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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	**Movements**
	RMB'000	RMB'000	
Revenue	**2,759,369**	2,887,167	**(4.4%)**
Gross profit	**1,009,968**	939,581	**7.5%**
Profit/(loss) from continuing operations	**188,904**	(1,047,217)	**1,236,121**
Loss from a discontinued operation	**(53,208)**	(1,264,000)	**1,210,792**
Profit/(loss) for the year	**135,696**	(2,311,217)	**2,446,913**
Normalized profit/(loss) for the year(1)	**309,379**	(1,096,824)	**1,406,203**

(1) Normalized profit/(loss) for the year is defined as the profit/(loss) for the year by excluding the following items: (i) impairment losses; and (ii) finance charges of warrants.

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 31 December 2019 together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December **2019**	2018
		RMB'000	RMB'000
CONTINUING OPERATIONS			
REVENUE	3	**2,539,567**	2,164,449
Cost of sales		**(1,602,418)**	(1,468,427)
Gross profit		**937,149**	696,022
Loss arising from changes in fair value less costs to sell of biological assets		**(284,896)**	(1,321,554)
Other income and gains	3	**2,999**	12,576
Selling and distribution expenses		**(30,704)**	(63,723)
Administrative expenses		**(131,257)**	(119,262)
Impairment losses on financial and contract assets, net		**(13,622)**	(91,345)
Other expenses		**(163)**	(36)
Finance costs	5	**(225,239)**	(144,995)
Share of losses of associates		**(64,953)**	(15,180)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	4	**189,314**	(1,047,497)
Income tax (expense)/credit	6	**(410)**	280
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**188,904**	(1,047,217)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	7	**(53,208)**	(1,264,000)
PROFIT/(LOSS) FOR THE YEAR		**135,696**	(2,311,217)
Profit/(loss) attributable to:			
Owners of the parent		**27,742**	(2,225,200)
Non-controlling interests		**107,954**	(86,017)
		135,696	(2,311,217)

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

	Note	For the year ended 31 December **2019**	2018
		RMB'000	RMB'000
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit/(loss) for the year		**RMB 0.4 cents**	(RMB 35.0 cents)
– For profit/(loss) from continuing operations		**RMB 1.3 cents**	(RMB 15.1 cents)
Diluted			
– For profit/(loss) for the year		**RMB 0.4 cents**	(RMB 35.0 cents)
– For profit/(loss) from continuing operations		**RMB 1.3 cents**	(RMB 15.1 cents)
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		**(2,598)**	(2,360)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(2,598)**	(2,360)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(2,598)**	(2,360)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**133,098**	(2,313,577)
Profit/(loss) attributable to:			
Owners of the parent		**25,144**	(2,227,560)
Non-controlling interests		**107,954**	(86,017)
		133,098	(2,313,577)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,043,525**	2,087,045
Right-of-use assets		**54,272**	—
Prepaid land lease payments		**—**	18,845
Other intangible assets		**11,254**	11,463
Investments in associates		**150,413**	90,328
Biological assets		**2,531,188**	2,667,427
Prepayments for property, plant and equipment and biological assets		**—**	1,014
Long term receivables		**14,505**	11,516
Deferred tax assets		**—**	410
Other non-current assets		**11,843**	9,930
Total non-current assets		**4,817,000**	4,897,978
CURRENT ASSETS			
Inventories		**678,054**	604,060
Biological assets		**13,799**	7,492
Trade and bills receivables	10	**167,118**	246,715
Prepayments, other receivables and other assets		**614,130**	599,092
Pledged deposits		**177,516**	150,617
Cash and bank balances		**132,636**	74,052
		1,783,253	1,682,028
Assets of a disposal group classified as held for sale	7	**—**	978,355
Total current assets		**1,783,253**	2,660,383

