

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

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 2020

FINANCIAL HIGHLIGHTS

	For the six-month period ended 30 June		
	2020	2019	Movements
	RMB'000	RMB'000	
Revenue ⁽¹⁾	1,251,067	1,420,582	(11.9%)
Gross profit ⁽¹⁾	470,796	517,404	(9.0%)
Profit from continuing operations	165,729	32,233	414.2%
Loss from a discontinued operation	—	(52,991)	52,991
Profit/(loss) for the period	165,729	(20,758)	186,487
Profit/(loss) attributable to owners of the parent	142,925	(73,501)	216,426

(1) Data for the 2019 Interim Period includes the data from January to April prior to the disposal of the liquid milk business.

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 announces the consolidated financial results of the Company and its subsidiaries (the “**Group**” or “**Shengmu**”) for the six-month period ended 30 June 2020 (the “**2020 Interim Period**” or the “**Interim Period**”), together with the comparative figures for the six-month period ended 30 June 2019 (the “**2019 Interim Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
CONTINUING OPERATIONS			
REVENUE	3	1,251,067	1,200,780
Cost of sales		(780,271)	(756,195)
Gross profit		470,796	444,585
Loss arising from changes in fair value			
less costs to sell of biological assets		(161,077)	(163,495)
Other income and gains/(losses)		22,205	(16,472)
Selling and distribution expenses		(14,729)	(17,809)
Administrative expenses		(51,341)	(57,336)
Impairment losses on financial			
and contract assets, net		733	(12,802)
Other expenses		(838)	—
Finance costs		(74,206)	(122,860)
Share of losses of associates		(25,814)	(21,361)
PROFIT BEFORE TAX FROM			
CONTINUING OPERATIONS		165,729	32,450
Income tax expense	4	—	(217)
PROFIT FOR THE PERIOD			
FROM CONTINUING OPERATIONS		165,729	32,233
DISCONTINUED OPERATION			
Loss for the period from a discontinued			
operation	5	—	(52,991)
PROFIT/(LOSS) FOR THE PERIOD		165,729	(20,758)

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

	Note	For the six months ended 30 June	
		2020	2019
		(Unaudited) RMB'000	(Unaudited) RMB'000
Profit/(loss) attributable to:			
Owners of the parent		142,925	(73,501)
Non-controlling interests		22,804	52,743
		165,729	(20,758)
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT	7		
Basic			
– For profit/(loss) for the period		RMB0.022	(RMB0.012)
– For profit/(loss) from continuing operations		RMB0.022	(RMB0.003)
Diluted			
– For profit/(loss) for the period		RMB0.022	(RMB0.012)
– For profit/(loss) from continuing operations		RMB0.022	(RMB0.003)
Exchange differences on translation of foreign operations		(1,070)	(1,903)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(1,070)	(1,903)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(1,070)	(1,903)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		164,659	(22,661)
Attributable to:			
Owners of the parent		141,855	(75,404)
Non-controlling interests		22,804	52,743
		164,659	(22,661)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 June	31 December
	Notes	2020	2019
		(Unaudited)	(Audited)
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,995,827	2,043,525
Right-of-use assets		52,851	54,272
Other intangible assets		2,458	11,254
Investments in associates		103,551	150,413
Biological assets	8	2,499,022	2,531,188
Long term receivables		14,115	14,505
Other non-current assets		11,997	11,843
Total non-current assets		4,679,821	4,817,000
CURRENT ASSETS			
Inventories		433,081	678,054
Biological assets	8	8,747	13,799
Trade and bills receivables		159,744	167,118
Prepayments, other receivables and other assets		563,024	614,130
Pledged deposits		296,502	177,516
Cash and bank balances		263,280	132,636
Total current assets		1,724,378	1,783,253
CURRENT LIABILITIES			
Trade and bills payables		1,276,251	1,365,884
Other payables and accruals		267,424	574,772
Derivative financial instruments		—	3,267
Interest-bearing bank and other borrowings		2,057,805	2,144,832
Lease liabilities		—	32,287
Total current liabilities		3,601,480	4,121,042
NET CURRENT LIABILITIES		(1,877,102)	(2,337,789)
TOTAL ASSETS LESS			
CURRENT LIABILITIES		2,802,719	2,479,211

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at	
	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	35,001	39,443
Long term payables	28,940	28,940
Total non-current liabilities	63,941	68,383
Net assets	2,738,778	2,410,828
EQUITY		
Equity attributable to owners of the parent		
Share capital	57	50
Reserves	2,531,560	2,186,371
	2,531,617	2,186,421
Non-controlling interests	207,161	224,407
Total equity	2,738,778	2,410,828

NOTES

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 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 2019.

