

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

For the six months ended 30 June 2020

	<i>Notes</i>	2020			2019		
		Results before biological fair value adjustments (Unaudited) <i>RMB'000</i>	Biological fair value adjustments (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>	Results before biological fair value adjustments (Unaudited) <i>RMB'000</i>	Biological fair value adjustments (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>
Revenue	5	873,220	-	873,220	705,715	-	705,715
Cost of sales	6	<u>(566,414)</u>	<u>(272,507)</u>	<u>(838,921)</u>	<u>(448,430)</u>	<u>(230,323)</u>	<u>(678,753)</u>
Gross profit		306,806	(272,507)	34,299	257,285	(230,323)	26,962
Losses arising from changes in fair value less costs to sell of biological assets		-	(40,344)	(40,344)	-	(59,844)	(59,844)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		-	262,385	262,385	-	230,323	230,323
Other income		9,828	-	9,828	6,933	-	6,933
Other gains and losses		704	-	704	4,419	-	4,419
Distribution costs		(38,302)	-	(38,302)	(29,303)	-	(29,303)
Administrative expenses		(59,972)	-	(59,972)	(46,781)	-	(46,781)
Other expenses	6	(726)	-	(726)	(554)	-	(554)
Finance costs	7	(64,260)	-	(64,260)	(82,054)	-	(82,054)
Share of profits and losses of associates		<u>(60)</u>	<u>-</u>	<u>(60)</u>	<u>(26)</u>	<u>-</u>	<u>(26)</u>

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	<i>Notes</i>	2020			2019		
		Results before biological fair value adjustments (Unaudited) <i>RMB'000</i>	Biological fair value adjustments (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>	Results before biological fair value adjustments (Unaudited) <i>RMB'000</i>	Biological fair value adjustments (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>
PROFIT BEFORE TAX	<i>6</i>	154,018	(50,466)	103,552	109,919	(59,844)	50,075
Income tax expense	<i>8</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>154,018</u>	<u>(50,466)</u>	<u>103,552</u>	<u>109,919</u>	<u>(59,844)</u>	<u>50,075</u>
Attributable to:							
Owners of the parent		155,376	(50,466)	104,910	109,919	(59,844)	50,075
Non-controlling interests		<u>(1,358)</u>	<u>-</u>	<u>(1,358)</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>154,018</u>	<u>(50,466)</u>	<u>103,552</u>	<u>109,919</u>	<u>(59,844)</u>	<u>50,075</u>
Earnings per share							
attributable to ordinary equity holders of the parent:							
- Basic and diluted							
(RMB cents)	<i>10</i>			<u>4.8</u>			<u>2.3</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,973,193	1,905,714
Prepayments		90,055	71,564
Right-of-use assets		520,320	545,638
Pledged deposits		52,802	32,590
Biological assets	11	1,766,514	1,693,560
Investments in an associate		10,341	10,401
Total non-current assets		<u>4,413,225</u>	<u>4,259,467</u>
CURRENT ASSETS			
Inventories		386,566	465,326
Trade and other receivables	12	190,055	184,100
Biological assets	11	428	–
Pledged bank deposits		47,948	23,852
Cash and bank balances		400,377	390,765
Total current assets		<u>1,025,374</u>	<u>1,064,043</u>
CURRENT LIABILITIES			
Trade and other payables	13	430,841	783,997
Contract liabilities		49,286	6,405
Interest-bearing bank and other borrowings	14	1,206,303	1,146,449
Total current liabilities		<u>1,686,430</u>	<u>1,936,851</u>
NET CURRENT LIABILITIES		<u>(661,056)</u>	<u>(872,808)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,752,169</u>	<u>3,386,659</u>

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	<i>Notes</i>	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	<i>14</i>	1,349,922	1,087,959
Deferred income		34,359	34,364
		<u>1,384,281</u>	<u>1,122,323</u>
Total non-current liabilities		1,384,281	1,122,323
Net assets		<u>2,367,888</u>	<u>2,264,336</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		135	135
Share premium and reserves		2,311,073	2,206,163
		<u>2,311,208</u>	<u>2,206,298</u>
Non-controlling interests		56,680	58,038
Total equity		<u>2,367,888</u>	<u>2,264,336</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 2 December 2015. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The principal activity of the Company is investment holding. The Group is mainly engaged in operations of dairy farms to produce raw milk and importing and selling cows in the mainland of the People’s Republic of China (the “**PRC**”).

The interim condensed consolidated financial information is presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

Going concern

The Group had net current liabilities of RMB661,056,000 as at 30 June 2020. In view of the net current liabilities position, the board of directors (the “**Directors**”) have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities available as at 30 June 2020 and the cash flow projections for the twelve-month period ending 30 June 2021, 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.