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 31 December 2019	31 December 2018
		RMB'000	RMB'000
CURRENT LIABILITIES			
Trade and bills payables	11	**1,365,884**	997,085
Other payables and accruals		**574,772**	486,235
Derivative financial instruments		**3,267**	81,238
Interest-bearing bank and other borrowings		**2,144,832**	2,218,864
Lease liabilities		**32,287**	—
		4,121,042	3,783,422
Liabilities directly associated with the assets classified as held for sale	7	**—**	790,006
Total current liabilities		**4,121,042**	4,573,428
NET CURRENT LIABILITIES		**(2,337,789)**	(1,913,045)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,479,211**	2,984,933
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**39,443**	49,518
Long term payables		**28,940**	56,528
Total non-current liabilities		**68,383**	106,046
Net assets		**2,410,828**	2,878,887
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**50**	50
Reserves		**2,186,371**	2,017,863
		2,186,421	2,017,913
Non-controlling interests		**224,407**	860,974
Total equity		**2,410,828**	2,878,887

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash flows from operating activities	**875,212**	972,503
Net cash flows (used in)/from investing activities	**(109,111)**	7,516
Net cash flows used in financing activities	**(709,967)**	(1,207,750)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**56,134**	(227,731)
Cash and cash equivalents at beginning of year	**77,083**	297,672
Effect of foreign exchange rate changes, net	**(781)**	7,142
CASH AND CASH EQUIVALENTS AT END OF YEAR	**132,436**	77,083

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 GROUPS ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting 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, agricultural produce, derivative financial liabilities and financial assets at fair value through profit or loss 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 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

Basis of Preparation (Continued)

Basis of Consolidation (Continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements;

(c) the Group's voting rights and potential voting rights.

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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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

Basis of Preparation (Continued)

Going concern

The Group had net current liabilities of RMB2,337,789,000 and capital commitment of RMB81,086,000 as at 31 December 2019 (2018: net current liabilities of RMB1,913,045,000 and capital commitment of RMB418,257,000). In view of the net current liabilities position, the board of 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 have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB700,000,000 as at the date of this report, the entrusted loan facility of RMB1,600,000,000 with the maturity date extended to 31 December 2022 and cash flow projections for the year ending 31 December 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. 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 IFRSs for the first time for the current year's financial statements.

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 to IFRS 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

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 9 and IAS 19, and Annual Improvements to 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRS standards 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has 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 has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

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.

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

Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

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 leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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.

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

Changes in Accounting Policies and Disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impact on transition (continued)

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluding the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impacts at 1 January 2019

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

	Increase/(decrease) RMB'000
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)
	—

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (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 continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(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 impact on the financial position or performance of the Group.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains from continuing operations is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers	**2,539,567**	2,164,449
Disaggregated revenue information for revenue from contracts with customers		
Type of goods		
Sales of products	**2,539,567**	2,164,449
Geographical market		
Mainland China	**2,539,567**	2,164,449
Timing of revenue recognition		
At a point in time	**2,539,567**	2,164,449
Other income and gains		
Government grants	**17,678**	11,382
Bank interest income	**5,735**	6,855
Foreign exchange differences, net	**(1,952)**	4,502
Loss on disposal of items of property, plant and equipment from continuing operations	**(7,561)**	(1,074)
Impairment loss of investment in an associate	**(5,111)**	—
Fair value gains/(losses), net:		
Derivative financial instruments	**849**	(6,539)
Others	**(6,639)**	(2,550)
	2,999	12,576

4. PROFIT/(LOSS) BEFORE TAX

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of inventories sold	**1,602,418**	1,468,427
Loss arising from changes in fair value less costs to sell of biological assets	**284,896**	1,321,554
Depreciation of items of property, plant and equipment	**111,464**	151,168
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	**1,265**	1,431
Amortisation of other intangible assets	**931**	1,274
Research and development costs	**4,791**	5,156
Minimum lease payments under operating leases	**—**	1,200
Lease payments not included in the lease	**7,370**	—
Auditor's remuneration	**3,060**	4,283
Impairment losses on financial and contract assets	**13,622**	91,345
Write-down of inventories to net realisable value	**2,849**	—
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	**227,918**	211,395
Other social insurances and benefits	**13,327**	11,955
Pension scheme contributions	**9,565**	11,318
	250,810	234,668

5. FINANCE COSTS

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest on bank loans and other loans	**209,933**	59,836
Interest on short-term notes	**—**	6,133
Interest on corporate bonds	**12,665**	77,234
Interest on long term payables	**2,641**	3,868
Less: interest capitalised	**—**	(2,076)
	225,239	144,995

6. INCOME TAX

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current - PRC	**—**	130
Deferred	**410**	(410)
Total tax charge/(credit) for the year from continuing operations	**410**	(280)
Total tax charge for the year from a discontinued operation (note 7)	**217**	28,189
	627	27,909

7. 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**", together with its subsidiaries, the "**China Mengniu Group**"). 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 liquid milk business, being classified as a discontinued operation, presenting information by operating segment information is no longer required as the Group only has the dairy farming business retained upon the disposal of the liquid milk business.