Going concern

The Group had net current liabilities of RMB1,877,102,000 and capital commitments of RMB94,124,000 as at 30 June 2020 (31 December 2019: net current liabilities of RMB2,337,789,000 and capital commitments of RMB81,086,000). In view of the net current liability 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 has sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB1,895,644,000 as at 30 June 2020, the entrusted loan facility of RMB1,600,000,000 with the maturity date extended to 31 December 2022, 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.

2. 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 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group as no rent concessions have been received by the Group as a result of the covid-19 pandemic.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. REVENUE

An analysis of revenue from continuing operations is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers	1,251,067	1,200,780
<u>Disaggregated revenue information for revenue</u>		
<u>from contracts with customers</u>		
Type of goods or services		
Sale of goods	1,251,067	1,200,780
Geographical market		
Mainland China	1,251,067	1,200,780
Timing of revenue recognition		
At a point in time	1,251,067	1,200,780

4. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
Current - PRC	—	—
Deferred	—	(217)
Total tax expense for the period from continuing operations	—	(217)
Total tax expense for the period from a discontinued operation	—	—
	<u>—</u>	<u>(217)</u>

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. 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.

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	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
Revenue	—	219,802
Cost of sales	—	(146,983)
Gross profit from the discontinued operation	—	72,819
Other income and losses	—	(19,402)
Selling and distribution expenses	—	(100,364)
Administrative expenses	—	(10,038)
Finance costs	—	(3,945)
Share of losses of associates	—	(208)
Impairment losses on financial and contract assets	—	(77,604)
Loss before tax from the discontinued operation	—	(138,742)
Gain on disposal of the discontinued operation	—	85,751
Loss for the period from the discontinued operation	—	(52,991)

6. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the 2020 Interim Period (for the 2019 Interim Period: Nil).

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

The calculation of the basic earnings/(loss) per share amount is based on the profit for the period attributable to ordinary equity holders of the parent of RMB142,925,000 (2019 Interim Period: loss for the period attributable to ordinary equity holders of the parent of RMB73,501,000), and the weighted average number of ordinary shares of 6,480,663,000 (2019 Interim Period: 6,354,400,000) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings/(loss) per share amount is based on the profit for the period attributable to ordinary equity holders of the parent of RMB142,925,000 (2019 Interim Period: loss for the period attributable to ordinary equity holders of the parent of RMB 73,501,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 6,480,663,000 (2019 Interim Period: 6,354,400,000) in issue during the period, as used in the basic loss per share calculation, plus the weighted average number of ordinary shares of nil (2019 Interim Period: 68,152,000) 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 amount presented for the six months ended 30 June 2020 and for the six months 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 earnings/(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.

8. BIOLOGICAL ASSETS (CONTINUED)

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

	As at	
	30 June 2020	31 December 2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Milkable cows	1,718,026	1,761,300
Heifers and calves	780,996	769,888
Beef cattle	8,747	13,799
	<u>2,507,769</u>	<u>2,544,987</u>

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 2019 annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRIAL OVERVIEW

In April 2020, the Ministry of Agriculture and Rural Affairs issued the “Report on China’s Dairy Products Outlook for 2020-2029” (《2020-2029年中國奶制品展望報告》). The Report stated that the next 10 years will be a critical period for the revitalization of China’s dairy industry. Accelerating the promotion of moderate-scale breeding is the key to expand China’s dairy production and enhance the competitiveness of China’s dairy industry.

In order to promote the national strategy of revitalization of dairy industry, the Inner Mongolia Autonomous Region has set a target of reaching 3.5 million dairy stocks and 10 million tonnes of dairy production by 2025. Accordingly, the Inner Mongolia Autonomous Region government has promulgated relevant supporting policies to increase support for the combination of planting and farming, raise the subsidy standards for breeding facilities and equipment, strengthen the construction of milk source bases, promote the transformation and upgrading of small and medium-sized farms, support the processing of ethnic characteristic milk products, provide land use policy support and strengthen financial policy support. Guided by the policy to comprehensively promote economic recovery, the China Dairy Industrial Park’s milk source base project with 300,000 cows has started construction in Bayannur, Tongliao and Hohhot since 14 May. Meanwhile, 56 dairy financing projects at the promotion conference exclusively held for dairy industry were signed, thus to provide strong support for the development of the dairy industry.