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* issued by the International Accounting Standards Board.

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those followed 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>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
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.
- (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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (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.
- (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.

4. OPERATING SEGMENT INFORMATION

For the six-month period ended 30 June 2020 and 2019, over 90% of the Group's revenue, net profit and assets are attributable to the dairy farming business, therefore operating segment information disclosure is no longer required.

5. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Sale of raw milk	849,038	705,635
Rendering of import agency services	24,182	80
	<u>873,220</u>	<u>705,715</u>

All of the Group's revenue is derived from customers based in the mainland of the PRC and is recognised when goods or services transfer at a point of time.

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of sales		
Feeds and other related costs for raw milk production	549,193	448,430
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	<u>262,385</u>	<u>230,323</u>
Cost of sales of raw milk	811,578	678,753
Purchase, feeds and other related costs for cows held for sale	17,221	–
Gains arising from changes in fair value less costs to sell of biological assets	<u>10,122</u>	–
Cost of sales of cows held for sale	<u>27,343</u>	–
	<u>838,921</u>	<u>678,753</u>
Other expenses		
Bank charges	717	549
Others	<u>9</u>	<u>5</u>
	<u>726</u>	<u>554</u>
Staff costs (including the Directors' emoluments)		
Salaries, bonuses and allowances	84,708	56,413
Contributions to retirement benefit scheme	<u>2,615</u>	<u>6,626</u>
Total employee benefits	87,323	63,039
Less: Capitalised in biological assets	<u>(21,721)</u>	<u>(14,777)</u>
Employee benefits charged directly to profit or loss	<u>65,602</u>	<u>48,262</u>

7. FINANCE COSTS

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Interest on bank and other borrowings	49,889	65,757
Interest on lease liabilities	15,658	16,297
Less: Interest capitalised	(1,287)	—
	<u>64,260</u>	<u>82,054</u>

8. INCOME TAX

A reconciliation of the income tax expenses applicable to profit before tax for the six months ended 30 June 2020 at the statutory tax rate to the income tax expense at the effective tax rate is as follows:

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Profit before tax	<u>103,552</u>	<u>50,075</u>
Tax at corporate income tax rate at 25%	25,888	12,519
Effect of items that are not deductible in determining taxable profit	12,937	15,411
Effect of losses incurred for agricultural business	3,960	4,319
Tax losses not recognised	6,980	5,304
Effect of tax exemption granted to agricultural operations	(49,765)	(37,553)
Income tax	<u>—</u>	<u>—</u>

According to the prevailing tax rules and regulations in the PRC, the Company's subsidiaries engaged in agricultural business are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

9. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The earnings and weighted average number of ordinary shares used in the calculations of basic and diluted earnings per share are as follows:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<u>Earnings</u>		
Profit for the period attributable to ordinary equity holders of the parent	<u>104,910</u>	<u>50,075</u>
	Number of shares	
	For the six months ended 30 June	
	2020	2019
	<i>'000</i>	<i>'000</i>
	(Unaudited)	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period	<u>2,174,078</u>	<u>2,174,078</u>

11. BIOLOGICAL ASSETS

During the six months ended 30 June 2020, the biological assets of the Group are dairy cows held to produce raw milk (i.e. milkable cows, heifers and calves) and cows held for sale. Dairy cows held to produce raw milk are categorised as bearer biological assets and cows held for sale are categorised as consumable biological assets.

(A) *Quantity of biological assets*

The Group's dairy cows include cows held for sale, milkable cows, heifers and calves. Heifers and calves are dairy cows that have not had their first calves. The quantity of cows owned by the Group is shown as follows:

	30 June 2020 (Unaudited) Heads	31 December 2019 (Audited) Heads
Cows held for sale	26	–
Milkable cows	38,331	37,880
Heifers and calves	27,708	27,549
	<u>66,065</u>	<u>65,429</u>

Cows held for sale comprise heifers imported and held in quarantine farms and heifers/calves reproduced by the Group for sale to external customers. Cows held for sale are classified as current assets.

Milkable cows, heifers and calves are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets.

In general, the heifers are inseminated when they reached approximately 14 months old. After an approximately 285-day pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days to 340 days before a dry period of approximately 60 days. When a heifer begins to produce raw milk, it is transferred to the category of milkable cows based on the estimated fair value less cost to sell on the date of transfer.

