# 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 2022

### FINANCIAL HIGHLIGHTS

| | For the six-month period ended 30 June | | |
|---|---|---|---|
| (All amounts are in RMB'000 unless otherwise stated) | **2022 (Unaudited)** | 2021 (Unaudited) | **Movements** |
| Operating income[1] | **1,600,623** | 1,499,620 | **+6.7%** |
| Revenue | **1,548,581** | 1,446,189 | **+7.1%** |
| Gross profit | **512,764** | 547,290 | **-6.3%** |
| Profit for the period | **243,242** | 271,471 | **-10.4%** |
| Basic earnings per share (RMB) | **0.027** | 0.031 | **-12.9%** |
| Sales volume (tonnes) | **311,565** | 287,856 | **+8.2%** |
| Average milk yield per milkable cow (tonnes/year • head) | **10.53** | 10.29 | **+2.3%** |
| Self-reproduction rate (%)[2] | **5.4%** | 2.0% | **+3.4 ppt** |
| Size of herd (head) | **130,802** | 122,518[3] | **+6.8%** |

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022.

## HIGHLIGHTS SUMMARY

- **Increase in the number of organic farms:** During the Reporting Period, one more farm was converted to an organic farm. As at 30 June 2022, the total number of organic farms of the Group has increased to 20, with an average daily organic fresh milk production of 1,364 tonnes. During the Reporting Period, the Group recorded sales of organic raw milk of 223,000 tonnes, which accounted for 71.5% of total sales of raw milk, representing an increase of 20.9% as compared to the Prior Period. Along with the increase in organic fresh milk production, the Group's profitability could be further strengthened;

- **Steady growth in operational indicators:** As at 30 June 2022, the herd size grew by 6.8% as compared with the end of last year, while the self-reproduction rate has reached a new high of 5.4%, representing an increase of 3.4 percentage points as compared with the Prior Period. The average milk yield per milkable cow for the Reporting Period increased by 2.3% year-on-year;

- **Socially responsible and internationally recognized for our dual-carbon strategy:**

  In January 2022, the dual-carbon strategy adopted by the Group was selected by the World Economic Forum (Davos Forum) as a case in its "New Nature Economy Report Series", fully demonstrating that the Group's dual-carbon strategy is well recognized and appreciated by the international community;

  In March 2022, the United Nations Global Compact's "2021 Corporate Best Practices for Achieving the Sustainable Development Goals" list was released, and the Group's unique organic eco-sand treatment system was selected as one of the "Corporate Best Practices for Achieving the Sustainable Development Goals (Sustainable Production and Consumption)"; and

  In July 2022, the 17th China Corporate Social Responsibility - China Forum was held in Beijing, and the Company was awarded the title of "2022 Corporate Social Responsibility - Leading Enterprise" in the Golden Bee Influencer List.

(1) Operating income is calculated as revenue plus other revenues.

(2) Self-reproduction rate is the change in heads of productive biological assets at the end of the Reporting Period compared with the end of the Prior Period (excluding the balance of purchased heads).

(3) Herd size (head) refers to the number of heads as at 31 December 2021.

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 "**Shengmu**") hereby announces the consolidated financial results of the Company and its subsidiaries (the "**Group**") for the six-month period ended 30 June 2022 (the "**Reporting Period**"), together with the comparative data for the six-month period ended 30 June 2021 (the "**Prior Period**") as follows:

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | Six months ended 30 June **2022** | 2021 |
|---|---|---|---|
| | | **(Unaudited)** | (Unaudited) |
| | | **RMB'000** | RMB'000 |
| REVENUE | 3 | **1,548,581** | 1,446,189 |
| Cost of sales | | **(1,035,817)** | (898,899) |
| Gross profit | | **512,764** | 547,290 |
| Loss arising from changes in fair value | | **(197,169)** | (154,900) |
| Other income and gains | | **40,068** | 3,514 |
| Selling and distribution expenses | | **(23,504)** | (25,253) |
| Administrative expenses | | **(66,606)** | (47,642) |
| Impairment losses on financial and contract assets, net | | **(398)** | (6,791) |
| Other expenses | | **(696)** | (137) |
| Finance costs | | **(10,037)** | (31,108) |
| Share of losses of associates | | **(11,180)** | (13,271) |
| PROFIT BEFORE TAX | 4 | **243,242** | 271,702 |
| Income tax expense | 5 | **—** | (231) |
| **PROFIT FOR THE PERIOD** | | **243,242** | 271,471 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

