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CHINA SHENGMU ORGANIC MILK LIMITED

中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code:1432)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

| | For the six-month period ended 30 June | | |
|---|---|----------------|------------------|
| | 2021 | 2020 | Movements |
| | RMB'000 | RMB'000 | |
| Operating income ⁽¹⁾ | 1,499,620 | 1,316,739 | 13.9% |
| Revenue | 1,446,189 | 1,251,067 | 15.6% |
| Gross profit | 547,290 | 470,796 | 16.2% |
| Profit for the period | 271,471 | 165,729 | 63.8% |
| Profit attributable to owners of the parent | 259,275 | 142,925 | 81.4% |
| Basic earnings per share (RMB) | 0.031 | 0.022 | 40.9% |
| Return on net assets | 7.4% | 6.1% | 1.3% |

OPERATION HIGHLIGHTS

- On 18 January 2021, the Group received a welcome letter signed by Ms. Sanda Ojiambo, the Director General of the United Nations Global Compact (UNGC), and thus officially became a corporate member of the United Nations Global Compact (UNGC).
- On 27 July 2021, the United Nations Global Compact (UNGC) officially published the “Corporate Net Zero Pathway - Delivering the Paris Agreement and the Sustainable Development Goals of the United Nations”, in which 12 Chinese enterprises including China Shengmu as the first representative enterprise in the livestock industry, China Development Bank, Huawei and Baidu were included in the “Corporate Net Zero Pathway”.
- In the 2021 Interim Period, the Group completed the transformation of five ordinary farms to organic farms, and sales volume of organic raw milk increased by 46.2% year on year.
- On 5 January 2021, the Group successfully launched its SAP-ERP system.

(1) Operating income is calculated based on revenue plus other income.

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

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 2021 (the “**2021 Interim Period**” or the “**Interim Period**”), together with the comparative data for the six-month period ended 30 June 2020 (the “**2020 Interim Period**”) as follows:

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

| | Notes | For the six months ended 30 June | |
|--|-------|----------------------------------|------------------------|
| | | 2021 | 2020 |
| | | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| REVENUE | 3 | 1,446,189 | 1,251,067 |
| Cost of sales | | (898,899) | (780,271) |
| Gross profit | | 547,290 | 470,796 |
| Loss arising from changes in fair value | | (154,900) | (161,077) |
| Other income and gains | | 3,514 | 22,205 |
| Selling and distribution expenses | | (25,253) | (14,729) |
| Administrative expenses | | (47,642) | (51,341) |
| Impairment losses on financial and contract assets, net | | (6,791) | 733 |
| Other expenses | | (137) | (838) |
| Finance costs | | (31,108) | (74,206) |
| Share of losses of associates | | (13,271) | (25,814) |
| PROFIT BEFORE TAX | | 271,702 | 165,729 |
| Income tax expense | 4 | (231) | — |
| PROFIT FOR THE PERIOD | | 271,471 | 165,729 |

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME (CONTINUED)

| | | For the six months ended 30 June | |
|--|----------|---|--------------------------------|
| | Note | 2021 | 2020 |
| | | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| Profit attributable to: | | | |
| Owners of the parent | | 259,275 | 142,925 |
| Non-controlling interests | | 12,196 | 22,804 |
| | | 271,471 | 165,729 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 6 | | |
| Basic | | | |
| – For profit for the period | | RMB0.031 | RMB0.022 |
| Diluted | | | |
| – For profit for the period | | RMB0.031 | RMB0.022 |
| Other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods | | | |
| Exchange differences on translation of foreign operations | | 28 | (1,070) |
| Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods | | 28 | (1,070) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | | 28 | (1,070) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 271,499 | 164,659 |
| Attributable to: | | | |
| Owners of the parent | | 259,303 | 141,855 |
| Non-controlling interests | | 12,196 | 22,804 |
| | | 271,499 | 164,659 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at | |
|--|-------|------------------------|----------------------|
| | Notes | 30 June 2021 | 31 December 2020 |
| | | (Unaudited) RMB'000 | (Audited) RMB'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 1,718,848 | 1,772,651 |
| Right-of-use assets | | 49,075 | 45,100 |
| Other intangible assets | | 5,834 | 6,242 |
| Investments in associates | | 110,839 | 122,255 |
| Biological assets | | 2,545,978 | 2,572,102 |
| Long term receivables | | 9,973 | 10,498 |
| Total non-current assets | | 4,440,547 | 4,528,848 |
| CURRENT ASSETS | | | |
| Other financial assets at amortised cost | | 72,000 | — |
| Inventories | | 486,461 | 715,078 |
| Biological assets | | 35,660 | 15,008 |
| Trade receivables | 7 | 206,375 | 136,611 |
| Prepayments, other receivables and other assets | | 610,343 | 614,578 |
| Pledged deposits | | 194,788 | 387,452 |
| Cash and bank balances | | 800,737 | 327,651 |
| Total current assets | | 2,406,364 | 2,196,378 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 8 | 1,152,373 | 1,699,448 |
| Other payables and accruals | | 186,653 | 239,981 |
| Derivative financial instruments | | 471 | — |
| Interest-bearing bank and other borrowings | | 975,225 | 1,335,873 |
| Total current liabilities | | 2,314,722 | 3,275,302 |
| NET CURRENT ASSETS/(LIABILITIES) | | 91,642 | (1,078,924) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 4,532,189 | 3,449,924 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | As at | |
|--|-------------------------|-------------------------|
| | 30 June 2021 | 31 December 2020 |
| | (Unaudited) RMB'000 | (Audited) RMB'000 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | <u>841,164</u> | <u>30,398</u> |
| Total non-current liabilities | <u>841,164</u> | <u>30,398</u> |
| Net assets | <u>3,691,025</u> | <u>3,419,526</u> |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Share capital | 69 | 69 |
| Reserves | <u>3,455,966</u> | <u>3,196,663</u> |
| | 3,456,035 | 3,196,732 |
| Non-controlling interests | <u>234,990</u> | <u>222,794</u> |
| Total equity | <u>3,691,025</u> | <u>3,419,526</u> |