Despite the difficulty that the dairy industry faces due to the impact of the novel coronavirus epidemic in 2020, 163 dairy companies, including Mengniu, Yili, Shengmu and Junlebao have actively fulfilled their social responsibilities by making donations, which demonstrated their valuable quality and noble spirit.

With the novel coronavirus epidemic being under effective control in China, the social and economic order basically returned to normal in the second quarter, and the dairy industry continued to improve. After the epidemic, the public pays more attention to nutrition and health and the nutritional concept of 300 ml milk plus one egg per day is deeply rooted in the public, which brings new vitality and development opportunities to the dairy industry. According to the “Chinese Dairy Index Survey Data Report” (《中國奶商指數調查數據報告》) released by the China Dairy Industry Association, the Chinese Dairy Index in 2020 is 62.7 points, which is significantly higher than that of 60.7 points in 2019, reflecting continuously optimistic prospects of the dairy industry.

BUSINESS OVERVIEW

The principal business of the Group is dairy farming business. The Group has 34 dairy farms with daily production of 1,715 tonnes of fresh milk, 11 of which have passed organic certification with daily production of 730 tonnes of organic fresh milk, forming the largest organic raw milk base in China. The Group has 23 non-organic farms with daily production of 985 tonnes of high quality non-organic fresh milk.

On 31 July 2020, Start Great Holdings Limited (a wholly-owned subsidiary of China Mengniu) exercised the warrants and became the largest shareholder of the Company. Looking forward, the Group will further its collaboration with China Mengniu and its subsidiaries (the “**Mengniu Group**”) to optimize the layout of premium raw milk, strengthen the synergy of supply chain management and achieve better operation benefits.

In the 2020 Interim Period, the Group recorded revenue of RMB1,251.1 million, achieved a net profit of RMB165.7 million, and net profit attributable to owners of the parent company was RMB142.9 million. The quantity of dairy cows was 107,887 heads, including 47,205 organic dairy cows.

OPERATION REVIEW OF FARMING BUSINESS

Focus on Lean Operation and Consolidate Business Foundation

In 2020, the Group was committed to the development of the dairy farming business, and took various measures to reduce costs and increase efficiency, including lean operation and precise management, which allowed the Company's overall business to maintain a healthy growth trend. In the first half of 2020, the output per milkable cow and average performance continued to increase as compared to the same period of last year, together with strong reserve of replacement heifers and more reasonable structure of herds.

Optimize Operation Mechanism and Enhance Operation Capacity

From the perspective of management system, the Group separated procurement and supply and formed a working mechanism with division and coordination of procurement and supply to improve efficiency. From the perspective of internal operation of the farms, hoof trimming, manure clearing, grass rolling and fly-killing operations have been outsourced to realize asset-light operation and effectively enhance operational efficiency.

Innovation Drives Development and Enhances Profitability

In order to meet market demand for high-end organic milk, the Group plans to apply for transformation of three ordinary farms to organic farms throughout the year to enhance the Group's profitability. In addition, the Group maintains steady production of functional raw milk with native DHA with an annual capacity of approximately 15,000 tonnes.

Practice Green and Environmental Protection to Achieve Circular Ecological Development

In the first half of 2020, the Group proactively carried out energy saving and consumption reduction and environmental protection related work. Through the coal-to-electricity project of heating boilers, the original heating coal-fired boilers of 14 dairy farms were dismantled and replaced by air-source energy heat pumps as the heat source for heating, so as to reduce carbon dioxide emissions. Transformation of the heat source continuously reduces the annual coal consumption and the carbon dioxide emissions. The manure treatment is linked with silage corn suppliers, and cow manure is supplied to the Group's own organic fertilizer farms and silage corn suppliers. Multiple cooperation models coexist to form a benign sustainable agricultural production system in which the Group uses cow manure to fertilize land and feeds forages to cows.