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	**219,802**	722,718
Cost of sales	**(146,983)**	(479,159)
Gross profit from the discontinued operation	**72,819**	243,559
Other income and (losses)/gains	**(19,402)**	14,692
Selling and distribution expenses	**(100,364)**	(277,361)
Administrative expenses	**(10,038)**	(32,395)
Finance costs	**(3,945)**	(10,760)
Other expenses	**—**	(60,822)
Share of losses of associates	**(208)**	(469)
Impairment losses on financial and contract assets	**(77,604)**	(1,112,255)
Loss from the discontinued operation	**(138,742)**	(1,235,811)
Gain on disposal of a subsidiary	**85,751**	—
Loss before tax from the discontinued operation	**(52,991)**	(1,235,811)
Income tax expense (note 6)	**(217)**	(28,189)
Loss for the year from the discontinued operation	**(53,208)**	(1,264,000)

7. **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:

	As at	
	31 December 2019	31 December 2018
	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 2019, the disposal was completed and no machinery and equipment of the discontinued operation were pledged to secure other borrowings granted to the discontinued operation (2018: RMB30,000,000).

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

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

The basic earnings/(loss) per share amounts are calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 6,354,400,000 (2018: 6,354,400,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB27,742,000 (2018: loss for the year of RMB2,225,200,000). 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 earning/(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 of warrants and dilutive potential ordinary shares.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the year ended 31 December 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 earnings/(loss) per share amounts presented.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2019 (2018: Nil).

	Number of shares	
	For the year ended 31 December	
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(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 earnings/(loss) per share calculation	**6,354,400,000**	6,354,400,000

10. TRADE AND BILLS RECEIVABLES

	As at	
	31 December 2019	31 December 2018
	RMB'000	RMB'000
Bills receivables	**450**	1,433
Trade receivables	**167,840**	245,282
Impairment	**(1,172)**	—
	167,118	246,715

An ageing analysis of the trade and bills receivables of the Group, based on the invoice date, is as follows:

	As at	
	31 December 2019	31 December 2018
	RMB'000	RMB'000
Within 6 months	**164,531**	243,267
7 to 12 months	**1,718**	2,424
Over 1 year	**869**	1,024
	167,118	246,715

11. TRADE AND BILLS PAYABLES

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

	As at	
	31 December 2019	31 December 2018
	RMB'000	RMB'000
1 to 3 months	**1,008,135**	789,020
4 to 6 months	**294,595**	109,151
7 to 12 months	**49,967**	65,068
1 to 2 years	**5,961**	27,110
2 to 3 years	**2,409**	6,449
Over 3 years	**4,817**	287
	1,365,884	997,085

12. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on 11 December 2013. As at 31 December 2019 and 2018, 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 31 December 2019 and 2018, the Company's share capital was HK$63,544 with 6,354,400,000 shares in issuance.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRIAL OVERVIEW

At the 10th Dairy Conference of China, the Dairy Association of China published a white book, the Dairy Industry in China. According to the white book, during 2018, the production of milk amounted to 30.75 million tonnes nationwide and that of dairy products 26.87 million tonnes nationwide. Since the founding of our country, the production of dairy products has increased by 17.5% on an annually average basis and the average per capita consumption of milk products has reached 34.3 kilogram. Looking back to the situation of the industry during the past three years, the loss in the farming industry and the shutdown for environmental problems resulted in exit of a number of dairy farms with low quantity of herds. In the second half of 2018, the price of milk witnessed a turnaround from decrease to increase due to decreased supply and higher demand. Throughout the year 2019, sustained short supply of raw milk brought larger room of profits to the dairy farming enterprises.

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 and the other eight government ministries and commissions. It is clearly proposed therein to make efforts to develop high-quality forage industry, improve production efficiency of dairy cows, and enhance the building of socialised service system for the dairy industry. In February 2019, "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》) again emphasised the implementation of the "action to revitalize the dairy industry" by intensifying the construction of high-quality milk source bases. According to "Opinions of the Executive Office of the People's Government of Inner Mongolia Autonomous Region on Promoting the Revitalization of Dairy Industry" (《內蒙古自治區人民政府辦公廳關於推進奶業振興的實施意見》) published by the People's Government of Inner Mongolia Autonomous Region in August of the same year, Inner Mongolia made a definite target to lead the development of the dairy industry throughout the country and take lead in realizing the revitalization of the dairy industry by striving to reach 3.5 million dairy stocks, 10 million tonnes of dairy production and RMB300 billion of output value of dairy processing enterprises by 2025.

Two major dairy enterprises, Mengniu and Yili, strived to promote the plan for realizing the early revitalization of the dairy industry in Inner Mongolia through industrial layout. In August 2019, the project of "China Dairy Industrial Park" initiated by the China Mengniu Group was officially started to explore a new path of high-quality development of the dairy industry based on eco-priority and green development. The project of "Yili Modern Smart Healthy Valley" directed by Yili Group also facilitated the implementation of revitalization strategy of the dairy industry in Inner Mongolia.

At the start of 2020, in response to the epidemic of novel coronavirus, National Health Commission and other departments published "Guideline of Nutrient Diet for Prevention and Control of Novel Coronavirus Pneumonia" (《新型冠狀病毒感染的肺炎防治營養膳食指導》), clearly stating that one egg and 300 gram milk or dairy products per day is an effective way to improve immunity and is beneficial to the prevention of novel coronavirus pneumonia.

Looking back, the dairy industry in China has experienced great improvement and change in many aspects such as business entity, farming methods, dairy cow species, breeding management and milk quality, making earth-shaking changes. The development and growth of leading enterprises, the propelling of brand building and the intensifying of quality regulation have made active contribution to safeguard the supply of dairy products. In the future, the dairy enterprises will continue to improve the industry through strong and practical actions, leading the development of the dairy industry to facilitate the revitalization of the dairy industry throughout the country, deliver the social responsibility of dairy enterprises and make efforts to protect the nutrition and health of the people in our country.

BUSINESS OVERVIEW

In 2019, the principal business of the Company was dairy farming business. Leveraging on the natural strategic and geographic advantage of the Ulan Buh Desert, the Group has built 22 dairy farms in the desert to produce high-quality milk. Among such farms, 11 farms have passed the organic certification from both China and EU and produce 731 tonnes of organic fresh milk per day, forming the largest organic raw milk base in China. The other 11 farms can transform to organic farms within 6 months under the organic certification requirements according to the demand from the market.

The Group has made important strategic measures in the development and growth of its organic dairy farming business. According to the development of the raw milk industry, the Group acquired minority interests in 12 joint venture farms in the Ulan Buh Desert, which effectively enhanced the efficient management of the farms and the level of standardised operation. In April, the Group completed the closing of the sale of 51% equity interests in Shengmu Dairy to the China Mengniu Group and the liquid milk business of Shengmu was consolidated to the China Mengniu Group. Leveraging on the established sale channels and professional sale talents in Mengniu, the Group had a wish to make Shengmu organic liquid milk brand larger and stronger. Shengmu Group is dedicated to the development of dairy farming business, striving to realize successful grass planting, cow breeding and producing premium milk. In May, "China-Denmark Organic Demonstration Farm" was located in the 27th farm of the Group, aiming to cultivate talents in the organic field by leveraging on the advanced knowhow and practical experience from Denmark farms, so as to enhance the core competitiveness of the organic dairy industry and create a premium organic demonstration farm all over the world.

In 2019, the Group recorded revenue of RMB2.76 billion, achieving a net profit of RMB0.14 billion. At present, the Group has 34 dairy farms in total in the Inner Mongolia region, including 11 organic farms. The Group had 106,074 dairy cows, including 44,802 dairy cows or 42.2% which produced organic milk. In 2019, the Group had produced a total of 642,166 tonnes of high-quality raw milk, including 266,851 tonnes of organic raw milk.

OPERATION REVIEW OF FARMING BUSINESS

ORGANIC FORAGE

Through many years of dedicated investment in the Ulan Buh Desert, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("**Shengmu Forage**") has currently built an organic forage base of over 200,000 mu. Shengmu Forage has built an organic fertilizer processing plant with an annual capacity of 70,000 tons and 7 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 farms. Shengmu Forage is currently capable of satisfying 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 industry chain.

Shengmu Forage has established and fully implemented the corporate standard quality management systems of "Organic Forage" and "Organic Grass" 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.

CLIENT-ORINTED AND RESOURCE SYNERGY

The Group further deepened its synergy with the China Mengniu Group in 2019 to match demand of clients. The synergy between plans of the supply and the demand was intensified to avoid the sales of low-price milk outside of the plan, ensuring steady sales volume and price of raw milk. In 2019, the Group sold raw milk at a price of RMB4.2 per kilogram, with an increase of 14.0% as compared to that in 2018.

The unified procurement with the China Mengniu Group through Ai Yang Niu platform of the China Mengniu Group effectively decreased the procurement cost of bulk materials. The leveraging on the strong capital base and financing ability of the China Mengniu Group and the synergy of resources effectively replenished the working capital and lowered the financial risk.

INNOVATIVE PRODUCTS WITH SCIENTIFIC FORMULATION

In respect of nutrition and feeding, the Group enhanced the quality of forage mainly through internally produced premium silage alfalfa and internally produced fermented forage to increase the conversion rate of forage. Meanwhile, by introducing latest feeding concepts in the world and strengthening communication with and direction from globally famous experts, the Group improved the spot management level and feeding techniques. The output per milkable cow in 2019 rose by 7% compared with last year.

In respect of research and development of products, in response to the upgrade of consumption in the domestic market and the demands from clients in the dairy industry, the Group has made constant breakthroughs in technical bottlenecks through its internal research and development in the production area. Through adjustment of formula for feeding dairy cows, the Group successfully developed original DHA raw fresh milk with DHA content exceeding 18mg/100g. Such DHA milk produced through biological conversion is easier to be absorbed by human body.

BREEDING AND HEALTHCARE

In respect of breeding, the Group selected a cow genetic breeding company ranking third in the world to conduct strategic cooperation. By providing genetic materials of cows and breeding application techniques, the Group wanted to complete a 3-5 year core herd breeding plan to breed Holstein cows with high quality and output. The Group organized senior experts in the industry to conduct frequent front line training so that the breeding indicators such as pregnancy rate of cows and percentage of cows hard to get pregnant have been improved obviously. The dairy farms have established a calf management department to strengthen calf management, increasing the rate of female calves kept for breeding and the reserve of replacement heifers so as to optimize the structure of herds.

In respect of healthcare, the Group adopted many measures, such as optimization of daily food formula for dairy cows, emphasis on adjustment of rumen health, improvement of comfort of cowsheds, and enhancement of healthcare management process of dairy farms. Meanwhile, the Group worked together with top five global animal protection companies and top two domestic vaccine companies to make the animal benefit plan with the highest standard and the prevention and control of epidemic plan for dairy farms. As such, the Group can improve the positive immunity mechanism of herds and enhance the self immunity of dairy cows so as to control the culling rate of the dairy farms. Through cooperation with excellent animal protection companies, the Group actively carried out training and on site practical study and formulated a special subject on control of mastitis and a plan for prevention and control of limping disease, effectively enhancing the healthcare effect and decreasing disease occurring rate, and effectively improving the body health of dairy cows and decreasing the culling rate.

QUALITY AND SAFETY MANAGEMENT

Based on the concept of "providing globally most premium desert-based organic milk" as its mission, making reference to ten international and domestic standards such as AQ, Arlagarden, ISO9000, ISO22000 and ISO22002 as well as 52 laws and regulations and standards related to animal husbandry and breeding, China Shengmu has formulated a standard of "Shengmu Quality and Safety Management System for Dairy Industry and Farms" to cover dairy farm management and key parts in entirety. The standard involves management of 93 key control points in 4 categories including quality management of source of raw and auxiliary materials, health benefit of dairy cows, guarantee of milk quality and operating support, realizing an improving total quality management model based on clients with all staff engaged.

In respect of raw milk quality management, leveraging on the unique farming environment in the Ulan Buh Desert and the hardware configuration and management level in the dairy farms with large size, the Group formulated QP, QA, QC and QS management standards to strictly control forage quality from the source. With reference to GB13078 forage hygiene standard, the Group checked for every batch of raw and auxiliary materials in order to guarantee the quality and prohibited entry of unqualified raw and auxiliary materials, ensuring that premium forage is supplied for dairy cows to produce premium raw milk. The Group placed an emphasis on creating and improving central inspection room and implemented an internal risk investigation and prevention plan. The Group set an internal target to improve quality of raw milk to Level S qualification rate (TBC≤30,000, SCC≤200,000). In 2019, with the average TBC of 10,700 and the average SCC of 158,100, the annual qualification rate reached 95%, far higher than the current international and domestic standard.

INTERNAL OPERATION MANAGEMENT

The Group optimized its organization structure by granting power to front line, cutting hierarchy and putting downward rights and responsibilities, to grant full authorities to dairy farms. The Group promoted a remuneration system managed based on performance. The Group strengthened the benchmark management. Internally, the Group introduced a comparison mechanism among each business unit from the dairy farms to the feeding department, the breeding department, the healthcare department and milking department; externally, the Company learned from and communicated with domestic leading enterprises to align with the benchmark of the industry.

FINANCIAL REVIEW

In 2019, the Group's revenue amounted to RMB2,759.4 million and gross profit increased by 7.5% from RMB939.6 million in 2018 to RMB1,010.0 million in 2019. In 2019, the Group recorded profit after income tax of RMB135.7 million, representing an increase of RMB2,446.9 million compared with loss after income tax of RMB2,311.2 million in 2018. Profit after income tax from the continuing operations was RMB188.9 million and loss after income tax from a discontinued operation was RMB53.2 million.

As at 23 December 2018, a share purchase agreement was entered into between China Mengniu Group and the Group. By the end of April 2019, closing of the share purchase agreement took place. The Group disposed of its 51% interests in the liquid milk business 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 liquid milk business, other businesses of the Group (hereinafter referred to as the "**dairy 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 (2)				
For the year ended 31 December	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	**2,609,337**	**111,577**	**2,497,760**	**90.5%**	**261,609**	**—**	**261,609**	**9.5%**	**2,759,369**
2018	2,404,084	356,340	2,047,744	70.9%	839,423	—	839,423	29.1%	2,887,167

(1) Liquid milk business from January to April is included in the current year in this table and tables below. Such presentation can reflect and analyze the operating condition and changes of the Group for the current and previous year more reasonably;

(2) Liquid milk business includes the discontinued liquid milk business and the milk powder business. The annual figures only include figures of January to April before disposal of the liquid milk business.

Given the rising competition in the dairy products market, the Group entered into strategic cooperation with China 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. This was beneficial to the continuous growth of the liquid milk business, thus driving the development of upstream raw milk business. In 2019, the strategic raw fresh milk supply and marketing relationship with China Mengniu Group assured the stable sales; meanwhile, the raw milk price in the dairy farming business showed a steadily-growing trend. Both of the above generated stable revenue and cash flows for the Company, creating value for its shareholders sustainably. Sales of the Group's raw milk increased from RMB2,404.1 million in 2018 to RMB2,609.3 million in 2019, representing an increase of 8.5% as compared to the same period of last year.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales of the Group decreased from RMB1,947.6 million in 2018 to RMB1,749.4 million in 2019. Gross profit increased from RMB939.6 million in 2018 to RMB1,010.0 million in 2019. Gross profit margin increased from 32.5% in 2018 to 36.6% in 2019. This is mainly affected by (1) the stable increase in the selling price of raw milk; and (2) change in the relationship between supply of and demand for organic raw milk so the Group adjusted the structure of raw milk products on a timely basis to increase gross profit.

Other Income and Gains and Impairment Losses on Financial and Contract Assets

Other income and gains and impairment losses on financial and contract assets of the Group decreased from net losses of RMB1,176.3 million in 2018 to net losses of RMB21.9 million in 2019, mainly attributable to a decrease of RMB1,034.7 million in impairment losses on financial and contract assets recognised for liquid milk business from RMB1,112.3 million in 2018 to RMB77.6 million in 2019.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fees and employees' remunerations. In 2019 and 2018, selling and distributing expenses of the Group amounted to RMB131.1 million and RMB341.1 million, respectively. Significant decrease in 2019 as compared to 2018 was mainly due to significant decrease in selling expenses of the Group resulting from the Group's disposal of liquid milk business in April 2019 which generated most of selling expenses of the Group.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees and expenses relating to professional services provided by lawyers and auditors. In 2019 and 2018, administrative expenses of the Group were RMB141.3 million and RMB151.7 million, respectively. Decrease in administrative expenses of approximately 6.9% as compared to the previous year was mainly due to the decrease in administrative expenses of the Group resulting from excluding liquid milk business from consolidation scope as a result of disposal of liquid milk business in April 2019. In 2019 and 2018, administrative expenses accounted for 5.1% and 5.3% of revenue, respectively.

Net Gains or Losses 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 2019 and 2018, the Group's loss arising from changes in fair value less costs to sale of biological assets were RMB284.9 million and RMB1,321.6 million, respectively. The significant decrease in loss arising from changes in fair value less costs to sale of biological assets of the Group from 2019 to 2018 was mainly affected by, among other factors, the higher output per milkable cow of the Group.

Share of Profits and Losses of Associates

The Group's associates include (a) in 2019, 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% 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 2019 and 2018, the Group recorded share of losses of associates of RMB65.2 million and RMB15.6 million, respectively.

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 RMB0.6 million in 2019 and RMB27.9 million in 2018, respectively. The decrease in income tax expense of the Group in 2019 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.

Profit 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 2019, profit attributable to non-controlling interests was RMB108.0 million and in 2018, loss attributable to non-controlling interests was RMB86.0 million.

In 2019, there were 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) the decrease in loss arising from changes in fair value less costs to sell of biological assets; and (3) the Group's completion in disposal of 51% of the equity interests in Shengmu Dairy, the downstream business, in April 2019 and the significant decrease in impairment on financial and contract assets during the year, etc. As a result, profit attributable to owners of the parent of the Group was RMB27.7 million, decreasing by RMB2,252.9 million from loss of RMB2,225.2 million in 2018.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 31 December 2019, total current assets of the Group were RMB1,783.3 million (as at 31 December 2018: RMB2,048.2 million), primarily consisting of inventory of RMB678.1 million (as at 31 December 2018: RMB637.0 million), trade and bills receivables of RMB167.1 million (as at 31 December 2018: RMB344.1 million), prepayments, deposits and other receivables of RMB614.1 million (as at 31 December 2018: RMB685.3 million), cash and bank balances of RMB310.2 million (as at 31 December 2018: RMB374.3 million), and consumable biological assets of RMB13.8 million (as at 31 December 2018: RMB7.5 million). There was a relative decrease in the Group's current assets as at 31 December 2019 as compared with that of 31 December 2018, which was mainly attributable to the disposal of the 51% equity interests in its subsidiary Shengmu Dairy in April 2019, therefore the corresponding assets and liabilities were no longer included in the financial statements of the Group.

Current Liabilities

As at 31 December 2019, total current liabilities of the Group amounted to RMB4,121.0 million (as at 31 December 2018: RMB4,573.4 million), primarily consisting of trade and bills payables of RMB1,365.8 million (as at 31 December 2018: RMB1,456.3 million), other payables and accruals of RMB574.8 million (as at 31 December 2018: RMB715.2 million), interest-bearing bank and other borrowings of RMB2,177.1 million (as at 31 December 2018: RMB2,320.7 million), and derivative financial instruments of RMB3.3 million (as at 31 December 2018: RMB81.2 million). The decrease in the Group's current liabilities as at 31 December 2019 compared to that as at 31 December 2018, was mainly due to (1) upon disposal of the 51% equity interests in Shengmu Dairy, a subsidiary of the Group, in April 2019, therefore the corresponding assets and liabilities were no longer 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 most transactions are conducted in RMB. As at 31 December 2019, the Group did not have significant foreign currency exposure from its operations, except for balances equivalent to approximately RMB0.6 million and RMB1.3 million which were denominated in United States dollars and Euro, respectively. As at 31 December 2019, 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. 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 31 December 2019, the Group had pledged deposits of approximately RMB177.5 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. As at 31 December 2019, biological assets of the Group with fair value of approximately RMB945.7 million (31 December 2018: RMB1,069.8 million) and partial interests in 13 wholly-owned subsidiaries and 2 non-wholly-owned subsidiaries (31 December 2018: 14 non-wholly-owned subsidiaries) with an aggregate net assets of RMB2,393.9 million (31 December 2018: RMB2,311.9 million) were used as collaterals for the entrusted loans of the Group amounting to RMB1,370.0 million (31 December 2018: RMB1,300.0 million).

Liquidity, Financial Resources and Capital Structure

Throughout 2019, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. As at 31 December 2019, the Group had (a) cash and bank balances of RMB132.6 million (as at 31 December 2018: RMB77.3 million), and (b) interest-bearing bank and other borrowings of RMB2,216.6 million (as at 31 December 2018: RMB2,370.2 million), all denominated in RMB, of which, RMB39.4 million were repayable within one to five years, while the remaining interest-bearing bank and other borrowings were repayable within one year. Except bank and other borrowings equivalent to RMB50.6 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 31 December 2019, the annual interest rate of bank borrowings ranged from 1.55% to 12.97% (for the year ended 31 December 2018: 1.55% to 12.97%), with the interest rate of bank borrowings of 12.97% representing only that of the borrowings of RMB1,300.0 million attached with warrants.

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 2019.

Capital Commitments

As at 31 December 2019, the Group's capital commitments amounted to RMB81.1 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 cash consideration of RMB300.0 million and the transaction has been completed during the year.

Human Resources

As at 31 December 2019, the Group had a total of 2,668 employees (as at 31 December 2018: 3,814 employees). Total staff costs throughout 2019 (including the emoluments of Directors and senior management of the Company) amounted to RMB270.5 million (2018: RMB293.3 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 liquid milk 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 31 December 2019, the Group provided guarantees with amount of RMB80.0 million (31 December 2018: RMB155.0 million), RMB65.4 million (31 December 2018: RMB123.4 million) and RMB198.0 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 recognised 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 2019, 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 2019, payment of cash consideration of RMB300.0 million was completed. The transaction has been completed by 31 December 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 industry is in the golden time at present with consumption upgrade resulting in rapid development of the organic industry and various favorable policies facilitating sound development of the dairy industry. Leveraging on the natural strategic geographical advantage of the Ulan Buh Desert, the Group will further consolidate the desert-based grass-to-glass organic management system to deepen the influence of desert organic milk brand, attracting industrial clients to the Ulan Buh Desert to experience an organic living.

Grasping the favorable opportunity from adjustment of supply of raw milk, the Group will appropriately expand the size of its herds, optimize the genes of dairy cows, and increase the percentage of core herds by increasing the reserve of replacement herds. The Group will optimize the nutrient formula, increase the conversion rate of forage and the output per milkable cow to lower the cost and increase efficiency. According to the market demand, the Group will increase the output of organic milk in due course. With continuous innovation and research and development of new products, the Company will improve its product structure to enhance its core competitiveness.

In 2020, Shengmu College initiated by the Group will establish a differentiated talent development system to cultivate interdisciplinary talents who are experts in one area with multiple skills. The information-based project initiated at the same time will also complete the integration and unity of the IT planning with the management and control of the operation of the Group, so as to upgrade the operating capability of the Group while consolidating basic management.

The situation of the industry and the development of the Company are gradually getting better. In the future, shouldering the mission, Shengmu will insist on creating global No.1 brand of the dairy industry to make more contribution to the revitalization of the dairy industry of China.

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 Company and its 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 31 December 2019, 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 separated and should not be performed by the same individual. At the beginning of the year of 2019, Mr. SHAO Genhuo performed these two roles (chairman and acting chief executive officer). The Company reviewed this practice and split the roles of chairman of the Board and chief executive officer of the Company. On 16 January 2019, Mr. SHAO Genhuo ceased to act as the acting chief executive officer of the Company but remained as chairman of the Company, and Mr. ZHANG Jiawang was 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 31 December 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2019, 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 30 June 2014.

As at 31 December 2019, the net proceeds were applied as follows:

	Funds utilized as at 31 December 2019 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 18 June 2014 in compliance with the Code. The Audit Committee was established with written terms of reference in compliance with the 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 1 January 2016. As at 31 December 2019, 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 2019.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the announcement of the Group's results for the year ended 31 December 2019 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 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

The 2020 annual general meeting will be held on or before 30 June 2020. A notice convening the 2020 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 2019 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 30, 2020

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.