11. BIOLOGICAL ASSETS (continued)

(B) Value of biological assets

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cows held for sale	428	–
Milkable cows	1,302,790	1,253,530
Heifers and calves	<u>463,724</u>	<u>440,030</u>
Total value of cows	<u>1,766,942</u>	<u>1,693,560</u>
Current portion	428	–
Non-current portion	<u>1,766,514</u>	<u>1,693,560</u>
	<u>1,766,942</u>	<u>1,693,560</u>

The fair value of the Group's dairy cows as at 30 June 2020 was estimated by using the same valuation techniques as detailed in note 16 to the Group's annual consolidated financial statements for the year ended 31 December 2019. As the fair value was determined using significant unobservable inputs, it falls in level 3 of fair value hierarchy.

12. TRADE AND OTHER RECEIVABLES

The Group normally allows a credit period of 30 days to its customers for sales of raw milk. The Group normally requires prepayments for sales of cows and alfalfa. An ageing analysis of the Group's trade receivables presented based on the invoice date which approximates to the date on which revenue is recognised as at the end of the reporting period is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables:		
Within 1 month	142,284	153,161
1 to 2 months	3,668	3,957
	<u>145,952</u>	<u>157,118</u>
Other receivables:		
– Advances to suppliers	30,689	16,684
– Others	13,414	10,298
	<u>44,103</u>	<u>26,982</u>
	<u><u>190,055</u></u>	<u><u>184,100</u></u>

As at 30 June 2020, the Group has entered into factoring agreements with certain financial institutions as to secure interest-bearing bank and other borrowings. Since the Group has retained the substantial risks and rewards relating to such trade receivables, it continued to recognise the full carrying amounts of trade receivables. Trade receivables under such factoring agreements amounted to RMB13,957,000 as at 30 June 2020 (31 December 2019: RMB11,451,000).

13. TRADE AND OTHER PAYABLES

The credit period granted to the Group for the settlement of trade purchases is within 90 days. An ageing analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables:		
– Within 3 months	248,692	462,460
– 4 to 6 months	45,838	208,357
– Over 6 months	<u>65,127</u>	<u>34,190</u>
	<u>359,657</u>	<u>705,007</u>
Payable for acquisition of items of property, plant and equipment	10,685	15,439
Accrued staff costs	15,466	19,700
Interest payables	4,465	14,819
Deposits	18,109	18,334
Others	<u>22,459</u>	<u>10,698</u>
	<u>71,184</u>	<u>78,990</u>
	<u>430,841</u>	<u>783,997</u>

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

		30 June	31 December
		2020	2019
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
Unsecured lease liabilities		434,654	443,271
Unsecured bank borrowings		318,720	333,220
Unsecured other borrowings		71,740	–
Guaranteed and unsecured bank borrowings	<i>(i.a)</i>	457,682	450,000
Secured bank borrowings	<i>(i.b)</i>	103,000	65,000
Secured other borrowings	<i>(i.c)</i>	50,030	97,937
Guaranteed and secured bank borrowings	<i>(i.d)</i>	157,143	171,428
Guaranteed and secured other borrowings	<i>(i.e)</i>	963,256	673,552
		<u>2,556,225</u>	<u>2,234,408</u>
Bank and other borrowings repayable:			
Within one year		1,206,303	1,146,449
Between one and two years		443,880	305,753
Between two and five years		654,793	596,198
Over five years		251,249	186,008
		<u>2,556,225</u>	<u>2,234,408</u>
Bank and other borrowings comprise:			
Fixed-rate bank and other borrowings		1,388,296	1,241,491
Variable-rate bank and other borrowings		1,167,929	992,917
		<u>2,556,225</u>	<u>2,234,408</u>

14. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

- (i) (a) As at 30 June 2020, Mr. Zhang Jianshe, the controlling shareholder of the Group, guaranteed bank borrowings of RMB457,682,000 (31 December 2019: RMB450,000,000), of which RMB255,500,000 (31 December 2019: RMB275,000,000) were also guaranteed by Mrs. Li Jingtao, the spouse of Mr. Zhang Jianshe.
- (b) As at 30 June 2020, bank borrowings of RMB103,000,000 (31 December 2019: RMB65,000,000) were secured by dairy cows of RMB73,500,000 (31 December 2019: RMB73,500,000).
- (c) As at 30 June 2020, other borrowings of RMB50,030,000 (31 December 2019: RMB97,937,000) were secured by dairy cows of RMB48,553,000 (31 December 2019: dairy cows of RMB426,736,000 and deposits of RMB9,000,000).
- (d) As at 30 June 2020, bank borrowings of RMB157,143,000 (31 December 2019: RMB171,428,000) were guaranteed by Mr. Zhang Jianshe, Mrs. Li Jingtao and China United SME Guarantee Corporation Company, an independent third party and secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB129,362,000 (31 December 2019: RMB147,997,000).
- (e) As at 30 June 2020, other borrowings of RMB499,984,000 (31 December 2019: RMB495,008,000) were secured by trade receivables of RMB12,702,000 (31 December 2019: RMB11,451,000) and dairy cows of RMB315,337,000 (31 December 2019: RMB322,760,000) under factoring agreements and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 30 June 2020, other borrowings of RMB104,564,000 (31 December 2019: RMB137,046,000) were secured by dairy cows of RMB236,461,000 (31 December 2019: RMB229,756,000) and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

As at 30 June 2020, other borrowings of RMB21,785,000 (31 December 2019: RMB41,497,000) was secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB138,070,000 (31 December 2019: RMB139,687,000), prepayment for non-current assets of the Group of RMB2,603,000 (31 December 2019: RMB2,603,000) and certain of the Group's long-term pledged deposits amounting to approximately RMB25,400,000 (31 December 2019: RMB25,400,000) with present value of RMB24,119,000 (31 December 2019: RMB23,593,000), and guaranteed by Mr. Zhang Jianshe.

As at 30 June 2020, other borrowings of RMB336,923,000 (31 December 2019: nil) were secured by property, plant and equipment of the Group with an aggregate carrying amount of RMB198,523,000 (31 December 2019: nil), trade receivables of RMB1,255,000 (31 December 2019: nil), dairy cows with a carrying amount of RMB416,580,000 (31 December 2019: nil), and certain of the Group's long-term pledged deposits amounting to approximately RMB33,000,000 (31 December 2019: nil) with present value of RMB28,683,000 (31 December 2019: nil), and guaranteed by Mr. Zhang Jianshe and Mrs. Li Jingtao.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(ii) As at 30 June 2020, the contracted interest rates of the above bank and other borrowings ranged from 2.80% to 8.00% (31 December 2019: 4.60% to 6.84%).

(iii) The Group's bank borrowings were denominated in the following currencies:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
RMB	2,504,043	2,234,408
USD	52,182	—
	<u>2,556,225</u>	<u>2,234,408</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and Market Review

In the first half of 2020, the novel coronavirus (“COVID-19”) pandemic swept the world and sounded the alarm for human safety and global economic development. Due to the worldwide impact of the pandemic, global economic growth forecast has been cut multiple times. In the World Economic Outlook released by the International Monetary Fund in late June 2020, the global economy is projected to decline by 4.9%, while China’s economy is forecast to grow 1%, making it the only country that can achieve positive growth in 2020 among major economies.

However, China’s overall economic growth is still in a downward cycle, and the uncertainties resulting from changes in the international political and economic landscape and trade wars persist. The lingering pandemic has cast a shadow over the prospects of economic reopening and recovery. Market supply and demand have generally declined, and corporate production and operations are restricted, adding extra risks to normal economic activities.

Despite the great challenges from the external economic environment, the dairy industry weathered through the adverse impact of the pandemic. Although the first quarter saw milk pouring and powder spraying caused by a short-lived surplus of raw milk with the easing of the pandemic, accelerating resumption of work and production and recovery of the consumer market, the inventory of bulk milk powder gradually decreased in the second quarter, and the supply and demand of milk regained a balance. The price of raw milk started to pick up from a low level and kept rising, and the output of raw milk also increased over the same period last year.

There are two reasons for the quick recovery of the dairy industry from the pandemic. On the one hand, the state has long been providing industry policy support. The Chinese government attaches great importance to the development of the dairy industry and provides a favorable environment for the development and stability of the industry by introducing preferential industry policies, which greatly promotes the development of dairy farming and speeds up the growth of the dairy industry. On the other hand, urban and rural residents increasingly appreciate the nutritional value of milk products, and the COVID-19 pandemic further strengthens residents’ awareness of nutrition and health. As a result, the consumer demand for dairy products with health attributes has not been unduly affected by the pandemic, and the proportion and consistency of milk products in residents’ daily dietary consumption are on the rise. According to the Nutritional Dietary Guidelines for Prevention and Control of Pneumonia Caused by Novel Coronavirus issued by the National Health Commission, for the prevention and control of COVID-19 and ordinary pneumonia, the general population and recovering patients should consume at least 300 grams of milk and dairy products every day as a part of a nutritional diet to enhance human immunity by ingesting high-quality protein. The release of the Guidelines has attracted greater consumer attention to high-protein foods such as milk.

However, it should be noted that the full recovery of the dairy industry also faces cost challenges. Although COVID-19 has been generally under control in China, epidemic prevention measures still cannot be relaxed given the frequent occurrence of cases in various places. As a result, the preventive disinfection of dairy farms, labour protection of employees, and epidemic prevention for dairy cows push up operating expenses. In addition, with the arrival of hot summer, the milk yield of dairy cows declines due to heat stress. In order to reduce the impact of heat stress, dairy farms have to invest in cooling equipment and adjust feed formula, which also increases operating expenses. Due to the severity of the pandemic abroad and natural disasters in some places, the prices of feed including corn, alfalfa, and soybean meal kept rising. The depreciation of RMB in the first half of the year further increased the purchase cost of imported feed.

Business Review

The Group mainly operates dairy farming business. Dairy farming business includes production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc.

In the first half of 2020, faced with the severe challenges posed by COVID-19 to the economy and the dairy industry, the Group adhered to the management philosophy of ingenuity and excellence, continuously strengthened the fine management of dairy farms and optimised large-scale farming structure to increase output, enhance farming efficiency and improve the consistency and genetic progress of cows, so as to enable good cows to produce more high-quality milk. The average daily milk yield of lactating cows in Helan ZhongDi Farm of the Company surpassed 40.1 kg during the Reporting Period, and exceeded 41.8 kg in the second quarter, setting a new record of milk yield per dairy cow among all dairy farms of the Company. Meanwhile, the Group continued to strengthen cooperation with strategic suppliers and increased the proportion of bulk and direct purchases to cut intermediate links and effectively reduce procurement costs and risks, so as to gradually improve its business performance.

In addition, the Group actively coped with the threat of COVID-19 to the normal operations of the Company from the aspects of safe production, operation assurance and sales promotion. We coordinated resources to prevent and control the virus in order to minimise the impact of the pandemic. During the Reporting Period, all the raw milk produced by the Group was sold normally without sluggish sales or powder spraying, and the arrangement for materials supply and epidemic prevention were carried out in an orderly manner and the health of employees was effectively protected. There was no employee contracted COVID-19 in this pandemic.

Dairy Farming Business

In the first half of 2020, the Group weathered the severe impact of COVID-19 on dairy demand and logistics-based supply chain and managed to sell 219,290 tonnes of raw milk. The average unit selling price of the raw milk was approximately RMB3,872 per tonne. The revenue generated from the dairy farming business reached RMB849.0 million, representing 97.2% of the Group's total revenue.

1. *Scale of dairy farms*

Focusing on the development status and market demand of various regions in China, the Group strategically planned the presence of its dairy farms to cover seven provinces or regions in Northern China. A 10,000-cow dairy farm in Yinan County, Shandong Province is under construction. As at 30 June 2020, the Group operated the following eight modern dairy farms: Beijing ZhongDi Farm, Inner Mongolia ZhongDi Dairy, Helan ZhongDi Farm, Ningxia ZhongDi Farm, Kuandian ZhongDi Farm, Langfang ZhongDi Farm, Tianzhen ZhongDi Farm and Tianjin ZhongDi Farm.

2. *Herd size*

	June 30	December 31
	2020	2019
	<i>Head</i>	<i>Head</i>
Cows held for sale	26	–
Milkable dairy cows	38,331	37,880
Heifers and calves	27,708	27,549
	<u>66,065</u>	<u>65,429</u>

As at 30 June 2020, the Group's herd size was 66,065 heads, an increase of 636 heads as compared to that as at 31 December 2019.

3. *Milk yield and sales*

The Group's dairy cows are of Holstein breed, which is the breed with the highest average milk yield. The average annual milk yield of each lactation cow of the Group for the first half of 2020 was 13.5 tonnes, representing an increase of 10.7% as compared to that of the corresponding period of the previous year. Thanks to intensified marketing efforts, as well as the increased yield per dairy cow and the growth in milking herd in each farm of the Group, the sales volume of raw milk during the Reporting Period reached 219,290 tonnes, an increase of 18.8% compared with the same period of last year.

4. *Raw milk quality*

The Group strives to produce premium quality raw milk. Viewing from a range of key quality indicators, the Group's raw milk is of stable premium quality and all the indicators outperform the standards in Europe, the United States and Japan, which are the reasons why the Group is able to maintain a selling price higher than the market average level. The Group has established long-term strategic partnership with leading dairy companies in China which purchase raw milk from the Group for processing into high-end liquid milk.

Standard	Protein Content <i>(Unit: %)</i>	Fat Content <i>(Unit: %)</i>	Aerobic plate count <i>(Unit: /ml)</i>	Somatic cell count <i>(Unit: /ml)</i>
The Company ¹	3.15	3.59	6,600	170,400
EU Standard ²	N/A	N/A	<100,000	<400,000
US Standard ³	≥ 3.2	≥ 3.5	<100,000	<750,000
PRC Standard ⁴	≥ 2.8	≥ 3.1	<2,000,000	N/A

Notes:

1. Calculated according to the statistical data of the Group's raw milk quality for the first half of 2020.
2. Please refer to the Council Directive 92/46/EEC adopted by the EU.
3. Please refer to Grade "A" Pasteurized Milk Ordinance promulgated by the US Public Health Service.
4. Please refer to the National Food Safety Standard (GB19301-2010) of the PRC.

Prospects

In the first half of 2020, China's economic activities once ground to a halt and contracted sharply due to COVID-19. Under challenging internal and external environments, the economy faced a great downward pressure. Yet, historical experience shows that the impact of natural disasters on macro-economy is usually short-lived, and the economy probably would see a V-shaped recovery afterwards. Affected by disaster damage and market sentiment, economic growth usually falls sharply in a short period of time. However, as the disaster is gradually brought under control and market sentiment returns to normal, the temporarily suppressed consumption and investment demand will be released, leading to an economic rebound. The Chinese government's ability to mobilize social resources and its determination to push China's economy back to normal help stabilise the economy and boost market confidence. According to the forecast of the International Monetary Fund, China's economy is expected to rebound strongly next year.

Getting COVID-19 under control will make room for economic development in the second half of the year, and bring a positive impact on the consumer market and the development of dairy industry. The pick-up in the fresh milk market under the rapid growth of low-temperature milk will drive the demand for high-quality raw milk from the upstream of the industry. It is expected that milk prices will continue to rise in the second half of 2020, which will bring greater bargaining power to high-quality raw milk bases.

The Group will seize the opportunity of market development, uphold the entrepreneurial spirit of being "pragmatic, innovative, precise and efficient", and devote itself to building tech-driven, eco-friendly dairy farms and creating high-quality, healthy dairy products while improving operational efficiency and reducing costs, so as to improve profitability and maximise shareholder returns. Moreover, the Group will explore full industry chain development according to the established strategy of the Board in an ongoing effort to enhance its ability to resist risks.

Financial Highlights

Revenue

The Group's revenue for the six months ended 30 June 2020 amounted to RMB873.2 million as compared with RMB705.7 million for the six months ended 30 June 2019, representing a year-on-year increase of 23.7%. The increase was mainly attributed to an increase in the sales volume of raw milk.

Gross Profit and Gross Profit Margin

A breakdown of the Group's gross profit and gross profit margin before biological fair value adjustments is set out below:

	Six months ended 30 June			
	2020		2019	
	Gross Profit	Gross Profit	Gross Profit	Gross Profit
	Margin	Margin	Margin	Margin
Before fair value adjustments				
Gross profit and gross profit margin	<u>306,806</u>	<u>35.1%</u>	<u>257,285</u>	<u>36.4%</u>

The gross profit before biological fair value adjustment, mainly from the sale of raw milk, being the Group's principal business, amounted to RMB306.8 million, representing a year-on-year increase of 19.2%. The gross profit margin was 35.1%, which saw a slight decrease as compared with that of the corresponding period last year. The decrease was mainly attributed to an increase in the feed costs.

Cost of Sales

Cost of sales of the Group is set out below:

	Six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Feed	417,318	73.7%	347,077	77.4%
Labour costs	36,513	6.4%	26,561	5.9%
Others	112,583	19.9%	74,792	16.7%
Total	<u>566,414</u>	<u>100.0%</u>	<u>448,430</u>	<u>100.0%</u>

For the six months ended 30 June 2020, the Group's feed costs amounted to RMB417.3 million, as compared with RMB347.1 million for the six months ended 30 June 2019. The increase was mainly due to the increase in the unit price of feeds and adjustment to the feed formula.

Losses Arising from Changes in the Fair Value Less Costs to Sell of Biological Assets

Net losses from changes in the fair value less costs to sell of biological assets for the six months ended 30 June 2020 amounted to RMB40.3 million, representing a year-on-year decrease of RMB19.5 million as compared with net losses of RMB59.8 million for the corresponding period last year. As the milk yield per milkable dairy cow increased during the Reporting Period, it is expected that the revenue generated from biological assets will increase in the future, leading to an increase in the estimated value of biological assets and a decrease in the losses arising from the fair value less costs to sell of biological assets.

Gains Arising from Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell upon Harvest

The Group's gains arising from initial recognition of agricultural produce at fair value less costs to sell upon harvest for the six months ended 30 June 2020 amounted to RMB262.4 million, with an increase of RMB32.1 million as compared to RMB230.3 million for the six months ended 30 June 2019, which was mainly attributed to an increase in the sales volume of raw milk.

Operating Expenses

	Six months ended 30 June		Rate of Change
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	
Distribution cost	38,302	29,303	30.7%
Administrative expenses	59,972	46,781	28.2%
Other expenses	726	554	31.0%
Total	<u>99,000</u>	<u>76,638</u>	<u>29.2%</u>

The amount of operating expenses increased from RMB76.6 million for the six months ended 30 June 2019 to RMB99.0 million for the six months ended 30 June 2020, representing a year-on-year increase of 29.2%. The increase was mainly attributed to an increase in transportation costs of raw milk as well as staff costs.

Financing Costs

Financing costs decreased by 21.7% from RMB82.1 million for the six months ended 30 June 2019 to RMB64.3 million for the six months ended 30 June 2020, which was due to the acquisition of low-cost financing loans as a result of the pandemic and the increased interval time of renewal of other borrowings during the current period.

Construction In Process

For the six months ended 30 June 2020, the Group invested RMB87.0 million in the plant construction project of Yinan Zhongdi Farm Co., Ltd..

Liquidity and Sources of Funds

The Group's funding policy aims at ensuring sufficient capital to meet the working capital requirements and increasing capital efficiency and capital gains. The working capital of the Group was mainly derived from cash inflow generated from daily operating activities, bank borrowings and other debt instruments. As at 30 June 2020, the gearing ratio of the Company was 56.5% (31 December 2019: 57.5%). The gearing ratio was calculated by total liabilities divided by total assets. As at 30 June 2020, the bank and cash balances amounted to RMB400.4 million (31 December 2019: RMB390.8 million).

Indebtedness

Borrowings of the Group were denominated in RMB. As at 30 June 2020, the balance of short-term borrowings including long-term borrowings due within one year amounted to RMB1,206.3 million. As at 30 June 2020, the balance of long-term borrowings, lease liabilities and long-term payables after deducting the portion due within one year amounted to RMB1,349.9 million. In particular, borrowings with fixed interest rate amounted to approximately RMB953.6 million.

Contingent Liabilities

As at 30 June 2020, there were no material contingent liabilities (31 December 2019: nil).

Foreign Exchange Risk

As at 30 June 2020, save for bank and cash balances of RMB35.4 million which were USD-denominated assets and RMB0.9 million which were HKD-denominated assets, other assets and liabilities of the Group were settled in RMB (the exchange rates of RMB against USD and HKD were calculated based on the bid prices announced by the bank on 30 June). For the six months ended 30 June 2020, the Group did not enter into any foreign currency forward contracts and derivative financial instruments to hedge against foreign exchange risk.

Significant Investment, Acquisition and Disposal of Assets

Save as disclosed in this announcement, the Group had no significant investment during the Reporting Period. During the Reporting Period, there was no material acquisition or disposal relating to the subsidiaries, associated companies and joint ventures of the Group.

Pledge of Assets

Save for the amounts disclosed in note 14 to the interim condensed consolidated financial information and the amounts recorded in the item of pledged bank deposits in the interim condensed consolidated statement of financial position in this announcement, there was no other pledge of assets of the Group.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

Use of Proceeds from Global Offering

The Company issued 391,056,000 new shares at the offer price of HK\$1.2 per share. The net proceeds from the public offering received by the Company were RMB371 million after deducting listing-related expenses.

The net proceeds were utilized in accordance with the proposed allocation as set out in the section headed “Future Plans and Use of Proceeds” in the Company’s prospectus dated 20 November 2015 (the “**Prospectus**”). The net proceeds were utilized in the manner consistent with the proposed allocation as set forth in the Prospectus.

Human Resources

The Group had approximately 1,551 formal employees in the PRC and Hong Kong as at 30 June 2020 (30 June 2019: approximately 1,344). For the six months ended 30 June 2020, the total staff costs including independent non-executive Directors’ remuneration, amounted to approximately RMB87.3 million (corresponding period of 2019: approximately RMB63.0 million).

Employee remuneration of the Group is determined with reference to prevailing market standards and individual employees’ performance, qualifications and experience. The Group strictly complies with the legal requirements and company policies concerning employee remuneration, benefits, working hours and rest periods, treating all employees equally.

The PRC employees of the Group are members of a government-managed retirement benefit plan established by the PRC government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefit plan to fund the benefits.

The Group has also attached importance to the learning and training of employees and to the communication between employees of different positions. It has improved the professional and technical capabilities and overall competence of its employees on an on-going basis, so that employees can grow with the Company.

On 28 October 2015, the Company adopted a share option scheme (the “**Post-IPO Share Option Scheme**”) as part of the motivation and incentive schemes of the Company, further details of which are set out in the section headed “Statutory and General Information - Post-IPO Share Option Scheme” in Appendix IV to the prospectus of the Company dated 20 November 2015. As at the date of this announcement, the Company has not granted any share options pursuant to the Post-IPO Share Option Scheme.

OTHER INFORMATION

Corporate Governance

The Company is committed to maintaining good corporate governance to protect the interest of the shareholders for the Company (the “**Shareholders**”) and to enhance the confidence of investors for establishing a sound foundation for corporate development. For the six months ended 30 June 2020, save as disclosed below, the Company has complied with the requirements of the code provisions as set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhang Jianshe (“**Mr. Zhang**”) is the Chairman and Chief Executive Officer of the Company. He is also the founder of the Group. The Board believes that vesting the roles of both the Chairman and Chief Executive Officer of the Company in Mr. Zhang would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Zhang’s extensive industrial experience and significant role in the historical development of the Group, the Board believes that it is beneficial to the business prospects of the Group if Mr. Zhang continues to act as both the Chairman and Chief Executive Officer of the Company, and the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors, non-executive Directors and independent non-executive Directors.

Directors’ Securities Transactions

The Company has devised its own code of conduct for securities transactions (the “**Company’s Securities Dealings Code**”) regarding Directors’ and Restricted Persons’ (as defined in the Company’s Securities Dealings Code) dealings in the Company’s securities on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made of all the Directors and the Directors have confirmed that they have complied with the Company’s Securities Dealings Code throughout the Reporting Period.

The Company’s Securities Dealings Code also applies to employees of the Group who may obtain or possess inside information (as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) of the Company. The Company is not aware of any incidence of non-compliance with the Company’s Securities Dealings Code by the employees of the Group.

Purchase, Sale or Redemption of Listed Securities of the Company

For the six months ended 30 June 2020, none of the Company or any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

Material Events after the Reporting Period

On 31 July 2020, the Company entered into a subscription agreement with Hongkong Jingang Trade Holding Co., Limited (the “**Subscriber**”), pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, an aggregate of 432,641,522 subscription shares (“**Subscription Shares**”) of the Company at the subscription price of HK\$0.47 per Subscription Share.

On 12 August 2020, the conditions set out in the aforesaid subscription agreement had been fulfilled and completion of subscription took place by then in accordance with the terms and conditions of the subscription agreement. The total number of 432,641,522 Subscription Shares were allotted and issued to the Subscriber at the subscription price of HK\$0.47 per Subscription Share representing approximately 16.6% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. The aggregate gross proceeds of the subscription will be HK\$203,341,515.34 and the aggregate net proceeds of the subscription, after deduction of expenses, are estimated to be approximately HK\$201,841,515.34. The Company intends to use approximately 70% of the net proceeds from the subscription to supplement the general working capital, mainly for the purchase of production materials such as feeds and veterinary drugs necessary for farm operations, and approximately 30% for repayment of bank loans that are falling due to support the operation of the Company’s existing business.

References should be made to the announcements of the Company dated 31 July 2020 and 12 August 2020 respectively for the details of the subscription.

Review by the Audit Committee

The audit committee of the Company (the “**Audit Committee**”), comprising Mr. Zhang Juying Jerry (Chairman) and Prof. Li Shengli, being the independent non-executive Directors, and Ms. Yu Tianhua, being the non-executive Director, has reviewed the accounting principles and practices adopted by the Group, and has reviewed issues relating to internal control and risk management systems and financial reporting with the management of the Company. The Audit Committee has reviewed the unaudited interim financial results of the Company for the six months ended 30 June 2020 and is of the opinion that the unaudited interim financial results comply with all applicable accounting standards, legal requirements and requirements of the Listing Rules and adequate disclosures have been made.

Review of Interim Financial Results

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 have been reviewed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the 2020 interim report of the Company to be sent to the Shareholders.

Publication of Interim Results Announcement and Interim Report

This interim results announcement is published on the websites of the Company (<http://www.zhongdidairy.hk>) and Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>). The 2020 interim report of the Company will be despatched to the Shareholders and published on the above-mentioned websites in accordance with the Listing Rules.

Acknowledgement

The Board would like to take this opportunity to express our sincere gratitude to the Shareholders and various sectors of the community for their constant support to the Group and to all our staff for their diligence and dedicated services.

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors, Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive Directors, and Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry as independent non-executive Directors.