| | Note | Six months ended 30 June **2022** (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 |
|---|---|---|---|
| Profit attributable to: | | | |
| Owners of the parent | | **228,843** | 259,275 |
| Non-controlling interests | | **14,399** | 12,196 |
| | | **243,242** | 271,471 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 7 | | |
| Basic | | | |
| – For profit for the period | | **RMB0.027** | RMB0.031 |
| Diluted | | | |
| – For profit for the period | | **RMB0.027** | RMB0.031 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| **PROFIT FOR THE PERIOD** | **243,242** | 271,471 |
| Other comprehensive income that may not be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **93** | 28 |
| Net other comprehensive income that may not be reclassified to profit or loss in subsequent periods | **93** | 28 |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designated at fair value through other comprehensive income: | | |
| Changes in fair value | **(22,200)** | — |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | **(22,200)** | — |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | **(22,107)** | 28 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **221,135** | 271,499 |
| Attributable to: | | |
| Owners of the parent | **206,736** | 259,303 |
| Non-controlling interests | **14,399** | 12,196 |
| | **221,135** | 271,499 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 30 June 2022 (Unaudited) RMB'000 | As at 31 December 2021 (Audited) RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **1,680,418** | 1,699,637 |
| Right-of-use assets | | **538,177** | 519,306 |
| Other intangible assets | | **9,092** | 7,591 |
| Investments in associates | | **43,544** | 59,048 |
| Biological assets | | **2,790,812** | 2,698,642 |
| Other financial assets | | **69,000** | 91,200 |
| Long-term receivables | | **5,897** | 6,355 |
| Total non-current assets | | **5,136,940** | 5,081,779 |
| **CURRENT ASSETS** | | | |
| Inventories | | **437,426** | 768,105 |
| Biological assets | | **89,931** | 65,598 |
| Trade receivables | 8 | **272,083** | 248,137 |
| Prepayments, other receivables and other assets | | **146,086** | 107,641 |
| Derivative financial instruments | | **17,970** | — |
| Other financial assets | | **—** | 72,000 |
| Restricted bank deposits | | **209,296** | 256,490 |
| Cash and bank balances | | **802,898** | 531,835 |
| Total current assets | | **1,975,690** | 2,049,806 |

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

| | Note | As at 30 June 2022 | As at 31 December 2021 |
|---|---|---|---|
| | | (Unaudited) RMB'000 | (Audited) RMB'000 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 9 | **811,144** | 1,253,354 |
| Other payables and accruals | | **227,115** | 302,088 |
| Derivative financial instruments | | **—** | 7,172 |
| Tax payable | | **—** | 618 |
| Interest-bearing bank borrowings | | **1,653,381** | 1,299,529 |
| Lease liabilities | | **2,586** | — |
| Total current liabilities | | **2,694,226** | 2,862,761 |
| **NET CURRENT LIABILITIES** | | **(718,536)** | (812,955) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,418,404** | 4,268,824 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | **300,000** | 379,639 |
| Lease liabilities | | **10,503** | — |
| Total non-current liabilities | | **310,503** | 379,639 |
| Net assets | | **4,107,901** | 3,889,185 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | **69** | 69 |
| Treasury shares held under share award scheme | | **(8,981)** | — |
| Reserves | | **3,893,062** | 3,679,764 |
| | | **3,884,150** | 3,679,833 |
| Non-controlling interests | | **223,751** | 209,352 |
| **Total equity** | | **4,107,901** | 3,889,185 |

## NOTES

### 1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 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 2021.

**Going concern basis**

The Group had net current liabilities of RMB718,536,000 as at 30 June 2022 (31 December 2021: RMB812,955,000). In view of the net current liabilities position, the board of directors has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities and cash flow projections for the twelve months ended 30 June 2023, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors have prepared the consolidated financial statements on a going concern basis.

### 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 2021, 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 | *Reference to the Conceptual Framework* |
| Amendments to IAS 16 | *Property, Plant and Equipment: Proceeds before intended Use* |
| Amendments to IAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract* |
| *Annual Improvements to IFRSs 2018-2020* | Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41 |

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

(a) Amendments to IFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:

- IFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- IFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

## 3. REVENUE

An analysis of revenue is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Revenue from contracts with customers | **1,548,581** | 1,446,189 |

## 3. REVENUE (CONTINUED)

**Disaggregated revenue information for revenue from contracts with customers**

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **Type of goods or services** | | |
| Sale of goods | **1,548,581** | 1,446,189 |
| **Geographical market** | | |
| Mainland China | **1,548,581** | 1,446,189 |
| **Timing of revenue recognition** | | |
| At a point in time | **1,548,581** | 1,446,189 |

## 4. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **1,035,817** | 898,899 |
| Loss arising from changes in fair value | **197,169** | 154,900 |
| Depreciation of items of property, plant and equipment | **53,100** | 52,719 |
| Depreciation of right-of-use assets | **1,142** | 865 |
| Amortisation of other intangible assets | **410** | 223 |
| Research and development costs | **3,149** | 2,936 |
| Minimum lease payments under operating leases | **8,338** | 1,303 |
| Auditor's remuneration | **480** | 480 |
| Impairment losses on financial and contract assets, net: | | |
| Impairment of trade receivables | **—** | 7,328 |
| Impairment of contract assets | **398** | (537) |
| Write-down of inventories to net realisable value | **—** | 11,585 |
| Impairment losses of property, plant and equipment | **—** | 1,427 |

## 5. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Current – the PRC | **—** | 231 |
| Total tax expense for the period | **—** | 231 |

## 6. DIVIDENDS

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021: nil).

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

The calculation of the basic earnings per share amount 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 8,380,577,000 (2021: 8,381,295,000) in issue during the period, as adjusted to reflect the rights issued during the period.

The calculation of the diluted earnings per share amount 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 8,380,577,000 (2021: 8,381,295,000) in issue during the period. There is no dilutive impact on potential ordinary shares.

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

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

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | **228,843** | 259,275 |

| | Number of shares<br>Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| Shares | | |
| Weighted average number of ordinary shares in issue during the reporting period used in the basic earnings per share calculation | **8,380,577,000** | 8,381,295,000 |
| Weighted average number of ordinary shares in issue during the reporting period used in the diluted earnings per share calculation | **8,380,577,000** | 8,381,295,000 |

## 8. 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 |
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Within 3 months | **271,199** | 242,301 |
| 4 to 6 months | **—** | 5,088 |
| 7 months to 1 year | **884** | 748 |
| | **272,083** | 248,137 |

## 9. 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 |
| | **2022** | 2021 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| 1 to 3 months | **473,273** | 992,300 |
| 4 to 6 months | **251,909** | 171,532 |
| 7 to 12 months | **70,637** | 68,999 |
| 1 to 2 years | **15,153** | 16,943 |
| 2 to 3 years | **165** | 505 |
| Over 3 years | **7** | 3,075 |
| | **811,144** | 1,253,354 |

## 10. SHARE AWARD SCHEME

On 19 April 2022 (the "**Adoption Date**"), the Company adopted a long-term share award scheme (the "**Share Award Scheme**") to recognize the contributions by certain employees of the Group and to provide them with incentives in order to: (i) improve the corporate governance structure to achieve sustainable development of the Company; (ii) attract, retain and motivate outstanding talents and build a common interest among shareholders, the Company and employees; (iii) fully motivate the core employees and continue to stimulate high-quality growth of the team performance; and (iv) attract external talents for the Company.

Subject to any early termination as may be determined pursuant to the rules of the Share Award Scheme (the "**Scheme Rules**"), the Share Award Scheme shall be effective from the Adoption Date and shall remain in full force and effect for a period of ten years from the Adoption Date. Pursuant to the Share Award Scheme, the shares under the Share Award Scheme will be comprised of existing shares of the Company purchased or to be purchased by the trustee (the "**Trustee**", a professional and independent trustee appointed by the Company to assist with the administration of the Share Award Scheme) on the open market. The Share Award Scheme shall be subject to the administration of authorised representatives authorised by the Board and the Trustee in accordance with the Scheme Rules.

As of 30 June 2022, a total of 27,266,000 ordinary shares of the Company were purchased from open market by the Trustee at a total consideration of approximately HK$10,502,000 (equivalent to RMB8,981,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRIAL OVERVIEW

In the first half of 2022, the international geopolitics was complex and severe, coupled with frequent and sporadic outbreak of the COVID-19 in Mainland China posed adverse impact to the domestic economy. Nevertheless, the Gross Domestic Product (GDP) of China reached RMB56,264.2 billion for the first half of 2022, representing a year-on-year ("**yoy**") increase of 2.5%, while total retail sales of consumer goods amounted to RMB21,043.2 billion, representing a slight yoy decrease of 0.7%. Retail sales of food and oil products and beverages increased by 9.9% and 8.2% respectively in units above the designated size. In the first half of 2022, the China's consumer price index (CPI) rose by 1.7% yoy and the national per capita disposable income was RMB18,463, representing a yoy nominal growth of 4.7% and an actual yoy growth of 3.0% net of price factors.

For the dairy products industry, the dairy products consumption growth decelerated in the first half of 2022 as a result of the outbreak of the COVID-19. The production from sizeable dairy product manufacturers still reached 15.109 million tonnes, representing a yoy increase of 1.0%. In terms of imports, during the Reporting Period, the total amount of dairy products imported by China dropped significantly as compared with the Prior Period. With the rising cost of imported dairy products and the development of high-end domestic dairy products, consumers are more inclined to choose products made from domestic fresh milk sources, accelerating the rising trend of domestic milk self-sufficiency. In the first half of 2022, China imported a total of 1,783,500 tonnes of various dairy products, representing a yoy decrease of 18.1%, equivalent to 10,480,000 tonnes of raw fresh milk. Among them, according to the China Customs Statistics, in the first half of 2022, China imported 676,500 tonnes of large packets of powder, representing a yoy decrease of 11.8%; 252,800 tonnes of whey products, representing a yoy decrease of 36.6%; and 393,300 tonnes of packaged milk, representing a yoy decrease of 21.9%.

In terms of the dairy farming industry, the price of raw fresh milk fell in the Reporting Period compared with the Prior Period, with the average price of raw fresh milk in the primary dairy-producing provinces (regions) monitored by the Ministry of Agriculture and Rural Affairs in the fifth week of June 2022 at RMB4.12/kg, representing a yoy decrease of 4.2%. In terms of feed, according to data monitored by the Ministry of Agriculture and Rural Affairs, the national corn average price in the fifth week of June 2022 was RMB3.02/kg, representing a yoy increase of 1.0%, while the average price of soybean meal was RMB4.45/kg, representing a yoy increase of 20.3%. According to customs statistics, China imported a total of 817,700 tonnes of hay in the first half of 2022, representing a yoy increase of 6.9%. The average CIF price was US$459.45/tonne, representing a yoy increase of 29.6%. Among them, the total import of alfalfa hay was 741,900 tonnes, representing a yoy increase of 16.7%; the total import of oat hay was 75,800 tonnes, representing a yoy decrease of 41.3%.

## 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 focuses on the production and sales of desert-based organic milk, while satisfying the diversified needs of customers for quality raw milk, and continues to develop a variety of functional raw milk to enrich the Group's product mix and enhance its profitability.

### Herd Size

As at 30 June 2022, the Group had a total of 130,802 cows in stock, representing an increase of 6.8% compared with the end of the previous year, of which 86,578 were organic cows. The Group continued to optimise the structure of cows, with organic cows stock increasing by 8.7% compared with the end of the previous year, a self-reproduction rate of 5.4% for productive biological assets. The reserve of cows is sufficient and the size of cows continues to grow with high quality.

Unit: Head

| | As at | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **30 June 2022** | | | | | 31 December 2021 | | | | |
| | **Number of Farms** | **Milkable cows** | **Calves and Heifers** | **Fattening cows (1)** | **Subtotal** | Number of Farms | Milkable cows | Calves and Heifers | Fattening cows (1) | Subtotal |
| Herd size | **33** | **61,384** | **58,914** | **10,504** | **130,802** | 33 | 60,154 | 54,007 | 8,357 | 122,518 |

(1) For the data in this table for this current interim and previous year, the number of fattening cows refers to the number of cows raised on a fattening cows farm.

## Continued growth in revenue scale as raw milk sales increased

During the Reporting Period, the Group sold a total of 311,565 tonnes of raw milk, representing an increase of 8.2% as compared with the Prior Period. The Group achieved sales revenue of RMB1,548.6 million in the Reporting Period, representing an increase of RMB102.4 million as compared with the Prior Period, mainly due to the increase in total milk yield and sales volume of raw milk as a result of the increase in the Group's milk yield per cow and the number of cows during the Reporting Period. The Group recorded a gross profit of RMB512.8 million for the Reporting Period, representing a yoy decrease of 6.3%, and a gross profit margin of 33.1%, representing a yoy decrease of 4.7 ppt. The decrease in gross profit margin was mainly due to the relatively large increase in cost of feeds required by the Group for dairy farming. The Group has curbed the decline in gross profit margin through measures such as product structure adjustment and effective cost control.

**Reducing costs and increasing efficiency in response to rising feed costs**

The market prices raw milk decreased in the first half of 2022 as compared with the Prior Period. During the Reporting Period, the average sales price of raw milk of the Group stood as RMB4.97/kg, representing a decrease of 1.1% as compared with the Prior Period, which was lower than the industry average. Due to the increase in feed costs, the Group's full cost for a kilogram of milk was RMB3.3/kg in the first half of 2022, of which the feed cost for a kilogram of milk was RMB2.7/kg, representing an increase of approximately 6.6% as compared with the Prior Period. Faced with the severe challenge of rising costs, the Group has taken various measures to curb the pressure caused by rising costs, and empowered forage suppliers through financial resources to ensure that the Group can obtain better forage under the same conditions measures. By actively expanding procurement channels, directly purchasing with more manufacturers, and strengthening the cooperation stickiness of strategic suppliers, and through the help of shareholders, and deployment of industry resources such as COFCO, Inner Mongolia Aiyangniu Technology Co., Ltd. and Beijing Dabeinong Technology Group Co., Ltd., we can obtain better procurement channels; through the establishment of a strategic procurement system, we can comprehensively predict the price trend of major forage materials in advance, and cooperate with farms. The Farm Nutrition Centre cooperates and communicates timely to adjust the formula of dairy cows breeding and improve the cost-effective level of forage supply for dairy cows. At the same time, adhering to the principle of concentration rather than fragmentation, we optimised our supplier resources to realise our cost and service advantages by exchanging volume for price. In addition, the Group was able to reduce costs and increase efficiency by lifting the average milk yield per milkable cow, and was able to effectively curb the significant decline in gross profit margin against the backdrop of the generally affected gross profit margin in the industry.

## OPERATION REVIEW

### Organic raw milk production capacity rises to consolidate the leading position in industry

The growth rate of overall market consumption of dairy products declined in the first half of 2022, but the growth rate of high-end organic dairy products consumption remained impressive, benefiting from the trend of high-end development of the industry. To meet the fast-growing demand for high-end organic milk from customers, the Group has been actively increasing its organic raw milk production capacity, and the Group converted one more farm into an organic farm in the first half of 2022, with the organic raw milk production capacity reaching 1,364 tonnes on average per day, representing an increase of approximately 203 tonnes as compared with the Prior Period. Against the backdrop of high competitive barriers and difficulties in expanding production in the organic raw milk industry, the Group has maintained a steady expansion of its organic production capacity in recent years, effectively consolidating the Group's leading position in the organic raw milk market.