OUTLOOK

Consolidate Global Resources and Focus on Core Business

To enhance the core competitiveness of Ulan Buh Desert organic dairy farms and gain insight into the market demand for organic milk, the Group plans to transform three organic farms in the second half of the year. The transformation of two of these farms has been completed by July 2020. Looking forward, the Group strives to transform more organic farms to establish its leading position in the organic field. At the same time, the Group intends to continue to apply for the demonstration base of organic agricultural technology R&D center in Asia based on the China-Denmark Organic Demonstration Farm, so as to continue to enhance the excellent operation capacity of organic farms, improve operational efficiency and enhance the influence of Shengmu brand. In addition, the Group will proactively explore overseas organic forage cooperation and certification business, gather high quality global resources, consolidate its organic management and control capabilities and create an image of high quality products.

Build Smart Farms and Upgrade Production Efficiency

In the second half of the year, the Group is committed to building a group-based precision breeding management platform to develop a model for the relationship between cow breeding indicators and economic benefits and establish an all-around smart dairy breeding system for the animal husbandry industry chain. Through digital information technologies such as joint source sharing and construction, connectivity and ecological farming, the Group is expected to realize digitalized, informationalized, standard, networked and intelligent dairy farming and production process management.

Consolidate Cultural Foundation and Reserve Key Talents

The Group continues to promote the construction of corporate culture, and further strengthen the guidance and education of the values of integrity, excellence, pragmatism and passion. The Group focuses on cultivating outstanding talents through actual work practices to provide solid talent guarantee for fulfilling its corporate vision and strategic objectives. In the second half of the year, the Group expects to promote the reserve of talents for key positions to ensure dynamic development of the talent pool.

Grasp Market Opportunities and Explore Coordinated Business

Under innovation and consumption upgrading trends, the Group, with its own resource advantages, grasps market opportunities to explore applicable dairy and meat linkage projects with a focus on dairy products.

FINANCIAL REVIEW

In the 2020 Interim Period, the Group's revenue amounted to RMB1,251.1 million and gross profit margin increased by 1.2% from 36.4% in the 2019 Interim Period to 37.6% in the 2020 Interim Period. (Loss)/profit for the period increased by RMB186.5 million from loss of RMB20.8 million in the 2019 Interim Period to profit of RMB165.7 million in the 2020 Interim Period. Among which, (loss)/profit attributable to owners of the parent company increased by RMB216.4 million from loss of RMB73.5 million in the 2019 Interim Period to profit of RMB142.9 million in the 2020 Interim Period.

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

Revenue

Unit: RMB in thousands, except percentages

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
2020 (Unaudited)	1,251,067	—	1,251,067	100.0%	—	—	—	—	1,251,067
2019 (Unaudited)	1,270,550	111,577	1,158,973	81.6%	261,609	—	261,609	18.4%	1,420,582

- (1) Liquid milk business from January to April is included in the 2019 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 more reasonably;
- (2) Liquid milk business includes the discontinued liquid milk business and the milk powder business. The 2019 interim figures only include figures of January to April before disposal of the liquid milk business.

Despite the rising competition in the dairy products market and sudden outbreak of the epidemic, the Group was able to ensure the development of upstream raw milk business by leveraging Mengniu Group as a stable strategic partner, which is one of the leading dairy product manufacturers in China. In the 2020 Interim Period, the strategic raw fresh milk supply and sale relationship with Mengniu Group assured the stable sales; meanwhile, the raw milk price in the farming industry showed a steadily-growing trend. Both of the above generated stable revenue and cash flows for the Company, creating value for its shareholders sustainably. External sales of the Group's raw milk increased from RMB1,159.0 million in the 2019 Interim Period to RMB1,251.1 million in the 2020 Interim Period, representing an increase of 7.9% as compared to the same period of last year, of which, external sales from the sale of organic raw milk increased by 21.4% as compared to the same period of last year.

Dairy farming business

For the six-month period ended 30 June

	2020 (Unaudited)				2019 (Unaudited)			
	Revenue	Sales	Average	Revenue as % of dairy farming segment revenue	Revenue	Sales	Average	Revenue as % of dairy farming segment revenue
	(RMB'000)	volume (Tonnes)	selling price (RMB/Tonne)		(RMB'000)	volume (Tonnes)	selling price (RMB/Tonne)	
Organic raw milk								
External sales	629,292	126,056	4,992	50.3%	518,326	110,581	4,687	40.8%
Inter-segment sales ⁽¹⁾	—	—	—	—	98,291	19,024	5,167	7.7%
Subtotal	629,292	126,056	4,992	50.3%	616,617	129,605	4,758	48.5%
Premium non-organic raw milk								
External sales	621,775	171,619	3,623	49.7%	640,647	180,758	3,544	50.5%
Inter-segment sales ⁽²⁾	—	—	—	—	13,286	3,585	3,706	1.0%
Subtotal	621,775	171,619	3,623	49.7%	653,933	184,343	3,547	51.5%
Dairy farming segment								
External sales	1,251,067	297,675	4,203	100.0%	1,158,973	291,339	3,978	91.3%
Inter-segment sales	—	—	—	—	111,577	22,609	4,935	8.7%
Total	1,251,067	297,675	4,203	100.0%	1,270,550	313,948	4,047	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 2020 Interim Period, sales volume of raw milk decreased by 5.2% from 313,948 tonnes in the 2019 Interim Period to 297,675 tonnes in the 2020 Interim Period, mainly due to the decrease in the number of cows as a result of disposal of low efficiency cows during the 2020 Interim Period as compared to the same period of last year. The sales volume of organic milk accounted for 42.3% of sales volume of raw milk in the 2020 Interim Period, compared with 41.3% in the 2019 Interim Period.

Cost of Sales, Gross Profit and Gross Profit Margin

Unit: RMB in thousands, except percentages

	For the six-month period ended 30 June					
	2020 (Unaudited)			2019 (Unaudited)		
	Cost of sales Amount	Gross profit Amount	Gross profit margin	Cost of sales Amount	Gross profit Amount	Gross profit margin
Dairy farming business						
Organic raw milk						
Before elimination	330,315	298,977	47.5%	357,572	259,045	42.0%
After elimination ⁽¹⁾	330,315	298,977	47.5%	304,092	214,234	41.3%
Premium non-organic raw milk						
Before elimination	449,956	171,819	27.6%	471,564	182,369	27.9%
After elimination ⁽³⁾	449,956	171,819	27.6%	461,942	178,705	27.9%
Subtotal						
Before elimination	780,271	470,796	37.6%	829,136	441,414	34.7%
After elimination	780,271	470,796	37.6%	766,034	392,939	33.9%
Liquid milk business						
Organic liquid milk						
Before elimination	—	—	—	167,728	71,339	29.8%
After elimination ⁽²⁾	—	—	—	120,868	118,199	49.4%
Premium non-organic liquid milk						
Before elimination	—	—	—	20,405	2,137	9.5%
After elimination ⁽³⁾	—	—	—	16,276	6,266	27.8%
Subtotal						
Before elimination	—	—	—	188,133	73,476	28.1%
After elimination	—	—	—	137,144	124,465	47.6%
Total after elimination	780,271	470,796	37.6%	903,178	517,404	36.4%

- (1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk and (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.
- (2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk, calculated using the formula in note (1) above.
- (3) Premium non-organic raw milk after elimination is calculated using the formula in note (1) above, and the premium non-organic liquid milk after elimination is calculated using the formula in note (2) above.

Cost of sales of the Group decreased from RMB903.2 million in the 2019 Interim Period to RMB780.3 million in the 2020 Interim Period. Gross profit margin increased from 36.4% in the 2019 Interim Period to 37.6% in the 2020 Interim Period. This is mainly affected by (1) the increase in the selling price of raw milk by RMB156.0/tonne as compared to the same period of last year; (2) the overall stable cost per kilogram of milk due to the fact that the increase in the output per cow was offset by the increase in the feed price; and (3) the increase in the proportion of sales volume of organic milk.

Other Income and Gains

Other income and gains of the Group decreased from net income of RMB49.9 million in the 2019 Interim Period to net income of RMB22.2 million in the 2020 Interim Period, mainly due to the investment income of RMB85.8 million generated from the disposal of Shengmu Dairy in April 2019 by the Group, which resulted in higher income in the same period of last year than that of the current period.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fees and employees' remunerations. In the 2020 Interim Period and the 2019 Interim Period, selling and distributing expenses of the Group amounted to RMB14.7 million and RMB118.2 million, respectively. Significant decrease in the 2020 Interim Period as compared to the 2019 Interim Period was mainly due to inclusion of January to April data of the disposed dairy company in the figure of the same period of last year of the Group.

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 2020 Interim Period and the 2019 Interim Period, administrative expenses of the Group were RMB51.3 million and RMB67.4 million respectively, representing a decrease of approximately 23.9% as compared to the same period of last year, mainly due to the large amount of valuation, consultation and audit fees arising from acquisition and disposal of projects in the same period of last year, as well as inclusion of January to April administrative expenses data of the disposed dairy company in the same period of last year. In the 2020 Interim Period and the 2019 Interim Period, administrative expenses accounted for 4.1% and 4.7% of revenue, respectively.

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 2020 Interim Period and the 2019 Interim Period, the Group's loss arising from changes in fair value less costs to sell of biological assets were RMB161.1 million and RMB163.5 million, respectively. Loss arising from changes in fair value less costs to sell of biological assets of the Group in the 2020 Interim Period had no significant changes as compared to the 2019 Interim Period.

Share of Profits and Losses of Associates

The Group's associates include (a) Shengmu Dairy, an associate in which the Group held a 49% equity interest, completed its split arrangement at the beginning of the year. The new company Inner Mongolia Mengniu Shengmu High-tech Dairy Products Co., Ltd. (內蒙古蒙牛聖牧高科乳品有限公司) ("**Mengniu Dairy Company**") is responsible for sales business with its 49% minority interests owned by the Group. In January 2020, Shengmu Dairy ceased to be an associate of the Company after the Group disposed of 49% equity interests in Shengmu Dairy to Mengniu Group; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; and (c) Food Union Shengmu Dairy Co., Ltd. ("**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 2020 Interim Period and the 2019 Interim Period, the Group recorded share of losses of associates of RMB25.8 million and RMB21.6 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.

The Group had no income tax expense in the 2020 Interim Period, and the income tax expense in the 2019 Interim Period was RMB0.2 million.

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

Profit attributable to non-controlling interests mainly represents the profit for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In the 2020 Interim Period and the 2019 Interim Period, profit attributable to non-controlling interests was RMB22.8 million and RMB52.7 million, respectively.

In the 2020 Interim Period, profit attributable to owners of the parent company of the Group was RMB142.9 million, representing a net increase of RMB216.4 million from loss of RMB73.5 million in the 2019 Interim Period, which was mainly attributable to (1) the stable increase in the selling price of the Group's raw milk as compared to the same period of last year; and (2) the Group completed the acquisition of minority interests in 12 joint venture farms by the end of November 2019.

ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 30 June 2020, total current assets of the Group were RMB1,724.4 million (as at 31 December 2019: RMB1,783.3 million), primarily consisting of inventory of RMB433.1 million (as at 31 December 2019: RMB678.1 million), trade and bills receivables of RMB159.7 million (as at 31 December 2019: RMB167.1 million), prepayments, deposits and other receivables of RMB563.0 million (as at 31 December 2019: RMB614.1 million), cash and bank balances of RMB559.8 million (as at 31 December 2019: RMB310.2 million), and consumable biological assets of RMB8.8 million (as at 31 December 2019: RMB13.8 million). There was insignificant change in the Group's current assets as at 30 June 2020 as compared with that of 31 December 2019, which was mainly attributable to the decrease of RMB245.0 million in inventory balance as compared with that at the beginning of the year due to the inventory storage characteristics in the dairy farming industry, as well as the increase of RMB249.6 million in the Group's cash and bank balances as compared with that at the beginning of the year mainly due to the continued improvement of the Company's operating results.

Current Liabilities

As at 30 June 2020, total current liabilities of the Group amounted to RMB3,601.5 million (as at 31 December 2019: RMB4,121.0 million), primarily consisting of trade and bills payables of RMB1,276.3 million (as at 31 December 2019: RMB1,365.8 million), other payables, accruals and lease liabilities of RMB267.4 million (as at 31 December 2019: RMB607.1 million), interest-bearing bank and other borrowings of RMB2,057.8 million (as at 31 December 2019: RMB2,144.8 million), and derivative financial instruments of nil (as at 31 December 2019: RMB3.3 million). The decrease in the Group's current liabilities as at 30 June 2020 compared to that as at 31 December 2019, was mainly due to (1) repayment of portion of corporate loans in the 2020 Interim Period; and (2) completion of the share issuance for the non-cash consideration of the acquisition of minority interests in 12 farms, which reduced other payables.

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and most transactions are conducted in RMB. As at 30 June 2020, the Group did not have significant foreign currency exposure from its operations, except for balances equivalent to approximately RMB0.5 million, RMB35.3 million and RMB0.4 million which were denominated in Hong Kong dollars, United States dollars and Euro, respectively. As at 30 June 2020, 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 30 June 2020, the Group had pledged deposits of approximately RMB296.5 million (as at 31 December 2019: RMB177.5 million) in total to banks as deposits for the issuance of letters of credit and bank drafts. As at 30 June 2020, biological assets of the Group with fair value of approximately RMB919.3 million (31 December 2019: RMB945.7 million) and partial interests in 13 wholly-owned subsidiaries and 2 non-wholly-owned subsidiaries with an aggregate net assets of RMB2,466.8 million (31 December 2019: RMB2,393.9 million) were used as collaterals for the entrusted loans of the Group amounting to RMB1,340.0 million (31 December 2019: RMB1,370.0 million).

Liquidity, Financial Resources and Capital Structure

In the 2020 Interim Period, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. As at 30 June 2020, the Group had (a) cash and bank balances of RMB263.3 million (as at 31 December 2019: RMB132.6 million), and (b) interest-bearing bank and other borrowings of RMB2,092.8 million (as at 31 December 2019: RMB2,184.3 million), all denominated in RMB, of which, RMB35.0 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 RMB46.3 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. As of 30 June 2020, the annual interest rate of bank loans ranged from 1.55% to 6.53% (for the year ended 31 December 2019: 1.55% to 12.97%).

Environmental Policies and Performance

In the 2020 Interim Period, 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.

Capital Commitments

As at 30 June 2020, the Group's capital commitments amounted to RMB94.1 million (as at 31 December 2019: RMB81.1 million). The increase as compared to that as at 31 December 2019 was mainly due to the fixed assets investment of the Group's subsidiaries.

Human Resources

As at 30 June 2020, the Group had a total of 2,591 employees (as at 30 June 2019: 2,749 employees). Total staff costs in the 2020 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB130.1 million (2019 Interim Period: RMB120.5 million). The increase in total staff costs as compared to the same period of last year was mainly due to the employment time difference of the Group's management personnel and the adjustment of the remuneration of the employees.

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 2020, the Group provided guarantees with amount of RMB80.0 million (31 December 2019: RMB80.0 million) and RMB42.7 million (31 December 2019: RMB65.4 million) for the bank borrowings of Shengmu Forage and Food Union Shengmu, 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 the 2020 Interim Period, (1) Shengmu Dairy, an associate in which the Group held a 49% equity interest, completed the split of its dairy product sales business into a newly established entity named Inner Mongolia Mengniu Shengmu Hi-tech Dairy Products Co., Ltd., which mirrored the same shareholder structure of Shengmu Dairy. On 22 January 2020, the Group entered into a share purchase agreement with Inner Mongolia Mengniu to dispose of its 49% equity interests in Shengmu Dairy; (2) the Group disposed of the 5.38% equity interest held in Food Union Shengmu to Food Union (Dairy) Hong Kong Limited; and (3) on 29 May 2020, the Group completed the issuance of 688,705,234 shares at an issue price of HK\$0.33 to pay the non-cash consideration for the acquisition of minority interests in 12 joint venture farms. Except the above, the Company did not have any other significant acquisition and disposal of subsidiaries and associates.

The Group received the exercise notices from Start Great Holdings Limited (a wholly-owned subsidiary of China Mengniu) and Greenbelt Global Limited on 27 July and 31 July 2020, respectively, to subscribe for 1,197,327,890 shares and 140,862,105 shares at an exercise price of HK\$0.33 per share. After completion of the above-mentioned share subscription and issuance, the total number of shares of the Company was 8,381,295,229. China Mengniu, through Start Great Holdings Limited, became the largest shareholder of the Company, holding 17.51% of issue shares of the Company.

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.

Purchase, Redemption or Sale of Listed Securities of the Company

During the 2020 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 (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 2020 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established the Audit Committee in compliance with the Listing Rules. The Audit Committee has been established 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 2020 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 2020 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 2020 Interim Period.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2020 Interim Period (the 2019 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 2020 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, 25 August 2020

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