audit Committee comprised three independent non-executive Directors (Mr. WANG Liyan, Mr. FU Wenge and Mr. LI Xuan) and was chaired by Mr. WANG Liyan.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the annual results for 2018.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the announcement of the Group's results for the year ended December 31, 2018 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the results announcement.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended December 31, 2018 (2017: nil).

ANNUAL GENERAL MEETING

The 2019 annual general meeting will be held on or before June 30, 2019. A notice convening the 2019 annual general meeting will be published on the website of the Stock Exchange and the Company and dispatched to the Shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.youjimilk.com. The annual report of the Company for the year of 2018 containing all the information required by the Listing Rules will be dispatched to Shareholders and published on the above websites in due course.

By Order of the Board
China Shengmu Organic Milk Limited
Shao Genhuo
Chairman

Hong Kong, March 28, 2019

As at the date of this announcement, the executive directors of the Company are Mr. Yao Tongshan, Mr. Wu Jianye, and Mr. Zhang Jiawang; and the non-executive directors of the Company are Mr. Wen Yongping, Mr. Sun Qian and Mr. Shao Genhuo; and the independent non-executive directors of the Company are Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan.