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# 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)**

## INTERIM RESULTS ANNOUNCEMENT
## FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

**FINANCIAL HIGHLIGHTS**

| | For the six-month period ended 30 June | | |
|---|---|---|---|
| | **2019** | 2018 | **Movements** |
| | **RMB'000** | RMB'000 | |
| Revenue | **1,420,582** | 1,400,105 | **1.5%** |
| Gross profit | **517,404** | 434,880 | **19.0%** |
| Profit/(loss) from continuing operations | **32,233** | (722,170) | **754,403** |
| Loss from a discontinued operation | **(52,991)** | (556,033) | **503,042** |
| Loss for the period | **(20,758)** | (1,278,203) | **1,257,445** |

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**") herein presents the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**" or "**Shengmu**") for the six-month period ended 30 June 2019 (the "**2019 Interim Period**" or the "**Interim Period**"), together with the comparative figures for the six months period ended 30 June 2018 (the "**2018 Interim Period**") as follows:

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| | Notes | **For the six months ended 30 June** **2019** | 2018 |
|---|---|---|---|
| | | **(Unaudited)** | (Unaudited) Restated* |
| | | **RMB'000** | RMB'000 |
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 3 | **1,200,780** | 969,370 |
| Cost of sales | | **(756,195)** | (682,506) |
| Gross profit | | **444,585** | 286,864 |
| Loss arising from changes in fair value less costs to sell of biological assets | | **(163,495)** | (886,071) |
| Other income and (losses)/gains | | **(16,472)** | 16,351 |
| Selling and distribution expenses | | **(17,809)** | (27,583) |
| Administrative expenses | | **(57,336)** | (37,148) |
| Impairment losses on financial and contract assets, net | | **(12,802)** | (1,016) |
| Finance costs | | **(122,860)** | (70,650) |
| Share of losses of associates | | **(21,361)** | (3,398) |
| PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS | | **32,450** | (722,651) |
| Income tax (expense)/credit | 4 | **(217)** | 481 |
| PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS | | **32,233** | (722,170) |
| **DISCONTINUED OPERATION** | | | |
| Loss for the period from a discontinued operation | 5 | **(52,991)** | (556,033) |
| LOSS FOR THE PERIOD | | **(20,758)** | (1,278,203) |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

| | Note | For the six months ended 30 June 2019 | 2018 |
|---|---|---|---|
| | | **(Unaudited)** | (Unaudited) Restated* |
| | | **RMB'000** | RMB'000 |
| Profit/(loss) attributable to: | | | |
| Owners of the parent | | **(73,501)** | (1,158,623) |
| Non-controlling interests | | **52,743** | (119,580) |
| | | **(20,758)** | (1,278,203) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 7 | | |
| Basic | | | |
| – For loss for the period | | **(RMB0.012)** | (RMB0.182) |
| – For loss for continuing operations | | **(RMB0.003)** | (RMB0.095) |
| Diluted | | | |
| – For loss for the period | | **(RMB0.012)** | (RMB0.182) |
| – For loss for continuing operations | | **(RMB0.003)** | (RMB0.095) |
| Exchange differences on translation of foreign operations | | **(1,903)** | (4,198) |
| Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods | | **(1,903)** | (4,198) |
| **OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX** | | **(1,903)** | (4,198) |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(22,661)** | (1,282,401) |
| Profit/(loss) attributable to: | | | |
| Owners of the parent | | **(75,404)** | (1,162,821) |
| Non-controlling interests | | **52,743** | (119,580) |
| | | **(22,661)** | (1,282,401) |

* Certain amounts shown here do not correspond to the interim condensed consolidated financial information for the six months ended 30 June 2018 and reflect adjustments made. Refer to note 2 to the interim condensed consolidated financial information for the six months ended 30 June 2019.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| | Note | As at 30 June 2019 | As at 31 December 2018 |
|---|---|---|---|
| | | **(Unaudited)** | (Audited) |
| | | **RMB'000** | RMB'000 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **2,044,931** | 2,087,045 |
| Right-of-use assets | | **20,074** | — |
| Prepaid land lease payments | | **—** | 18,845 |
| Other intangible assets | | **10,813** | 11,463 |
| Investments in associates | | **199,118** | 90,328 |
| Biological assets | 8 | **2,568,631** | 2,667,427 |
| Prepayments, other receivables and other assets | | **88,074** | 1,014 |
| Long term receivables | | **11,794** | 11,516 |
| Deferred tax assets | | **410** | 410 |
| Other non-current assets | | **11,289** | 9,930 |
| Total non-current assets | | **4,955,134** | 4,897,978 |
| **CURRENT ASSETS** | | | |
| Inventories | | **346,496** | 604,060 |
| Biological assets | 8 | **3,778** | 7,492 |
| Trade and bills receivables | | **225,871** | 246,715 |
| Prepayments, other receivables and other assets | | **769,809** | 599,092 |
| Pledged deposits | | **46,887** | 150,617 |
| Cash and bank balances | | **250,235** | 74,052 |
| Assets of a disposal group classified as held for sale | | **—** | 978,355 |
| Total current assets | | **1,643,076** | 2,660,383 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | As at 30 June 2019 (Unaudited) RMB'000 | As at 31 December 2018 (Audited) RMB'000 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Trade and bills payables | **989,827** | 997,085 |
| Other payables and accruals | **658,519** | 486,235 |
| Derivative financial instruments | **5,779** | 81,238 |
| Interest-bearing bank and other borrowings | **1,999,288** | 2,218,864 |
| Liabilities directly associated with the assets classified as held for sale | **—** | 790,006 |
| Total current liabilities | **3,653,413** | 4,573,428 |
| **NET CURRENT LIABILITIES** | **(2,010,337)** | (1,913,045) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **2,944,797** | 2,984,933 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank and other borrowings | **43,665** | 49,518 |
| Long term payables | **57,205** | 56,528 |
| Total non-current liabilities | **100,870** | 106,046 |
| **Net assets** | **2,843,927** | 2,878,887 |
| **EQUITY** | | |
| **Equity attributable to owners of the parent** | | |
| Share capital | **50** | 50 |
| Reserves | **2,018,063** | 2,017,863 |
| | **2,018,113** | 2,017,913 |
| **Non-controlling interests** | **825,814** | 860,974 |
| **Total equity** | **2,843,927** | 2,878,887 |

# NOTES

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

***Basis of Preparation***

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

Going Concern

The Group had net current liabilities of RMB2,010,337,000 and capital commitments of RMB316,706,000 as at 30 June 2019 (31 December 2018: net current liabilities of RMB1,913,045,000 and capital commitments of RMB418,257,000). In view of the net current liability position, the Directors has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will has sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB866,012,000 as at 30 June 2019, the entrusted loan facility of RMB1,000,000,000 with the maturity date extended to 24 December 2020 and cash flow projections for the period ending 30 June 2020, 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 interim condensed consolidated financial information 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.

1. **BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)**

***Changes in Accounting Policies and Disclosures***

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

| | |
|---|---|
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation* |
| IFRS 16 | *Leases* |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| IFRIC 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

***Changes in Accounting Policies and Disclosures (Continued)***

(a) Adoption of IFRS 16 (continued)

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

*Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

***Changes in Accounting Policies and Disclosures (Continued)***

(a) Adoption of IFRS 16 (continued)

*Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

| | Increase/(decrease) RMB'000 (Unaudited) |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 20,163 |
| Decrease in prepaid land lease payments | (18,845) |
| Decrease in prepayments, other receivables and other assets | (1,318) |
| | — |

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

***Changes in Accounting Policies and Disclosures (Continued)***

(a) Adoption of IFRS 16 (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

*Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

***Changes in Accounting Policies and Disclosures (Continued)***

(a) Adoption of IFRS 16 (continued)

*Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

1. **BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)**

***Changes in Accounting Policies and Disclosures (Continued)***

(a) Adoption of IFRS 16 (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and the movement during the period are as follows:

| | Right-of-use assets<br>Prepaid land lease payments<br>RMB'000 |
|---|---|
| **As at 1 January 2019** | 20,163 |
| Additions | 686 |
| Depreciation charge | (775) |
| **As at 30 June 2019** | 20,074 |

The Group recognised rental expenses from short-term leases of RMB2,392,000 and leases of low-value assets of RMB982,000 for the six months ended 30 June 2019.

## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

***Changes in Accounting Policies and Disclosures (Continued)***

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9, accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

## 2. CORRECTION OF PRIOR PERIOD ERRORS

During the year ended 31 December 2018, the Group identified the following guarantees issued by the Group in previous years which had not been disclosed or accounted for in its financial information as previously reported for the six months ended 30 June 2018. The guarantees were issued for bank facilities granted by banks to the Group's distributors and associated companies:

## 2. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

(1) During the year ended 31 December 2017, the Group provided joint guarantees to banks for bank loans of RMB180,000,000 granted to its distributors. As at 30 June 2018, the balance of the bank loans on which the guarantees were granted was RMB45,500,000.

(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 and the six months ended 30 June 2018. 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. Yao Tongshan, 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 30 June 2018, the utilized balance of the bank loan was RMB123,419,000.

These transactions have been accounted for in the Group's consolidated financial statements for the year ended 31 December 2018.

In addition, the Group assessed the expected credit losses ("**ECL**") for the financial assets, mainly including accounts receivable and other receivables, during the year ended 31 December 2018 at rates different to the ones originally used in the preparation of the interim financial information for the six months ended 30 June 2018. Accordingly, an adjustment was made to the balance of retained earnings as at 1 January 2018 in the preparation of the annual financial statements for the year ended 31 December 2018. In this connection, the Group consider that the comparatives for the six months ended 30 June 2018 should be restated based on the revised rates for the year ended 31 December 2018 when the financial information for the six months ended 30 June 2019 are presented with such comparatives.

## 2. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

The Group has quantified the financial impact of the guarantees and ECL of financial assets on its financial information and the impact on the Group's interim condensed consolidated statement of profit or loss and the interim condensed consolidated statement of changes in equity for the six months ended 30 June 2018 is provided in the table below.

| | **As Reported** (Unaudited) RMB'000 | **Adjustments** (Unaudited) RMB'000 | **Restated-Group** (Unaudited) RMB'000 | **Restated-Continuing operations** (Unaudited) RMB'000 |
|---|---|---|---|---|
| Cost of sales | (965,060) | (165) | (965,225) | (682,506) |
| Other income and gains/(losses) | (486,387) | 515,809 | 29,422 | 16,351 |
| Selling and distribution expenses | (114,888) | (4,074) | (118,962) | ( 27,583) |
| Impairment losses on financial and contract assets* | — | (603,299) | (603,299) | ( 1,016) |
| Loss before tax | (1,181,356) | (91,729) | (1,273,085) | (722,651) |
| Loss for the period | (1,186,474) | (91,729) | (1,278,203) | (722,170) |
| Total comprehensive loss for the period | (1,190,672) | (91,729) | (1,282,401) | (726,368) |
| Loss attributable to owners of the parent | (1,066,894) | (91,729) | (1,158,623) | (602,590) |
| Total comprehensive loss attributable to owners of the parent | (1,071,092) | (91,729) | (1,162,821) | (606,788) |
| Basic loss per share attributable to ordinary equity holders of the parent | ( 0.168) | (0.014) | ( 0.182) | ( 0.095) |
| Diluted loss per share attributable to ordinary equity holders of the parent | ( 0.168) | (0.014) | ( 0.182) | ( 0.095) |
| Retained profits as at 30 June 2018 | 525,932 | (198,815) | 327,117 | 327,117 |
| Equity attributable to owners of the parent as at 30 June 2018 | 3,281,467 | (198,815) | 3,082,652 | 3,082,652 |
| Total equity as at 30 June 2018 | 4,196,838 | (198,815) | 3,998,023 | 3,998,023 |

* The adjustment comprised the correction of prior period errors of expected credit losses of RMB106,651,000 and the reclassification of expected credit losses of RMB496,648,000 from other income and gains/(losses) to impairment losses on financial and contract assets to comply with the current period's presentation.

## 3. Revenue

An analysis of revenue from continuing operations is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| **Revenue from contracts with customers** | | |
| Sales of goods | **1,200,780** | 969,370 |
| <u>**Disaggregated revenue information for revenue from contracts with customers**</u> | | |
| **Type of goods or services** | | |
| – Sales of goods | **1,200,780** | 969,370 |
| **Geographical markets** | | |
| – Mainland China | **1,200,780** | 969,370 |
| **Timing of revenue recognition** | | |
| – At a point in time | **1,200,780** | 969,370 |

## 4. INCOME TAX (EXPENSE)/CREDIT

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Current - PRC | **—** | — |
| Deferred | **(217)** | 481 |
| Total tax (expense)/credit for the period from continuing operations | **(217)** | 481 |
| Total tax expense for the period from a discontinued operation | **—** | (5,599) |
| | **(217)** | (5,118) |

## 5. 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 Inner Mongolia Mengniu Dairy (Group) Co., Ltd. ("**Inner Mongolia Mengniu**"), a subsidiary of China Mengniu Dairy Limited ("**China Mengniu**"). Shengmu Dairy and Hohhot Dairy engage in producing and distributing liquid milk products. As at 31 December 2018, Shengmu Dairy and Hohhot Dairy were classified as a disposal group held for sale and as a discontinued operation. The disposal was completed by the end of April 2019.

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

## 5. DISCONTINUED OPERATION (CONTINUED)

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Revenue | **219,802** | 430,735 |
| Cost of sales | **(146,983)** | (282,719) |
| Gross profit from the discontinued operation | **72,819** | 148,016 |
| Other income and (losses)/gains | **(19,402)** | 13,071 |
| Selling and distribution expenses | **(100,364)** | (91,379) |
| Administrative expenses | **(10,038)** | (12,377) |
| Finance costs | **(3,945)** | (5,103) |
| Other expenses | **—** | (104) |
| Share of losses of associates | **(208)** | (275) |
| Impairment losses on financial and contract assets | **(77,604)** | (602,283) |
| **Loss before tax from the discontinued operation** | **(138,742)** | (550,434) |
| Gain on disposal of the discontinued operation | **85,751** | — |
| Income tax expense | **—** | (5,599) |
| **Loss for the period from the discontinued operation** | **(52,991)** | (556,033) |

**6. DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the 2019 Interim Period (for the 2018 Interim Period: Nil).

**7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of RMB73,501,000 (2018: RMB1,158,623,000), and the weighted average number of ordinary shares of 6,354,400,000 (2018: 6,354,400,000) shares in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of RMB73,501,000 (2018: RMB1,158,623,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss per share calculation of 6,354,400,000 (2018: 6,354,400,000) shares, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise warrants and dilutive potential ordinary shares of 68,152,000 shares (2018: Nil).

No adjustment has been made to the basic loss per share amount presented for the six months period ended 30 June 2019 in respect of a dilution because the impact of the warrants and dilutive potential ordinary shares had an anti-dilutive effect on the basic loss per share amount presented.

## 8. BIOLOGICAL ASSETS

The biological assets of the Group are dairy cows held to produce raw milk and cows held for sale. Dairy cows held to produce raw milk are categorised as bearer biological assets and cows held for sale are categorised as consumable biological assets.

### *(A) Quantity of biological assets*

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** | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | **(Unaudited)** | (Audited) |
| | **Head** | Head |
| Milkable cows | **67,695** | 72,773 |
| Heifers and calves | **41,136** | 38,453 |
| Beef cattle | **779** | 1,379 |
| | **109,610** | 112,605 |

## 8. BIOLOGICAL ASSETS (CONTINUED)

### *(B) Values of biological assets*

The amounts of the Group's biological assets are as follows:

| | As at | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | **(Unaudited)** | (Audited) |
| | **RMB'000** | RMB'000 |
| Milkable cows | **1,918,550** | 2,025,336 |
| Heifers and calves | **650,081** | 642,091 |
| Beef cattle | **3,778** | 7,492 |
| | **2,572,409** | 2,674,919 |

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 professionally qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

The valuation techniques and principal valuation assumptions used in the determination of the fair value of dairy cows and cows held for sale are consistent with those set out in the Group's 2018 annual report.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

In recent years, the domestic economy has maintained a stable but rising momentum. The ultimate consumption expenditures witnessed a rising proportion of GDP, indicating that the consumption has had an obviously stronger effect to drive the economy, which brought good opportunities for the development of the overall dairy product industry. According to the industrial information, the amount of various dairy products processed and produced throughout 2018 was 26.87 million tonnes, up by 4.4% as compared to last year (on a comparable basis). In addition, the market of nutritious, functional and organic food saw a good growth at the background of the increasing awareness of health among the Chinese citizens. According to Nielsen Retail Research Data 2018, the retail amount from the segment market of the organic dairy products increased by 16.4% as compared to the same period of last year.

From 2015 to 2017, the low price of raw milk, the environmental problems and the recent two years' low efficiency and loss in the farming industry caused the exit of small-and-medium dairy farmers, resulting in reducing quantity of dairy herds in China. The raw milk has suffered a shortage of supply and its price has started to increase since the second half of 2018. In 2019, the raw milk has had a steadily rising price. The shortage between the supply and the demand will become larger as the downstream consumption enters the peak season of the Mid-Autumn Festival. The price of raw milk in the second half of 2019 will increase more obviously than the first half of 2019.

At the 10$^{th}$ Chinese Dairy Industry Conference, Yu Kangzhen, the Vice Minister of the Ministry of Agriculture and Rural Affairs, delivered an important speech where he emphasized that we had to deeply implement the Opinions on Accelerating the Revitalization of Dairy Industry and Ensuring the Quality and Safety of Dairy Products issued by the General Office of the State Council, capture the important period of development opportunity, produce dairy products that people are satisfied with, and build a more competitive dairy farming industry. We have to strengthen the establishment of source of high-quality milk, realize "fine breed of dairy herds, high quality of forage and standardization of production", and propel the farming to save cost, improve quality and increase efficiency, laying a solid foundation for the development of dairy industry.

In order to propel the revitalization of the dairy industry, relevant policies were issued by various local governments nationwide. In April 2019, Hohhot issued the Hohhot Proposal for Implementation of Supporting Policies of the Dairy Industry to give supporting policies for increasing quantity of dairy herds and expanding planting areas of high-quality forage.

All players in the Chinese dairy industry should produce the most premium products based on their own advantages by adhering to the strictest standards, the most advanced technology, and the most standardized management, enabling the Chinese citizens to enjoy the dairy products with highest quality and enhancing the reputation of the Chinese dairy industry.

## BUSINESS REVIEW

As of 30 June 2019, the principal business of the Group was dairy farming business. The Group has completed the disposal of 51% equity interests of Shengmu Dairy to Inner Mongolia Mengniu in the first half of the year. On the one hand, the Group will develop its own liquid milk products based on the advantages of Inner Mongolia Mengniu's marketing management and distribution network, and on the other hand, the Group will focus on dairy farming business for the purpose of planting grass, breeding cows and producing milk well.

The Ulan Buh Desert forms a natural protection of Shengmu's base for milk sources with its unique strategic advantages represented by abundant resources. For many years, Shengmu has planted trees and grass in the Ulan Buh Desert by using water from the Yellow River and cow dung as fertilizer. The combination of planting and farming creates pollution free, zero-additive desert-based organic milk, which enables it to pass ECOCERT. "China-Denmark Organic Demonstration Farm" was located in the 27th farm of the Group. The establishment of China-Denmark Organic Demonstration Farm aims to introduce the advanced management concepts and production techniques of the organic farms in Denmark to the organic farms in China, enhancing the operation level and organic management system of the organic dairy industry in China. The Group has entered into an agreement to acquire minority interests in 12 farming companies located at the Ulan Buh Desert, which represents an important step for the Group to comprehensively resume organic dairy farming in Ulan Buh region in due course in view of the industry demands for organic raw milk.

In the 2019 Interim Period, the Group recorded revenue of RMB1,420.6 million, up by 1.5% as compared with the 2018 Interim Period, achieved a gross profit of RMB517.4 million, up by 19.0% as compared with the 2018 Interim Period. The Group recorded a net loss of RMB20.8 million, and the dairy farming business achieved a turnaround and a net profit of RMB32.2 million. At present, the Group has 34 dairy farms, including 11 organic farms. The quantity of dairy herds was 109,610 heads, including 47,054 heads which produce organic milk, and 62,556 heads which produce non-organic milk. In the 2019 Interim Period, the Group had produced a total of 134,027 tonnes of organic raw milk and 188,995 tonnes of high-quality non-organic raw milk. The Group captured the development opportunity of the industry and has made great progress in enhancing the awareness of customers and deepening the internal management in the first half of the year.

During the 2019 Interim Period, the Group strengthened the synergy between the supply and the demand by further deepening the synergy with Mengniu Group and coping with the demands from clients, ensuring the stability of sale volume and prices of raw milk. In the 2019 Interim Period, the sales price of raw milk was RMB4.0 per kilogram, which was higher than the industry level, representing an increase of 18.3% as compared to the 2018 Interim Period. It was mainly due to the increased synergy between the Group and its clients and the avoidance of unplanned sales of milk at a low price.

During the 2019 Interim Period, the Group further optimised the structure of organization and delegated authorities to the front line. Certain employees in the functional departments were allocated to the farms to reduce hierarchy levels, ensure the quality of professional services, downward delegate powers and responsibilities and achieve efficient execution. Meanwhile, the Group strengthened the benchmark management. The Company introduced the internal appraisal mechanism among various business units from the farms to the feeding department, the breeding department, the healthcare department and the milking department so as to stimulate the team. Externally, the Group tried to keep up with the benchmark of the industry by learning and communicating with leading domestic enterprises.

In respect of nutrition and feeding, during the 2019 Interim Period, the Group strictly controlled the quality of raw materials and enhanced the effect to use raw materials by selecting and assessing suppliers and selecting high-quality domestic and overseas products; applied the latest concept of breeding to improve the breeding effect by enhancing communication with and obtaining guidance from well-known experts worldwide; effectively reduced the cost of feeding by seeking new coarse fodder resources and experimenting on new feeding techniques against the trend of rising costs of coarse fodder; paid great attention to the feeding of reserve cows and cows having first calves, strengthened the management and control of heat stress, and strictly grouped cows to continuously reduce and optimise the costs of fodder through refined cost management.

In respect of breeding and healthcare, during the 2019 Interim Period, the Group selected the top-ranking cow breeding companies in the world. The Group signed 3 to 5 years medium and long term strategic cooperation agreements with the global top three cow breeding companies to establish breeding objectives, set breeding index, and group cows for every farm based on the information such as pedigree, parity, number of breeding, record of sickness, result of pregnancy test and milk production with a focus on breeding core herds to provide the farms with high quality milkable cows. Meanwhile, the Group strengthened the management of calves. The Group established separate calf department in farms to improve the calf management systems and add facilities such as calf awning and pasteurization sterilizer to increase the living rate of calves.

In respect of food quality and safety, during the 2019 Interim Period, the Group implemented the TQM comprehensive quality management system and established 4Q (QP, QA, QC, and QS) quality management standard. The quality was supervised and managed throughout the complete chain covering the field planting, cow feeding, cow healthcare, comfortable milking environment, and raw milk detection on truck by truck basis. In order to reach the global leading standards and surpass the standards of the European Union and the industry, the Company made strict requirement to improve the standard of raw milk to level S and control raw milk's somatic cell < 150,000/ml and microorganism < 15,000 CFU/ml so the farms can achieve refined and standardized management.

## FINANCIAL REVIEW

Revenue of the Group increased by 1.5% from RMB1,400.1 million in the 2018 Interim Period to RMB1,420.6 million in the 2019 Interim Period. Gross profit of the Group increased by 19.0% from RMB434.9 million in the 2018 Interim Period to RMB517.4 million in the 2019 Interim Period. Loss for the period decreased from loss of RMB1,278.2 million in the 2018 Interim Period to loss of RMB20.8 million in the 2019 Interim Period.

As at 23 December 2018, a share purchase agreement was entered into between Inner Mongolia Mengniu and the Group. By the end of April 2019, closing of the share purchase agreement has taken place. The Group disposed 51% of its holding shares in the dairy business (Shengmu Dairy and Hohhot Dairy, being the liquid milk processing business segment of the Group) to Inner Mongolia Mengniu. According to the requirements under the IFRSs, the liquid milk business from January to April 2019 is stated as discontinued operation. With the exception of the Dairy Business, other businesses of the Group are stated as continuing operations.

## ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the six-month period ended 30 June | Dairy farming business | | | | Liquid milk business(2) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Segment revenue | Inter-segment sales | External sales | External sales as % of total revenue | Segment revenue | Inter-segment sales | External sales | External sales as % of total revenue | Total revenue |
| **2019 (Unaudited)** | **1,270,550** | **111,577** | **1,158,973** | **81.6%** | **261,609** | **—** | **261,609** | **18.4%** | **1,420,582** |
| 2018 (Unaudited) | 1,126,745 | 207,040 | 919,705 | 65.7% | 480,400 | — | 480,400 | 34.3% | 1,400,105 |

(1) The liquid milk business is still presented as the discontinued operation of the entire industrial chain instead of a discontinued operation during the 2019 Interim Period and the 2018 Interim Period in this table and tables below. Such presentation can reflect and analyze the operating condition and changes of the Group for the 2019 Interim Period and the 2018 Interim Period more reasonably;

(2) Liquid milk business includes the liquid milk business of the discontinued operation. The 2019 interim figures only include figures of January to April 2019 before disposal of the liquid milk business.

Given the rising competition in the dairy products market, the Group entered into strategic cooperation with Mengniu Group, one of the leading dairy product manufacturers in China, which owns a strong management team and a solid distribution network of dairy products in China, and accordingly, has stable revenue and raw material milk demand. In 2019 Interim Period, the raw milk supply and marketing relationship with Mengniu Group helps to stabilize the sales of raw milk; meanwhile, from the perspective of farming business, the raw milk price in 2019 showed a steadily-growing trend and the sales price of the Group's raw milk increased significantly as compared to the same period of last year. Both of the above generated stable revenue and cash flows for the Company, enabling the Group to create value for its shareholders sustainably. Sales of the Group's raw milk increased from RMB919.7 million in 2018 Interim Period to RMB1,159.0 million in 2019 Interim Period, representing an increase of 26.0% as compared to the same period of last year.

## Dairy farming business

| | For the six-month period ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2019 (Unaudited)** | | | | 2018 (Unaudited) | | | |
| | **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 | **518,326** | **110,581** | **4,687** | **40.8%** | 628,298 | 189,816 | 3,310 | 55.8% |
| Inter-segment sales (1) | **98,291** | **19,024** | **5,167** | **7.7%** | 186,927 | 46,819 | 3,993 | 16.6% |
| Subtotal | **616,617** | **129,605** | **4,758** | **48.5%** | 815,225 | 236,635 | 3,445 | 72.4% |
| **Premium non-organic raw milk** | | | | | | | | |
| External sales | **640,647** | **180,758** | **3,544** | **50.5%** | 291,407 | 86,523 | 3,368 | 25.8% |
| Inter-segment sales (2) | **13,286** | **3,585** | **3,706** | **1.0%** | 20,113 | 6,221 | 3,233 | 1.8% |
| Subtotal | **653,933** | **184,343** | **3,547** | **51.5%** | 311,520 | 92,744 | 3,359 | 27.6% |
| **Daily farming segment** | | | | | | | | |
| External sales | **1,158,973** | **291,339** | **3,978** | **91.3%** | 919,705 | 276,339 | 3,328 | 81.6% |
| Inter-segment sales | **111,577** | **22,609** | **4,935** | **8.7%** | 207,040 | 53,040 | 3,903 | 18.4% |
| **Total** | **1,270,550** | **313,948** | **4,047** | **100.0%** | 1,126,745 | 329,379 | 3,421 | 100.0% |

(1) Represents self-produced organic raw milk sold to the Group's organic liquid milk business during the period from January to April 2019.

(2) Represents self-produced premium non-organic raw milk sold to the Group's high-end non-organic liquid milk business during the period from January to April 2019.

In the 2019 Interim Period, sales volume of raw milk decreased by 4.7% from 329,379 tonnes in the 2018 Interim Period to 313,948 tonnes in the 2019 Interim Period, mainly due to the decrease in the number of cows during the 2019 Interim Period as compared to the same period of last year. The external sales volume accounted for 91.3% of sales volume of raw milk in the 2019 Interim Period, compared with 81.6% in the 2018 Interim Period. In the second half of 2018, the Company turned some organic farms into non-organic farms in response to the market demand, and as a result, the external sales volume of organic raw milk decreased by 41.7% from 189,816 tonnes in the 2018 Interim Period to 110,581 tonnes in the 2019 Interim Period, while the external sales volume of non-organic raw milk increased by 108.9% from 86,523 tonnes in the 2018 Interim Period to 180,758 tonnes in the 2019 Interim Period.

**Other Income and Gains**

Other income and gains of the Group increased from net income of RMB29.4 million in the 2018 Interim Period to net income of RMB49.9 million in the 2019 Interim Period, mainly due to the investment income of RMB85.8 million generated from the disposal of Shengmu Dairy by the Group.

**Selling and Distribution Expenses**

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fee and employees' remunerations. In the 2019 Interim Period, selling and distributing expenses of the Group amounted to RMB118.2 million, which was no significant change as compared with that for the 2018 Interim Period.

**Administrative Expenses**

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees, as well as administrative expenses including attorney and audit fees. In the 2019 Interim Period and the 2018 Interim Period, administrative expenses of the Group were RMB67.4 million and RMB49.5 million respectively, representing an increase of approximately 36.2% as compared to the same period of last year, mainly due to the increase in valuation, consultation and audit fees as well as the remuneration of the management.

**Loss Arising from Changes in Fair Value Less Costs to Sell of Biological Assets**

Loss 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 the 2019 Interim Period and the 2018 Interim Period, the Group's loss arising from changes in fair value less costs to sell of biological assets were RMB163.5 million and RMB886.1 million, respectively. The significant decrease in loss arising from changes in fair value less costs to sale of biological assets of the Group from the 2019 Interim Period to the 2018 Interim Period was mainly affected by, among other factors, the stable recovery of raw milk price.

**Share of Profits and Losses of Associates**

The Group's associates include (a) in the 2019 Interim Period, the 51% equity interests in Shengmu Dairy (later known as Inner Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd.) was disposed of by the Group to Inner Mongolia Mengniu and the 49% minority interests of which was held by the Group, therefore Shengmu Dairy became an associate of the Group; (b) Shengmu Forage and its subsidiary 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, producing dairy products with the raw milk purchased from the Group. In the 2019 Interim Period and the 2018 Interim Period, the Group recorded share of losses of associates of RMB21.6 million and RMB3.7 million, respectively.

**Gain on Disposal of the Discontinued Operation**

Due to the disposal of 51% equity interests in Shengmu Dairy, the Group recognized investment income for the period of RMB85.8 million, which was calculated as the difference between the sum of the selling price and the fair value of the remaining equity interests (49%) and the share of net asset of Shengmu Dairy since the establishment date based on original shareholding (100%).

**Income Tax 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 RMB0.2 million in the 2019 Interim Period and RMB5.1 million in the 2018 Interim Period. The decrease in income tax expense of the Group in the 2019 Interim Period was due to the utilisation of deferred income tax assets as a result of the decrease in the Group's unrealised profit or loss from inter group sales in comparison to the balance as at 31 December 2018.

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

Profit/(loss) attributable to non-controlling interests mainly represents the profit/(loss) for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In the 2019 Interim Period, profit attributable to non-controlling interests was RMB52.7 million and in the 2018 Interim Period, loss attributable to non-controlling interests was RMB119.6 million.

In the 2019 Interim Period, due to combined effects of (1) the stable increase in the selling price of the Group's raw milk as compared to the same period of last year; (2) gain on disposal of 51% equity interests in Shengmu Dairy by the Group; (3) the decrease in 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 RMB73.5 million, decreasing by RMB1,085.1 million from loss of RMB1,158.6 million in the 2018 Interim Period.

## ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Current Assets

As at 30 June 2019, total current assets of the Group were RMB1,643.1 million (as at 31 December 2018: RMB2,048.2 million), primarily consisting of inventory of RMB346.5 million (as at 31 December 2018: RMB637.0 million), biological assets of RMB3.8 million (as at 31 December 2018: RMB7.5 million), trade and bills receivables of RMB225.9 million (as at 31 December 2018: RMB344.1 million), prepayments, other receivables and other assets of RMB769.8 million (as at 31 December 2018: RMB685.3 million), and cash and bank balances and pledged deposits of RMB297.1 million (as at 31 December 2018: RMB374.3 million). There was a relatively significant decrease in the Group's current assets as at 30 June 2019 as compared with that of 31 December 2018, which was mainly attributable to the facts that (1) the Group lost its control over Shengmu Dairy, a subsidiary of the Group, upon disposal of its equity interests in Shengmu Dairy in the 2019 Interim Period, therefore the corresponding assets and liabilities were not included in the financial statements of the Group; and (2) there was a remarkable reduction in inventory, i.e. feed at the end of this period as compared with that of the beginning of the year affected by the seasonal volatility in inventories of the dairy farming industry.

### Current Liabilities

As at 30 June 2019, total current liabilities of the Group amounted to RMB3,653.4 million (as at 31 December 2018: RMB4,573.4 million), primarily consisting of trade and bills payables of RMB989.8 million (as at 31 December 2018: RMB1,456.3 million), other payables and accruals of RMB658.5 million (as at 31 December 2018: RMB715.2 million), interest-bearing bank and other borrowings of RMB1,999.3 million (as at 31 December 2018: RMB2,320.7

million), and derivative financial instruments of RMB5.8 million (as at 31 December 2018: RMB81.2million). The decrease in the Group's current liabilities as at 30 June 2019 compared to that as at 31 December 2018, mainly due to (1) the Group lost its control over Shengmu Dairy, a subsidiary of the Group, upon disposal of its equity interests in Shengmu Dairy in the 2019 Interim Period, therefore the corresponding assets and liabilities were not included in the financial statements of the Group; and (2) the combined effect of the repayment of portion of corporate loans and the transfer of derivative financial instruments into capital reserve.

**Foreign Exchange Risk**

The Group's businesses are principally located in the mainland China and substantially all transactions are conducted in RMB. As at 30 June 2019, the Group did not have significant foreign exchange risk from its operations nor has it entered 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. Credit risk related to the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

**Charge on Assets**

As at 30 June 2019, the Group had pledged deposits of approximately RMB46.9 million (as at 31 December 2018: RMB297.1 million) in total to banks as deposits for the issuance of letters of credit and bank drafts and as guarantees for the bank loans of Shengmu Forage. On 30 June 2019, biological assets of the Group with fair value of approximately RMB1,006.7 million (31 December 2018: RMB1,069.8 million) and interests in 14 non-wholly-owned subsidiaries with net assets of RMB2,271.7 million (31 December 2018: RMB2,311.9 million) were used as collaterals for the entrusted loans of the Group amounting to RMB1,300.0 million.

**Liquidity, Financial Resources and Capital Structure**

In the first half of 2019, the Group financed its daily operations mainly from internally generated cash flows and bank and other borrowings. As at 30 June 2019, the Group had (a) cash and bank balances of RMB250.2 million (as at 31 December 2018: RMB77.3 million), and (b) interest-bearing bank and other borrowings of RMB2,043.0 million (as at 31 December 2018: RMB2,370.2 million), of which, RMB43.7 million were repayable within one to five years and 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 71.8% as at 30 June 2019 (as at 31 December 2018: 82.3%). For the six months period ended 30 June 2019, the annual interest rate of bank borrowings ranged from 1.55% to 12.97% (for the six months period ended 30 June 2018: 1.55% to 6.97%).

## Capital Commitments

As at 30 June 2019, the Group's capital commitments amounted to RMB316.7 million (as at 31 December 2018: RMB418.3 million). The decrease as compared to that as at 31 December 2018 was mainly due to the fact that the Group entered into equity transfer framework agreements with 12 individual shareholders to acquire the equity interests in 12 farms with partial consideration of RMB300.0 million and an amount of RMB87.0 million has been paid during 2019 Interim Period.

## Human Resources

As at 30 June 2019, the Group had a total of 2,749 employees (as at 30 June 2018: 3,809 employees). Total staff costs in the 2019 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB120.5 million (2018 Interim Period: RMB142.4 million). The significant decrease in total staff costs as compared to the same period of last year was mainly due to the disposal of the dairy business.

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

As at 30 June 2019, the Group provided guarantees with amount of RMB110.0 million (31 December 2018: RMB155.0 million), RMB98.9 million (31 December 2018: RMB123.4 million) and RMB295.0 million (31 December 2018: Nil) for the bank borrowings of Shengmu Forage, Food Union Shengmu and Shengmu Dairy, respectively. The external guarantees provided by the Group were recognized in the financial statements 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 relevant current obligations in accordance with the requirements of IFRSs.

## Material Acquisitions and Disposals

In the 2019 Interim Period, the Group disposed of 51% equity interests in Shengmu Dairy to Inner Mongolia Mengniu. Except the above, the Company did not have any other significant acquisition and disposal of subsidiaries and associates which would affect the increase or decrease in various items in the financial statements as compared to the same period of last year.

On 12 March 2019, the Company published a circular on the acquisition of the minority interests in 12 farming companies and the issuance of consideration shares pursuant to a specific mandate. The resolution was approved at the extraordinary general meeting held on 29 March 2019. In the 2019 Interim Period, purchase consideration of RMB87.0 million was paid partially. The transaction has not been completed by the date of this announcement.

### 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

Leveraging on the unique advantages of the Ulan Buh Desert, we will enable the Chinese people to enjoy the dairy products with highest quality worldwide through good forage, good cows and good milk.

We will properly expand the herd size by capturing the favorite opportunities in the adjustment of supply of raw milk to optimize the genes of cows and increase the reserve of additional herds. We will reduce costs and increase efficiency by establishing management system of core suppliers and optimizing the formula structure to increase the conversion rate of forage and the output per milkable cow. We will ensure the provision of resources for the source of high-quality milk through enhanced synergy with customers and the improvement of competitiveness of raw milk indicators.

We will increase the number of certified organic farms in due course based on the market demands by capturing the opportunity in the rapid development of the organic food industry and increase the profitability of the Company by improving the product structure. We will continue to carry out the activity of desert organic travels which enables more consumers to enter the Ulan Buh Desert through Mengniu and other industrial customers so as to understand Shengmu, understand the natural organic milk and improve the healthy living quality.

We will initiate Shengmu College to establish a system for cultivating differentiated talents. We will commence the information-based project to integrate IT planning with the management and control of the corporate operation so as to consolidate and upgrade our operating capability.

## Purchase, Redemption or Sale of Listed Securities of the Company

During the 2019 Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## Corporate Governance Practices

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as contained 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) as its own code to govern its corporate governance practices.

In the opinion of the Board, during the 2019 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code except the code provision A.2.1 of the Code as disclosed below.

Pursuant to code provision A.2.1 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. In the period between 1 January 2019 to 15 January 2019, Mr Shao Genhuo performed the roles of both chairman and chief executive officer. With effect from 16 January 2019, Mr. Shao Genhuo has resigned as the chief executive officer of the Company and Mr Zhang Jiawang has been appointed as the chief executive officer of the Company. Mr. Shao Genhuo continued to act as a non-executive director and chairman of the Company.

## AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises Mr. Wang Liyan, Mr. Fu Wenge and Mr. Li Xuan, and is chaired by Mr. Wang Liyan. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms.

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 unaudited interim results for the 2019 Interim Period.

## SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the interim results announcement of the Group's results for the six-month period ended 30 June 2019 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft interim condensed consolidated financial statements for the period. 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 interim results announcement.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by its Directors 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 during the 2019 Interim Period.

## DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2019 Interim Period (the 2018 Interim Period: Nil).

## PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.youjimilk.com. The interim report of the Company for the 2019 Interim Period 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, 29 August 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. Shao Genhuo, Mr. Wen Yongping and Mr. Sun Qian; and the independent non-executive directors of the Company are Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan.*