### Lean operations, increased milk yield per cow and improved raw milk quality

During the first half of 2022, the Group promoted lean operation and management in each of its farms, upgrading and renovating farm facilities to reduce the impact of various heat stresses on cows and improve cow comfort. In the current environment of rising feed costs, the Group actively strengthened the management of nutritional feeding for cows, optimising the nutritional formula according to the cost of different feeds on the one hand, and enhancing the herd management of cows on the other, so that cows with different milk production capacity can be matched with the most suitable feed supply. In addition, the Group hired cow feeding experts during the Reporting Period to develop the best feeding practices for different farms and cows in order to reduce the incidence of cow disease, increase cow production and improve the quality of raw milk. As a result of the proactive responding measures adopted by the Group, during the first half of 2022, the cow production levels improved significantly, with both first-born cows and mature cows meeting their peak production targets for growth, with average annualised production per milkable cow increasing by approximately 0.24 tonnes compared with the Prior Period to 10.53 tonnes in the first half of year. The selling price of raw milk was affected by the level of core milk quality indicators, and the improvement in milk quality has helped the Group to maintain a more advantageous selling price in the current market environment of falling raw milk prices. During the first half of 2022, the Group achieved the best ever compliance rates for raw milk with a cell count of <200,000 and microorganisms <30,000. The fat and protein content indicators also improved as compared with the corresponding period, continuing to lead the industry.

**Record cow expansion rate achieved under breeding-based strategy**

Over the past few years, the Group has actively strengthened its dairy cows breeding capacity. Through practical and effective selection and breeding measures, the Group has effectively enhanced the accuracy and integrity of the genetic profile of the Group's dairy cows, and realised the construction of core breeding farms and systematic testing of dairy cows production performance. In the first half of 2022, core indicators such as adult cow pregnancy rate, conception rate, cow retention rate and adult cow culling rate of the Group all improved significantly compared with the figures for the same period of last year. With those improvements, the Group's dairy cow expansion rate achieved rapid growth during the year, with cows headcount increased by 8,284 from the beginning of the year, representing an overall cow expansion rate of 6.8% and a self-reproduction rate of 5.4% for productive biological assets, both of which were the best rates since the inception of the Group.

**Improve co-development mechanism and implement long-term incentive scheme**

In terms of human resources, the Group's long-term incentive scheme was implemented. A long-term share award scheme was adopted by the Board of the Company on 19 April 2022. This Share Award Scheme aims to improve the corporate governance structure, achieve sustainable development and build a common interest among the Company, shareholders and employees; and at the same time, attract, retain and motivate talented people, fully motivate the core employees and continue to stimulate high-quality growth of the team performance. Under this Share Award Scheme, the Group purchased existing shares of the Company as award shares through the Trustee from the open market by cash contributed by the Group under the directions of the Company, and will execute the vesting of shares in batches in the future subject to the fulfillment of the vesting conditions of the awards approved by the Board.

The Trustee will hold the shares in trust for the relevant selected participants of the Share Award Scheme until such shares are vested. As of 30 June 2022, the Company has purchased a total of 27,266,000 shares of the Company in the market through the Trustee, representing 0.3% of the Company's issued shares.

In addition, the Group continued to promote the professionalization and rejuvenation of its human resources in the first half of 2022, and the academic qualifications and professional titles of its staff were significantly enhanced. Through various trainings and farm skills competitions, the theoretical knowledge and practical operational skills of staff were effectively enhanced and a positive atmosphere of "learning, catching up and helping" was created within the Group.

**Actively implementing the dual-carbon strategy to enhance corporate brand power and competitiveness**

In the first half of 2022, the Group actively implemented its dual-carbon strategy under the guidance of its corporate sustainability philosophy. On 15 March 2022, the Group completed its carbon audit for 2021. Based on the results of the carbon audit, the Group carried out various carbon reduction initiatives in accordance with local conditions. In respect of intestinal fermentation of dairy cows, which is the main source of carbon emissions, the Group reduced carbon emissions by feeding low protein diets, increasing the amount of rumen fat meal and feeding silky extract. In terms of dairy manure management, the Group upgraded the manure management practices on a number of farms in the first half of 2022 and commenced a trial on the recycle of liquid fertiliser in milking parlors, which had a significant impact on reducing carbon emissions. In terms of energy management and emission reduction, encouraging results was achieved by the Group in carbon emission reduction through measures such as utilisation of new energy vehicles and the recovery of waste heat from milking parlors. In addition to carbon emission reduction measures, the Group also took advantage of its unique desert resources to actively engage in carbon sequestration by organising its staff and partners to plant carbon sequestration trees in the desert. The Group's carbon neutral management and ESG initiatives continued to be widely reported and recognised as industry benchmarks. At the World Economic Forum held on 17 January 2022, the practice of the Group regarding conducting sand and grass organic milk operations in desert was selected as one of the demonstration cases in the research report titled "Seizing Business Opportunities in China's Transition Towards a Nature-positive Economy" released by the Forum. In March 2022, the Group was named by the United Nations Global Compact as one of the enterprises realising the Sustainable Development Goals 2021 and was selected as the best integrated practice in the category of "sustainable production and consumption". Meanwhile, Mr. ZHANG Jiawang, the CEO of the Group, was also recognised as the "2022 United Nations' SDG Pioneer" in China. In July 2022, the Company was named as one of the 2022 CSR Impact Leaders in the "2022 Golden Bee CSR List - China List" of the 17th China CSR International Forum.

**Steady expansion of production capacity and commencement of construction of demonstration park**

In order to realise the Group's strategic plans to achieve growth in organic milk sales, the Group commenced the construction of a dairy farming demonstration zone at its base in the Ulan Buh Desert in this Reporting Period. The demonstration area is a dairy farming demonstration project under the guidance and support of the local government for high quality, green and low carbon development, with an aim to promote the modernisation of agriculture and rural development. The Group plans to build a 10,000-head dairy farm and a demonstration organic farm in the park, with a total investment for the project planned to be approximately RMB650 million. 80,000 tonnes of high quality organic milk is expected to be produced per year after commencement of production of the 10,000-head farm project, which will drive the cultivation of 28,000 mu of green maize in the surrounding area, indirectly driving the development of the tertiary industry and increasing the income of thousands of people in the area. The organic demonstration farm will adopt a centralised and intelligent farming model and is expected to produce an average of approximately 20,000 tonnes of fresh milk per year. The organic demonstration farm will be equipped with a fully intelligent barn, automatic mixing and feeding system, intelligent milking robot, intelligent automatic feeding robot, automatic manure cleaning robot, intelligent spraying system, ecological manure treatment system and intelligent information management system, etc. Upon completion, the farm will become a leading automatic intelligent farming facility in China.

## FINANCIAL REVIEW

During the Reporting Period, the Group recorded revenue of RMB1,548.6 million (2021: RMB1,446.2 million), representing a yoy increase of 7.1%. Profit for the Reporting Period was recorded at RMB243.2 million (2021: RMB271.5 million), representing a yoy decrease of RMB28.3 million due to the increase in bulk feed prices. Of which, profit attributable to owners of the parent was RMB228.8 million (2021: RMB259.3 million), representing a yoy decrease of RMB30.5 million. The Group's gross profit margin for the Reporting Period was 33.1% (2021: 37.8%), representing a yoy decrease of 4.7 percentage points.

## ANALYSIS ON CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### SALES REVENUE

Unit: RMB'000, unless otherwise stated, except percentages

| | For the six-month period ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 (Unaudited) | | | | 2021 (Unaudited) | | | |
| | Sales revenue | Sales volume (Tonnes) | Average selling price (RMB/Tonne) | Gross profit margin | Sales revenue | Sales volume (Tonnes) | Average selling price (RMB/Tonne) | Gross profit margin |
| Raw milk | 1,548,581 | 311,565 | 4,970 | 33.1% | 1,446,189 | 287,856 | 5,024 | 37.8% |

The market price of raw milk dropped in the Reporting Period as compared with the Prior Period, with the Group's average selling price of raw milk at RMB4,970 per tonne, representing a yoy decrease of 1.1%.

## COST OF SALES AND GROSS PROFIT MARGIN

The Group's cost of sales for the Reporting Period was RMB1,035.8 million, representing a yoy increase of 15.2%, due to the significant increase in bulk feed prices amidst the yoy increase in total sales. To cope with the cost increase, the Group actively adjusted its product structure to increase the proportion of sales of high-value products. The Group continuously improved its internal operational capabilities, herd scale benefits were evident, with key indicators such as cows expansion rate and average milk yield per milkable cow reaching record highs, effectively dampening the decline in gross profit margin, which fell by 4.7% from 37.8% during the Prior Period to 33.1% during the Reporting Period.

## OTHER INCOME AND GAINS

During the Reporting Period, the Group's other income and gains amounted to RMB40.1 million (2021: RMB3.5 million), the main reason for the change was a gain of RMB25.7 million arising from the partial disposal of the equity interests of an associate during the Reporting Period.

## SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily include logistics and transportation expenses and staff remuneration, etc. During the Reporting Period, the Group's selling and distribution expenses amounted to RMB23.5 million (2021: RMB25.3 million). The yoy change is not significant.

## 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, etc. During the Reporting Period, the Group's administrative expenses amounted to RMB66.6 million (2021: RMB47.6 million), representing a yoy increase of RMB19.0 million. The increase was mainly due to the Group's continued efforts to motivate its employees to deliver good results for the Company, the enhancement of management salaries and the adoption of the Share Award Scheme.

## FINANCE COSTS

During the Reporting Period, the Group's finance costs amounted to RMB10.0 million (2021: RMB31.1 million), representing a decrease of RMB21.1 million or 67.8% compared with the Prior Period, mainly due to a currency swap gain recognized during the Reporting Period.

## LOSS ARISING FROM CHANGES IN THE FAIR VALUE

Loss arising from changes in the fair value primarily 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.

During the Reporting Period, the loss arising from the change in fair value of the Group was RMB197.2 million (2021: RMB154.9 million). The increase in the Group's net loss arising from the changes in fair value for the Reporting Period compared with the Prior Period was mainly due to the increase in the Group's feeding costs as a result of factors such as the significant increase in feed prices.

## SHARE OF LOSSES OF ASSOCIATES

Associates of the Group include: (a) Inner Mongolia Mengniu Shengmu Hi-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) 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), both of which are invested and held by the Group with minority interests, producing dairy products with the raw milk from the Group; (c) Inner Mongolia Yiyingmei 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 milk powder with the raw milk from the Group; and (d) Mudanjiang Liangyuan Technology Limited (牡丹江糧源科技有限公司) in which the Group invested and held minority interests, which is primarily engaged in feed processing. During the Reporting Period, the Group's share of losses of the above associates amounted to RMB11.2 million (2021: RMB13.3 million).

## 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.

The Group had no income tax expense for the Reporting Period (2021: RMB0.2 million).

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AND PROFIT ATTRIBUTABLE TO NON- CONTROLLING INTERESTS

Profit attributable to owners of the parent of the Group for the Reporting Period was RMB228.8 million (2021: RMB259.3 million), representing a yoy decrease of RMB30.5 million or 11.7%. This was mainly due to a significant increase in feed prices and a slight fall in raw milk prices compared with the corresponding period in the previous year, with the dual external environment causing the yoy decline in the Group's gross profit.

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 Reporting Period, profit attributable to non-controlling interests was RMB14.4 million (2021: RMB12.2 million).

# ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## CURRENT ASSETS

As at 30 June 2022, the Group's total current assets amounted to RMB1,975.7 million (as at 31 December 2021: RMB2,049.8 million), representing a decrease as compared with the end of last year, mainly due to a decrease in inventory balance of RMB330.7 million as compared with the end of last year affected by the nature of inventory storage in the dairy farming industry.

## CURRENT LIABILITIES

As at 30 June 2022, the Group's total current liabilities amounted to RMB2,694.2 million (as at 31 December 2021: RMB2,862.7 million), representing a significant decrease as compared with the end of last year, mainly due to the decrease in trade payables balance compared with the end of last year as the Group ceded the payment cycle to suppliers as results of the tight supply of feed market and the Group's need to control costs.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Reporting Period, the Group's sources of daily working capital were mainly cash flows generated from internal operations and bank borrowings. As at 30 June 2022, the Group held (a) cash and bank balances of RMB802.9 million (as at 31 December 2021: RMB531.8 million), and (b) interest-bearing bank borrowings of RMB1,953.4 million (as at 31 December 2021: RMB1,679.2 million), of which RMB300.0 million is repayable within one to five years and the remaining interest-bearing bank borrowings are repayable within one year.

The Group's bank borrowings were denominated in RMB and bore interest at fixed rates, except for the equivalent of RMB517.2 million which was denominated in USD and bore interest at fixed rates. The bank borrowings with an equivalent of RMB517.2 million denominated in USD and bearing interest at fixed rates had entered into currency swap agreements with financial institutions to hedge against the impact on the Company's profit or loss due to changes in exchange rates.

As at 30 June 2022, the Group's net borrowings (total interest-bearing bank borrowings less cash and bank balances) amounted to RMB1,150.5 million (as at 31 December 2021: RMB1,147.3 million).

As of 30 June 2022, the variable interest rate on bank borrowings ranged from 1.55% to 4.15% per annum (for the year ended 31 December 2021: 1.55% to 5.22%).

## CHARGE ON ASSETS

As at 30 June 2022, the Group's total restricted bank deposits amounted to RMB209.3 million (as at 31 December 2021: RMB256.5 million), of which RMB123.6 million was placed with banks in the PRC as deposits for issuance of letters of credit and bank drafts and RMB85.7 million was frozen due to litigation.

## CAPITAL COMMITMENTS

As at 30 June 2022, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB9.1 million (as at 31 December 2021: RMB2.6 million), representing an increase as compared with the end of last year, mainly due to the establishment of a new smart farm during the Reporting Period.

## CONTINGENT LIABILITIES

As at 30 June 2022, the Group had provided guarantees in the amount of RMB171.3 million (as at 31 December 2021: RMB106.5 million) in respect of bank borrowings of 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). 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.

## FOREIGN EXCHANGE RISK

The Group's operations are primarily located in Mainland China and the majority of transactions are conducted in RMB. As at 30 June 2022, the Group had no significant foreign exchange risk in respect of its operations except for cash balances of approximately RMB19.8 million, RMB0.2 million and RMB0.1 million denominated in HKD, USD and Euros. As at 30 June 2022, the Group had not entered into any arrangement to hedge against any foreign exchange fluctuations.

## 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

During the Reporting 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 2022, the Group had a total of 2,788 employees (as at 30 June 2021: 2,562 employees). Total staff costs during the Reporting Period (including the emoluments of Directors and senior management of the Company) amounted to RMB155.7 million (2021: RMB128.6 million).

Employees in Hong Kong are provided with retirement benefits, under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in Mainland China are provided with pension insurance, medical insurance, employment injury insurance, unemployment insurance, maternity insurance and housing fund contributions in compliance with the requirements of the laws of China.

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

In January 2022, the dual-carbon strategy adopted by the Group was selected by the World Economic Forum (Davos Forum) as a case in its "New Natural Economy Report Series".

In March 2022, the United Nations Global Compact's "2021 Corporate Best Practices for Achieving the Sustainable Development Goals" list was announced, and the Group's unique organic eco-sand treatment system was selected as one of the "Corporate Best Practices for Achieving the Sustainable Development Goals (Sustainable Production and Consumption)".

In July 2022, the 17$^{th}$ China Corporate Social Responsibility- China Forum was held in Beijing, and the Company was awarded the title of "2022 Corporate Social Responsibility - Leading Enterprise" in the golden bee impact list.

In the past ten years or so, 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. The three-stage afforestation protection has reduced the original local wind force of 6-7 on average to 4-5. Shengmu will continue to 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 "dual-carbon" green goal!

## MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司) ("**Inner Mongolia Shengmu**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Food Union (Dairy) Hong Kong Limited for the sale of 4.05% equity interest in Food Union Shengmu for a consideration of US$4.5 million, upon completion, Inner Mongolia Shengmu holds 1.85% equity interest in Food Union Shengmu. It continues to be accounted for as an associate under the equity method. Apart from the above, the Group has not made any material acquisition and disposals of subsidiaries and associates.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS AND EXPECTED SOURCE OF FUNDING

Save as disclosed above in the section headed "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.

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, the Group has no material post-period events to disclose from the end of the Reporting Period to the date of this announcement.

## OUTLOOK

On 16 February 2022, the Ministry of Agriculture and Rural Affairs released the "14th Five-Year Plan for Action to Improve the Competitiveness of the Dairy Industry", which states that by 2025, national milk production is expected to reach about 41 million tonnes, and the proportion of large-scale breeding above 100 cows will reach about 75%. The proportion of large-scale farms with grass and animal support and combined farming production will increase by about 5 percentage points. The linkage of farming and processing interests has become closer and more diverse, and the competitiveness of the domestic dairy industry has been further enhanced. In March of 2022, the "Nine Policies and Measures to Promote the Revitalisation of the Dairy Industry in Inner Mongolia Autonomous Region" was released, with the Inner Mongolia Autonomous Region formulating corresponding support policies around the construction of milk source bases, the construction of seed bases, the construction of quality forage bases, support for enterprises to become better and stronger, and support for science and technology to escort the development of the local dairy industry. The strong empowerment of national policies and industrial resources again indicates that the Group has tremendous advantages and development potential in terms of team building, business model and resource endowment. By leveraging the solid support of and deep cooperation with our major shareholder, Mengniu Group, as well as relying on the new resource endowment, the Group will push forward the implementation of its business, striving to achieve the strategic goal for the growth of doubling the sales of organic raw milk by 2025 from 2020 .

In the second half of 2022, the Group will focus on the progress of significant issues such as the cows expansion rate, the cows production, cost control, innovation in raw milk products and silage acquisition, in order to achieve a new breakthrough in the Group's operations. At the same time, the Group will continue to promote the cows genetic improvement programme and embryo transfer programme to enhance the Group's cows germplasm capability, and increase the scale of beef cows to realise the combined milk and beef effect of the Group's large-scale farms. The Group will promote the construction of new farms and make key preparations for the construction of farms, the introduction of cows, the matching of management and operation personnel, the reserves and acquisition of feed, etc. At the same time, the Group will actively promote the construction of zero-carbon farms and promote simultaneous carbon sequestration and reduction measures on the existing foundation, so that the Group's first zero-carbon farm can be implemented as soon as possible and zero-carbon raw milk can be introduced to the market.

In terms of internal management, during the second half of the year, the Group will continue to strengthen party building and cultural leadership, create a learning organization and create an atmosphere of "compare, learn, catch up, help and surpass" within the Company. The Group will also identify and assess the risks of the Company and raise the awareness of risk management among all staff. At the same time, the Group will optimise the organisational structure and promote flat management to achieve a flexible corporate structure and efficient communication on issues, in order to improve management efficiency of the Company. The Group has developed a new organisational structure for the long-term sustainable development of the Group to achieve the joint development of the team, the business and the individual.

## CORPORATE GOVERNANCE PRACTICES

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

We have adopted, applied and complied with the code provisions contained in the Corporate Governance Code as set out in Part 2 of 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 Reporting Period.

## 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 Reporting Period.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during this Reporting Period, except that the Trustees purchased a total of 27,266,000 ordinary shares of the Company as restricted shares in the open market in accordance with the rules of the Share Award Scheme at a consideration of HK$10,502,000 (equivalent to RMB8,981,000).

## AUDIT COMMITTEE

As at 30 June 2022, the Audit Committee comprised two independent non-executive Directors (Mr. WANG Liyan and Mr. WU Liang) and a non-executive Director (Mr. ZHANG Ping), and was chaired by Mr. WANG Liyan.

The Audit Committee has reviewed, with the Company's management and the external auditors the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control and system and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2022.

## 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 2022 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022. 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 did not recommend the payment of interim dividend for the six months ended 30 June 2022 (2021: 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 Reporting Period containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the above websites in due course.

## APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders for their continued support, and to all our staff for their hard work and commitment.

By Order of the Board
**China Shengmu Organic Milk Limited**
**Lu Minfang**
*Chairman*

Hong Kong, 23 August 2022

*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.*