NOTES

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS34 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 2020.

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 2020, 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 9, IAS 39, IFRS 7, IFRS 4
and IFRS 16

Interest Rate Benchmark Reform – Phase 2

Amendment to IFRS 16

*Covid-19-Related Rent Concessions beyond 30
June 2021 (early adopted)*

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in United States dollars and based on the London Interbank Offered Rate (“**LIBOR**”) as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “economically equivalent” criterion is met.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (b) 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 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. In March 2021, the International Accounting Standards Board issued another amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 to extend the availability of the practical expedient for any reduction in lease payments that affects only payments originally due on or before 30 June 2022 (the “**2021 Amendment**”). The 2021 Amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment 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.

3. REVENUE

An analysis of revenue is as follows:

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Revenue from contracts with customers | <u>1,446,189</u> | <u>1,251,067</u> |
| <u>Disaggregated revenue information for revenue</u> | | |
| <u>from contracts with customers</u> | | |
| Type of goods or services | | |
| Sale of goods | <u>1,446,189</u> | <u>1,251,067</u> |
| Geographical market | | |
| Mainland China | <u>1,446,189</u> | <u>1,251,067</u> |
| Timing of revenue recognition | | |
| At a point in time | <u>1,446,189</u> | <u>1,251,067</u> |

4. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|----------------------------------|----------------------------------|------------------------|
| | 2021 | 2020 |
| | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| Current - PRC | 231 | — |
| Total tax expense for the period | 231 | — |
| | <u>231</u> | <u>—</u> |

5. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the 2021 Interim Period (the 2020 Interim Period: nil).

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 8,381,295,000 (2020 Interim Period: 6,480,663,000) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 8,381,295,000 (2020 Interim Period: 6,480,663,000) in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assume to have been issued at no consideration on the deemed exercise of warrants and dilutive potential ordinary shares.

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of basic and diluted earnings per share are based on:

| | For the six months ended 30 June | |
|---|---|-----------------------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| <hr/> | | |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | <u>259,275</u> | <u>142,925</u> |
| | | |
| | For the six months ended 30 June | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| <hr/> | | |
| Shares | | |
| Weighted average number of ordinary shares in issue during the reporting period | 8,381,295,000 | 6,354,400,000 |
| Effect of dilution - weighted average number of ordinary shares: | | |
| New issue | <u>—</u> | <u>126,263,000</u> |
| | <u>8,381,295,000</u> | <u>6,480,663,000</u> |

7. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

| | As at | |
|--------------------|----------------|----------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | (Unaudited) | (Audited) |
| | RMB'000 | RMB'000 |
| Within 3 months | 201,979 | 136,611 |
| 4 to 6 months | 2,676 | — |
| 7 months to 1 year | 1,720 | — |
| Over 1 year | — | — |
| | <u>206,375</u> | <u>136,611</u> |

8. TRADE AND BILLS PAYABLES

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

| | As at | |
|----------------|------------------|------------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | (Unaudited) | (Audited) |
| | RMB'000 | RMB'000 |
| 1 to 3 months | 629,111 | 1,014,154 |
| 4 to 6 months | 284,857 | 512,573 |
| 7 to 12 months | 233,125 | 157,604 |
| 1 to 2 years | 1,277 | 9,466 |
| 2 to 3 years | 494 | 1,501 |
| Over 3 years | 3,509 | 4,150 |
| | <u>1,152,373</u> | <u>1,699,448</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Industrial Overview

In the first half of 2021, China's economy continued to recover steadily. According to the economic data for the first half of 2021 released by the National Bureau of Statistics, China's GDP was RMB53,216.7 billion, a year-on-year increase of 12.7%, and an average growth rate of 5.3% in two years. Consumption plays a “bedrock (壓艙石)” role in economic growth. With a series of policies to expand domestic demand and promote consumption, holiday factors have driven the steady recovery of the consumer market, which has significantly stimulated economic growth. In the first half of the year, the contribution rate of final consumption expenditure to economic growth was 61.7%, driving economic growth by 7.8 percentage points. The growth rates of food, textile, paper, chemical fiber and other industries ranged from 8.2% to 13.4%, showing a gradual recovery trend.

In the dairy industry, according to the monitoring data of the Ministry of Agriculture and Rural Affairs, the monthly average price of raw fresh milk in June was RMB4.27 per kilogram, a month-on-month increase of 0.7% and a year-on-year increase of 19.3%. According to the National Bureau of Statistics, the milk production in the first half of the year was 15.40 million tonnes, an increase of 1.09 million tonnes and a year-on-year growth of 7.6%. Among them, the output of national liquid milk from January to May 2021 was 11.5068 million tonnes, a year-on-year increase of 20.96%; the output of dry dairy products was 779,400 tonnes, a year-on-year increase of 4.94%; the output of milk powder was 385,800 tonnes, a year-on-year decrease of 9.06%.

Business Overview

The principal business of the Group is dairy farming, production and sales of high-end desert-based organic raw milk and quality non-organic raw milk. The Group is committed to concentrating its resources on the production and sales of desert-based organic milk. At the same time, based on the diversified demand of customers for quality raw milk, the Company continues to develop functional raw milk to improve its profitability. The Group currently owns 33 dairy farms with a herd of 115,935 cows and daily production of 1,635 tonnes of fresh milk, 19 of which have passed organic certification with daily production of 1,161 tonnes of organic fresh milk, being the largest organic raw milk producer in China. In addition, the Group also operates four DHA farms with daily production of 163 tonnes of high-quality fresh milk.

In the first half of 2021, the Group's total raw milk sales amounted to 287,856 tonnes, a slight decrease of 3.3% from the same period of last year. This was mainly due to the decline in output when the Group's ordinary farms were converted to DHA farms, and the increase in the proportion of first-born cattle in the herd structure. Organic raw milk sales amounted to 184,253 tonnes, an increase of 46.2% over the same period of last year, and accounted for 64.0% of total raw milk sales, an increase in structural proportion of 21.7 percentage points over the same period of last year. The increase in the production of organic raw milk was mainly due to the conversion of organic farms and increase in output of organic dairy cows. In addition, the sales of quality non-organic raw milk amounted to 103,603 tonnes, decrease of 39.6% from the same period of last year, accounting for 36.0% of total raw milk sales.

Operation Review

As people's health awareness continues to increase and consumption upgrades, organic dairy products, which are pollution-free, additive-free, and meet strict organic standards, have increasingly been trusted and favored by consumers. Therefore, the market's demand for organic dairy products continues to grow. In the first half of 2021, Shengmu Organic and Mengniu Deluxe Organic, the two major high-end organic milk brands mainly supplied by the Group's raw milk, both achieved rapid growth in their product sales. In order to ensure the rapid growth in demand for high-end organic milk and consolidate the Group's leading position in the organic raw milk market, in March 2021, the Group's five farms realized organic conversion, which correspondingly increased the daily output of organic fresh milk by approximately 245 tonnes, and the average daily output of organic milk in June reached 1,241 tonnes. In order to meet the growing demand for functional DHA raw milk, while optimizing the Group's products and profit structure, the Group converted three ordinary raw milk farms into functional DHA raw milk farms in the first half of the year, which led to the increase in the average daily output of DHA raw milk by approximately 126 tonnes, and the average daily output of high-end DHA milk in June reached 166 tonnes.

Benefited from the increase in market demand, the raw milk market price in the first half of the year rose compared with the same period of last year. The Group's overall average unit price of raw milk was RMB5.02 per kilogram, an increase of 19.5% over the same period of last year, among which, desert-based organic milk experienced a rapid growth in demand due to its unique brand and nutritional value. The average unit price of organic raw milk was RMB5.31 per kilogram, an increase of about 6.3% compared with the corresponding period of last year. The average unit price of quality non-organic raw milk is RMB4.52 per kilogram, an increase of approximately 24.7% compared with the corresponding period of last year. In the first half of 2021, the prices of agricultural products rose significantly over the same period of last year, with the producer prices of corn and soybeans rose by 44.5% and 35.7%, respectively. The Group's feed cost per kilogram of milk was approximately RMB2.53, an increase of approximately 26.2% over the same period of last year. Faced with rising costs, the Group imported feed products through the supply chain center established in Tianjin to reduce the purchase cost of intermediate links. By passing on supplier's payment cycle, improving feed quality, reducing feed costs, and achieving cost reduction and efficiency enhancement. The Group still maintained a stable gross profit margin in the first half of the year at 37.8%, representing an increase of 0.2% as compared with the same period last year.

In the first half of the year, the Group carried out lean operations, focused on improving the level of farm management, and carried out 6S management in the farms. The six elements of tidying, rectification, sweeping, cleaning, literacy, and safety were fully implemented to improve the working environment, enhance employee literacy, and improve economic benefits. In April 2021, Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司) was assessed as the highest-level S by the Dairy Association of China among the first batch of 36 “Modern Dairy Industry Grading and Evaluation Dairy Farms (現代奶業定級評價奶牛場)”, which marked the Group’s first national “Modern Dairy Industry Grading and Evaluation Dairy Farms” coming into being. In June 2021, the Group signed a strategic cooperation agreement with the Shanxi Animal Husbandry Genetics and Breeding Center (山西省畜牧遺傳育種中心) in terms of joint breeding of Holstein cattle. In the future, both parties will give full play to their respective advantages and have in-depth cooperation in areas such as production performance measurement, core group breeding of Holstein cattle, and independent breeding of reserve bulls. This strategic cooperation in joint breeding is of great significance for accelerating the Group’s construction of seed cow herds, enhancing the independent innovation ability in terms of Holstein cattle germplasm, and improving the comprehensive competitiveness of the dairy cattle seed industry.

In January 2021, the Group’s SAP-ERP system was successfully launched, and it gradually realized the standardization and integration of various internal and external data and processes of the Group and improved the Group’s overall management and control capabilities, process standardization capabilities, refinement management ability and industrial coordination ability. In addition, the Group established a standardized daily cost accounting model for the automatic calculation of milk costs and automatic allocation of herd costs, creating a precedent in the industry. This system built an integrated, comprehensive and smart decision-making digital platform for the Group and laid a solid foundation for further digital management and smart farms construction.

In terms of human resources, in the first half of the year, the Group focused on promoting the rejuvenation and professionalization of personnel, recruited high-quality professionals for core positions, and vigorously promoted the construction of key departments. A think tank group of Shengmu Research Institute was established, and many well-known experts and scholars in the industry were invited to join, so as to assist the development of the Group's business in all dimensions through the combination of the industry, university and research. Moreover, the Group vigorously promoted the construction of personnel echelon, organized different types of training and learning for different levels of personnel, and developed close school-enterprise cooperation with China Agricultural University, Inner Mongolia Agricultural University, Beijing Academy of Agriculture and Forestry Sciences and other schools to achieve resource contribution and complementary advantages, providing advantageous resources for long-term development in terms of the Group's scientific research and personnel training. With respect to financing, the Group continued to promote the optimization of its liability structure in the first half of the year. Benefited from the optimization of the shareholder structure, the improvement of financial indicators and the enhancement of the Company's brand influence, the financing environment continued to improve, and financing costs dropped significantly compared with the same period of last year, as well as unutilised banking facilities increased largely, laying a solid foundation for ensuring the security of the Group's funds and long-term development.

In the first half of the year, the Group continued to practice green environmental protection and sustainable corporate development, and actively contributed to carbon neutrality. On 18 January 2021, the Group received a welcome letter from the United Nations Global Compact, and thus officially became a corporate member of the United Nations Global Compact (UNGC). On 27 July 2021, the United Nations Global Compact (UNGC) officially published the "Corporate Net Zero Pathway – Delivering the Paris Agreement and the Sustainable Development Goals of the United Nations". As the first representative company in the livestock industry, the Group was included by the "Corporate Net Zero Pathway". As an excellent case of reducing carbon emissions from farming activities in the agriculture and food industry, the Group has achieved significant results in reducing carbon emissions from farming activities and promoting corporate carbon emission reduction through recycling and reuse of methane in manure, scientific and efficient use of fertilizers, improvement of soil and energy efficiency of farms and other measures.

On 6 July 2021, Start Great Holdings Limited, a wholly owned subsidiary of China Mengniu Dairy Company Limited (“**China Mengniu**”) the single largest shareholder of the Group, further acquired approximately 1.05 billion ordinary shares of the Company at a price of approximately HK\$1.1 per share. After that, China Mengniu’s shareholdings reached approximately 29.99%. The increase of shareholdings by China Mengniu reflects the substantial shareholder’s recognition of the Group’s business development and corporate value. In the future, the Group will develop coordinately under the China Mengniu’s grand strategy.

FINANCIAL REVIEW

In the 2021 Interim Period, the Group’s revenue amounted to RMB1,446.2 million, representing an increase of 15.6% as compared with RMB1,251.1 million in the 2020 Interim Period. Despite the significant increase in feed costs, the Group’s gross profit margin increased from 37.6% in the 2020 Interim Period to 37.8% in the 2021 Interim Period. Profit for the period increased by RMB105.8 million from RMB165.7 million in the 2020 Interim Period to RMB271.5 million in the 2021 Interim Period, among which, profit attributable to owners of the parent company increased by RMB116.4 million from RMB142.9 million in the 2020 Interim Period to RMB259.3 million in the 2021 Interim Period, representing a growth rate of 81.4%.

ANALYSIS ON 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 | | | | | |
|----------|--|-------------------------------------|---|------------------|-------------------------------------|---|
| | 2021 (Unaudited) | | | 2020 (Unaudited) | | |
| | Revenue | Average Sales volume (Tonnes) | Average selling price (RMB/ Tonne) | Revenue | Average Sales volume (Tonnes) | Average selling price (RMB/ Tonne) |
| Raw milk | <u>1,446,189</u> | <u>287,856</u> | <u>5,024</u> | <u>1,251,067</u> | <u>297,675</u> | <u>4,203</u> |

In the 2021 Interim Period, the sales of raw milk business of the Group amounted to RMB1,446.2 million (2020 Interim Period: RMB1,251.1 million), representing an increase of 15.6% as compared to last year, which was mainly benefited from the increase in the prices of raw milk and a year-on-year increase in the sales volume of organic milk.

Dairy Farming Business

| For the six-month period ended 30 June | | | | | | | | |
|---|------------------|----------------|-----------------------|---------------------------------------|------------------|----------------|-----------------------|---------------------------------------|
| | 2021 (Unaudited) | | | | 2020 (Unaudited) | | | |
| | Revenue | Sales volume | Average selling price | Revenue as % of dairy farming segment | Revenue | Sales volume | Average selling price | Revenue as % of dairy farming segment |
| | (RMB'000) | (Tonnes) | (RMB/Tonne) | revenue | (RMB'000) | (Tonnes) | (RMB/Tonne) | revenue |
| Organic raw milk | 978,046 | 184,253 | 5,308 | 67.6% | 629,292 | 126,056 | 4,992 | 50.3% |
| Premium non-organic raw milk ⁽¹⁾ | 468,143 | 103,603 | 4,519 | 32.4% | 621,775 | 171,619 | 3,623 | 49.7% |
| Total | 1,446,189 | 287,856 | 5,024 | 100.0% | 1,251,067 | 297,675 | 4,203 | 100.0% |

(1) Premium non-organic raw milk includes natively functional DHA milk.

In the 2021 Interim Period, following the market development trend, the Group focused on its organic milk business and changed five dairy farms into organic farms in the first half of 2021. Sales volume of organic milk increased from 126,056 tonnes in the 2020 Interim Period to 184,253 tonnes in the 2021 Interim Period, representing an increase of 46.2%. Sales volume of non-organic milk in the 2021 Interim Period was 103,603 tonnes, including natively functional DHA milk of 19,287 tonnes.

In the 2021 Interim Period, the average selling price of the Group's raw milk was RMB5,024/tonne, representing an increase of 19.5% as compared to the same period of last year. Among which, the average selling price of organic raw milk was RMB5,308/tonne, increasing by 6.3% as compared to the same period of last year; and the average selling price of non-organic raw milk was RMB4,519/tonne, increasing by 24.7% as compared to the same period of last year.

Cost of Sales, Gross Profit and Gross Profit Margin

Unit: RMB in thousands, except percentages

| | For the six-month period ended 30 June | | | | | |
|---------------------------------|--|------------------------|------------------------|-------------------------|------------------------|------------------------|
| | 2021 (Unaudited) | | | 2020 (Unaudited) | | |
| | Cost of sales Amount | Gross profit Amount | Gross profit margin | Cost of sales Amount | Gross profit Amount | Gross profit margin |
| Organic raw milk | 583,806 | 394,240 | 40.3% | 330,315 | 298,977 | 47.5% |
| Premium non-organic raw milk | 315,093 | 153,050 | 32.7% | 449,956 | 171,819 | 27.6% |
| Total | 898,899 | 547,290 | 37.8% | 780,271 | 470,796 | 37.6% |

The Group's cost of sales increased from RMB780.3 million for the 2020 Interim Period to RMB898.9 million for the 2021 Interim Period due to the increase in price of bulk feed. However, the Group actively adjusted products structure, and increased the proportion of sales of high-value products. In the 2021 Interim Period, the Group completed the transformation to five organic farms and three DHA natively functional milk farms, which resulted in an increase in gross profit margin from 37.6% for the 2020 Interim Period to 37.8% for the 2021 Interim Period.

Other income and gains

For the 2021 Interim Period, the Group's other income and gains amounted to RMB3.5 million (2020 Interim Period: RMB22.2 million), mainly due to gains from disposal of certain equity interests in an associate company for the 2020 Interim Period.

Selling and Distribution Expenses

Group's selling and distribution expenses primarily include logistics and transportation expenses and employees' remunerations. For the 2021 Interim Period and the 2020 Interim Period, the Group's selling and distribution expenses amounted to RMB25.3 million and RMB14.7 million, respectively. The significant increase for the 2021 Interim Period as compared to the 2020 Interim Period was mainly due to the year-on-year increase in transportation cost resulted from longer transportation distances as the Group developed customers for raw milk.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of the management and administrative employees, as well as administrative expenses including attorney and audit fees. For the 2021 Interim Period and the 2020 Interim Period, the Group's administrative expenses amounted to RMB47.6 million and RMB51.3 million, representing a decrease of approximately 7.2%. For the 2021 Interim Period and the 2020 Interim Period, administrative expenses accounted for 3.3% and 4.1% of sales revenue, respectively.

Finance Costs

For the 2021 Interim Period and the 2020 Interim Period, the Group's finance costs amounted to RMB31.1 million and RMB74.2 million, respectively, representing a decrease of RMB43.1 million as compared to the same period of last year, which was mainly due to the combined impact of optimization of debt structure and decrease in interest-bearing liabilities and interest rates.

Loss Arising from Changes in Fair Value

Loss arising from changes in fair value mainly 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, the value of a heifer increases when it grows up to a milkable cow, 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.

For the 2021 Interim Period and the 2020 Interim Period, the Group recorded loss arising from changes in fair value of RMB154.9 million and RMB161.1 million, respectively.

Share of Losses of Associates

The Group's associates include (a) 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) invested and owned as to 49% by the Group, which is primarily engaged in the operating and selling of Shengmu organic liquid milk products; (b) Bayannur Shengmu High-tech Ecological Forage Co. Ltd (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; (c) Food Union Shengmu Dairy Co., Ltd. (富友聯合聖牧乳品有限公司) ("**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; and (d) Inner Mongolia Yiyangmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司), in which the Group invested and held minority interests, producing high-end organic infant milk powder with the raw milk purchased from the Group in the future. For the 2021 Interim Period and the 2020 Interim Period, the Group recorded a share of the losses of the abovementioned associates of RMB13.3 million and RMB25.8 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 PRC 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.

For the 2021 Interim Period, the Group's income tax expense was RMB0.2 million, and the Group had no income tax expense for the 2020 Interim Period.

Profit Attributable to Owners of the Parent Company and Profit Attributable to Non-Controlling Interests

For the 2021 Interim Period, profit attributable to owners of the parent company of the Group was RMB259.3 million, representing a net increase of RMB116.4 million or a growth rate of 81.4% from a profit of RMB142.9 million for the 2020 Interim Period, which was mainly attributable to (1) the year-on-year increase in the selling price of the Group's raw milk; (2) the year-on-year increase in the sales volume of organic milk due to the adjustment made to the structure of organic milk; and (3) the significant decrease in the Group's finance costs.

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. For the 2021 Interim Period and the 2020 Interim Period, profit attributable to non-controlling interests was RMB12.2 million and RMB22.8 million, respectively.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 30 June 2021, total current assets of the Group were RMB2,406.4 million (as at 31 December 2020: RMB2,196.4 million), primarily consisting of inventory of RMB486.5 million (as at 31 December 2020: RMB715.1 million), trade receivables of RMB206.4 million (as at 31 December 2020: RMB136.6 million), prepayments, other receivables and other assets of RMB610.3 million (as at 31 December 2020: RMB614.6 million), other financial assets at amortised cost of RMB72.0 million (as at 31 December 2020: nil), cash and bank balances and pledged deposits of RMB995.5 million (as at 31 December 2020: RMB715.1 million), and consumable biological assets of RMB35.7 million (as at 31 December 2020: RMB15.0 million). There was an increase in the Group's current assets as at 30 June 2021 as compared with that of 31 December 2020, which was mainly attributable to the increase of RMB280.4 million in the Group's cash and bank balances as compared with that at the beginning of the year.

Current Liabilities

As at 30 June 2021, total current liabilities of the Group amounted to RMB2,314.7 million (as at 31 December 2020: RMB3,275.3 million), primarily consisting of trade and bills payables of RMB1,152.4 million (as at 31 December 2020: RMB1,699.4 million), other payables and accruals of RMB186.6 million (as at 31 December 2020: RMB240.0 million), interest-bearing bank and other borrowings of RMB975.2 million (as at 31 December 2020: RMB1,335.9 million), and derivative financial instruments of RMB0.5 million (as at 31 December 2020: nil). The significant decrease in the Group's current liabilities as at 30 June 2021 compared to that as at 31 December 2020, was mainly due to (1) in response to the price rise of bulk feed, the adjusting by the Group of the payment model in procurement for effective control over material price; and (2) the adjusting by the Group of the debt structure to reduce interest-bearing liabilities.

Liquidity, Financial Resources and Capital Structure

For the 2021 Interim Period, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. As of 30 June 2021, the Group had (a) cash and bank balances of RMB800.7 million (as at 31 December 2020: RMB327.7 million), and (b) interest-bearing bank and other borrowings of RMB1,816.4 million (as at 31 December 2020: RMB1,366.3 million), all denominated in RMB, of which, RMB841.2 million were repayable within one to five years, while the remaining interest-bearing bank and other borrowings were repayable within one year. Except the principal amount of bank and other borrowings equivalent to RMB34.7 million which are denominated in Euros, RMB745.9 million which are denominated in United State dollars 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 2021, the annual interest rate of bank loans ranged from 1.55% to 5.22% (for the year ended 31 December 2020: 1.55% to 6.53%).

Charge on Assets

As at 30 June 2021, the Group had pledged deposits of approximately RMB194.8 million (as at 31 December 2020: RMB387.5 million) in total to banks as deposits for the issuance of letters of credit and bank drafts.

Capital Commitments

As at 30 June 2021, the Group's capital commitments in respect of the acquisition of property, plant and equipment amounted to RMB2.4 million (as at 31 December 2020: nil), which was mainly due to the commencement of construction of certain works in the 2021 Interim Period.

Contingent Liabilities

As at 30 June 2021, the Group provided guarantees of RMB139.6 million (as at 31 December 2020: RMB94.6 million) and nil (as at 31 December 2020: RMB14.5 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.

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.

Environmental Policies and Performance

In the 2021 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.

Human Resources

As at 30 June 2021, the Group had a total of 2,562 employees (as at 30 June 2020: 2,591 employees). Total staff costs during the 2021 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB128.6 million (2020 Interim Period: RMB130.1 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation and efficiency incentive 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.

Sustainable Development

On 18 January 2021, the Group received a welcome letter signed by Ms. Sanda Ojiambo, the Director General of the United Nations Global Compact (UNGC), and thus officially became a corporate member of the United Nations Global Compact (UNGC).

The United Nations Global Compact (UNGC) is the world's largest international organization that promotes corporate social responsibility and sustainable development, with approximately 10,000 corporate members and more than 3,000 other stakeholder members from 170 countries. Chinese members include over 420 companies, such as Huawei, Lenovo, State Grid, Sinopec, Haier and Yili, etc.

Over the past decade, the Group has invested a total of RMB7.5 billion in the Ulan Buh Desert, helping over 200 square kilometers of the desert become oasis and building 150 square kilometers of high-quality grassland. On 27 July 2021, the United Nations Global Compact (UNGC) officially published the “Corporate Net Zero Pathway - Delivering the Paris Agreement and the Sustainable Development Goals of the United Nations”, in which 12 Chinese enterprises including China Shengmu as the first representative enterprise in the livestock industry, China Development Bank, Huawei and Baidu were jointly included in the “Corporate Net Zero Pathway”.

The selection of the Group as one of the United Nations Net-Zero enterprise cases not only represents a recognition of the Group’s sustainable development and the environmental, social and governance (ESG) performance, but also demonstrates the responsibility of China Shengmu as the first enterprise in the Chinese livestock industry to respond to the national carbon neutrality strategy. China Shengmu will adhere to organic, ecological and sustainable development, continuously optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and contribute to the country’s “double-carbon” green goal!

Material Acquisitions and Disposals

During the 2021 Interim Period, the Company did not have any significant acquisition and disposal of subsidiaries and associates.

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

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

Outlook

Achieving peak carbon dioxide emissions and carbon neutrality is a broad and profound economic and social systemic change. The industry will face a reshuffle, and seizing the opportunity to become the animal husbandry company with the lowest carbon emissions in China is the key point for the Group to achieve overtaking in the industry. The strong empowerment of national policies and industrial resources shows that the Group has tremendous advantages and value in terms of team building, business model, and resource endowment. In the next three to five years, relying on brand new resource endowments and with the capital and fund support of the substantial shareholder, China Mengniu, the Group will strengthen cooperation with China Mengniu, enhance the integration process, promote the implementation of business planning and achieve double growth in the sales volume of organic raw milk, developing a new team organization structure to achieve the common development of teams, businesses and individuals.

In terms of business, the Group will continue to leverage on the growth of the industry to deepen the organic raw milk business, continue to expand the scale of the organic milk business, and strengthen the desert-based organic raw milk brand. The Group will increase the production of organic raw milk in a timely manner according to the demand of downstream dairy products market. In terms of farm operations, the Group will focus on implementing the dairy cow welfare system to increase the lifetime production of dairy cows, and leveraging on the premium resources of the Ulan Buh Desert, the Company will comprehensively improve the comfort level of dairy cows and effectively extend the life of economic lactation of dairy cows. At the same time, we will improve the moderate herd expansion plan, implement the 3-5 year genetic improvement plan to breed core herds, optimize the breeding system, maintain a good herd structure, and realize the high-quality growth of the herd size. Meanwhile, the Group will upgrade the SAP system, start the second phase of the ERP project, build smart farms, and realize the process, standardization, digitalization and intelligence of dairy cow breeding, production and management. In terms of costs, the Group will enhance cost control, empower supply chain management through digitization and specialization, and establish a strategic supplier management system to reduce costs and increase efficiency.

In terms of human resources, the Group will make constant efforts to promote the construction of corporate culture, consolidate the cultural foundation, sublimate the promotion and implementation of culture, effectively promote the implementation of cultural values, and further promote the three-level (the company, system and department) talent training system. In addition, the Group will continue to build a talent training platform, promote the rejuvenation and professionalization of the team and carry out high-quality training projects. It will also improve the joint development mechanism, provide a solid talent guarantee for the fulfillment of corporate vision and strategic goals, and dig out the endogenous driving force for enterprise development.

In terms of sustainable development, the Group will adhere to ecology first and green development, launch agricultural geographical indication certification and GAP certification projects, promote the marketing of raw milk branding, and enhance raw milk's competitive strength. At the same time, the Group has hired Boston Consulting Group (BCG) in July 2021 to provide advice and assistance for the Group's carbon neutral governance and corporate ESG development. The Group will continue to improve and promote desert control and the reasonable and sustainable planting-feeding integration agricultural production system with cow dung returning to the farm and forage grass feeding cows, continuously optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and contribute to the country's "dual-carbon" green goal, building the "moat" for differentiated competition in the dairy farming industry of the Group and steadily realizing the corporate vision of creating the world's number one brand of organic milk.

CORPORATE GOVERNANCE PRACTICES

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

We have adopted, applied and complied with the code provisions contained in the Code on Corporate Governance and Corporate Governance Report (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the six-month period ended 30 June 2021.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the 2021 Interim Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the 2021 Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The Company established the Audit Committee on 18 June 2014 in compliance with the Code. The Audit Committee was established with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on 9 April 2019. As at 30 June 2021, the Audit Committee comprised three independent non-executive Directors (Mr. WANG Liyan, Mr. FU Wenge and Mr. WU Liang) and was chaired by Mr. WANG Liyan. On 30 July 2021, Mr. FU Wenge was resigned as an independent non-executive Director and a member of the Audit Committee, and Mr. ZHANG Ping, a non-executive Director of the Company was appointed as a member of the Audit Committee.

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 2021 Interim Period.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the announcement of the Group's results for the six months ended 30 June 2021 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft interim consolidated financial statements. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the results announcement.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2021 Interim Period (the 2020 Interim Period: Nil).

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.youjimilk.com. The interim report of the Company for the 2021 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
Lu Minfang
Chairman

Hong Kong, 23 August 2021

As at the date of this announcement, the executive Director of the Company is Mr. Zhang Jiawang; the non-executive Directors of the Company are Mr. Lu Minfang, Mr. Sun Qian, Mr. Zhang Ping, Mr. Zhao Jiejun and Ms. Shao Lijun; and the independent non-executive Directors of the Company are Mr. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng.