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 MONTHS ENDED 30 JUNE 2024

(Unless otherwise stated, all amounts are expressed in thousands of Renminbi ("**RMB**"))

FINANCIAL DATA	**For the six months ended 30 June**		
	2024	2023	**Changes**
	(Unaudited)	(Unaudited)	
Operating income [1]	**1,567,692**	1,643,416	**-4.6%**
Revenue	**1,490,702**	1,565,011	**-4.7%**
Gross profit	**394,509**	418,289	**-5.7%**
Profit/(Loss) attributable to owners of the parent	**(143,681)**	23,327	**N/A**
EBITDA profit [2]	**404,740**	368,563	**+9.8%**
KEY OPERATING DATA			
Sales volume (tonnes)	**350,848**	340,086	**+3.2%**
Average annualized milk yield per milkable cow (tonnes/year • head)	**12.07**	10.94	**+10.3%**
Herd size (heads)	**148,101**	148,029[3]	**—**

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: nil).

HIGHLIGHTS SUMMARY

Enhance Quality and Efficiency, Operate Robustly

Although milk prices continued to show a downward trend in the first half of the year, benefited from effective cost reduction and efficiency enhancement measures as well as the robust operation of its core businesses, the cost of sales of a kilogram of milk decreased by 7.3% year-on-year and EBITDA profit increased by 9.8% year-on-year during the Period, and milk yield per milkable cow reaching a new record high of exceeding 12 tonnes for the first time, increasing by 10.3% year-on-year. Meanwhile, the Group was the first enterprise in the cow farming industry in China to be awarded ISO22000 Food Safety Management System (FSMS) certificate, and we will continue to contribute to national health with high-quality organic food.

Strategic Layout, Digital and Smart Empowerment

The Company's smart farm built in the Ulan Buh Desert Base was completed and commenced operation during the Period. Currently, there are approximately 3,800 cows, most of which are high quality young Holstein cows imported from Australia last year. During the Period, the Group continued to import approximately 4,600 young Holstein cows, which possess high quality breeding and high yield quality, which will further enhance the quality of the Group's herd, and is also a strategic layout of the Group based on the optimistic forecast on the rebound of the industry cycle in the future. The farm adopts a centralized smart farming model, including the application of various smart equipment to the production and management process of the farm, which will help the Group continue to enhance its operational efficiency.

Slow Cultivation of Nature, Focus on Organic

The Group has specialized in desert organic for 15 years, and the organic concept of "slow cultivation of nature (自然慢養)" that we have always advocated has struck a strong chord within in the industry. The Group firmly believes that premium milk comes from natural and organic sources, and that "slow cultivation of soil (慢養土)", "slow cultivation of grass (慢養草)" and "slow cultivation of cows (慢養牛)" are precisely the reasons why our Shengmu organic milk has gained the favour and trust of the consumers.

During the Period, our organic products once again stood out from more than a hundred declared organic brands at the 17th Asia International Organic Products Expo, which is known as the wind vane of the Asian organic industry, and won the Gold Medal of the Asia Organic Expo.

Practise ESG, Contribute to Sustainable Development

During the Period, the Group formally joined the World Business Council for Sustainable Development (WBCSD), marking another important step for the Group in the global sustainable development arena.

At the Hong Kong Green and Sustainable Contribution Conference organized by the Hong Kong Quality Assurance Agency (HQAA), the Group was awarded the "ESG Disclosure Contribution Pioneer Award" for its outstanding performance in environmental, social and governance ("**ESG**").

Benefiting from its eye-catching achievements in ESG and sustainable development, during the Period, the Group successfully completed the grant of the first naturally beneficial commercial ESG-linked loan in China, which not only enabled Inner Mongolia Autonomous Region to set a precedent in ESG financing, but also set up a new milestone in the practice of green finance. The proceeds of the financing will be mainly used for investments in desert management, ecological restoration, green production and biodiversity protection, which will effectively assist the Company in improving ESG governance and motivate the Company to achieve the stacked benefits in ecological protection, economic and social development.

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

(2) EBITDA profit is defined as earnings before finance costs and tax after adjusting the following items: i) depreciation and amortization charged to profit and loss; ii) other income and gains (non-cash items); iii) impairment losses under the expected credit loss model, net of reversals; iv) other expenses (non-cash items); and v) loss arising from changes in fair value less costs to sell of biological assets.

(3) Herd size (heads) refers to the number of heads as at 31 December 2023.

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 presents the unaudited consolidated financial results of the Company and its subsidiaries (the "**Group**" or "**Shengmu**") for the six months ended 30 June 2024 (the "**Period**"), together with the comparative figures for the six months ended 30 June 2023.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**For the six months ended 30 June** **2024**	2023
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	**1,490,702**	1,565,011
Cost of sales		**(1,096,193)**	(1,146,722)
Gross profit		**394,509**	418,289
Loss arising from changes in fair value less costs to sell of biological assets		**(451,023)**	(286,085)
Fair value changes of financial guarantee contracts		**(112)**	—
Other income and gains		**49,900**	26,418
Selling and distribution expenses		**(27,883)**	(27,021)
Administrative expenses		**(62,678)**	(72,730)
Impairment losses on financial and contract assets, net		**(27)**	231
Other expenses		**(25,984)**	(1,054)
Finance costs		**(23,464)**	(25,974)
Share of profits/(losses) of associates		**1,256**	(10,729)
PROFIT/(LOSS) BEFORE TAX	5	**(145,506)**	21,345
Income tax expense	6	**(4)**	(71)
PROFIT/(LOSS) FOR THE PERIOD		**(145,510)**	21,274

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	Note	For the six months ended 30 June 2024	2023
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit/(loss) attributable to:			
Owners of the parent		**(143,681)**	23,327
Non-controlling interests		**(1,829)**	(2,053)
		(145,510)	21,274
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
– Profit/(loss) for the Period		**(RMB0.018)**	RMB0.003
Diluted			
– Profit/(loss) for the Period		**(RMB0.018)**	RMB0.003

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**(145,510)**	21,274
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income/(loss) :		
Changes in fair value	**(4,000)**	1,000
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**(4,000)**	1,000
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(4,000)**	1,000
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(149,510)**	22,274
Attributable to:		
Owners of the parent	**(147,681)**	24,327
Non-controlling interests	**(1,829)**	(2,053)
	(149,510)	22,274

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,901,242**	1,945,138
Right-of-use assets		**604,201**	595,729
Other intangible assets		**9,951**	10,893
Investments in associates		**24,609**	23,353
Biological assets		**3,135,153**	3,122,650
Prepayments, other receivables and other assets		**48,811**	49,848
Other financial assets		**57,000**	61,000
Cash and bank balances		**626,622**	552,429
Long-term receivables		**226**	829
Total non-current assets		**6,407,815**	6,361,869
CURRENT ASSETS			
Inventories		**570,098**	1,006,841
Biological assets		**117,978**	91,579
Trade receivables	9	**237,976**	303,329
Prepayments, other receivables and other assets		**94,952**	79,053
Other financial assets		**100,000**	130,000
Restricted bank deposits		**108,049**	148,783
Cash and bank balances		**420,223**	395,457
Total current assets		**1,649,276**	2,155,042
CURRENT LIABILITIES			
Trade and bills payables	10	**1,126,921**	1,706,705
Other payables and accruals		**300,096**	390,779
Lease liabilities		**15,584**	13,380
Interest-bearing bank borrowings		**866,898**	911,383
Total current liabilities		**2,309,499**	3,022,247
NET CURRENT LIABILITIES		**(660,223)**	(867,205)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,747,592**	5,494,664

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 June 2024	As at 31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	**45,456**	38,553
Interest-bearing bank borrowings	**1,619,653**	1,219,856
Total non-current liabilities	**1,665,109**	1,258,409
Net assets	**4,082,483**	4,236,255
EQUITY		
Equity attributable to owners of the parent		
Share capital	**69**	69
Treasury shares held under the share award scheme	**(43,754)**	(76,887)
Reserves	**3,916,192**	4,099,886
	3,872,507	4,023,068
Non-controlling interests	**209,976**	213,187
Total equity	**4,082,483**	4,236,255

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2024

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 has been prepared in accordance with IAS 34 "*Interim Financial Reporting*". The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2023.

Going concern basis

The Group had net current liabilities of RMB660,223,000 as at 30 June 2024 (31 December 2023: RMB867,205,000). 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, an unused credit facility of super short-term note and cash flow projections for the twelve months ending 30 June 2025, 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 interim condensed consolidated financial information 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 2023, 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 16	*Lease Liability in a Sale and Leaseback*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

(a) Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of IFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

(b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

    The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their services and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

All of the Group's revenue was derived from customers located in Chinese Mainland and all of the Group's non-current assets were located in Chinese Mainland, and therefore geographical segment information is presented in accordance with IFRS 8 Operation Segments.

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**1,490,702**	1,565,011

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2024	2023
Segment	**Sale of raw milk**	Sale of raw milk
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Sale of goods	**1,490,702**	1,565,011
Geographical market		
The Chinese Mainland	**1,490,702**	1,565,011
Timing of revenue recognition		
At a point in time	**1,490,702**	1,565,011

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,096,193**	1,146,722
Write-down of inventories to net realisable value	**20,557**	—
Loss arising from changes in fair value less costs to sell of biological assets	**451,023**	286,085
Fair value changes of financial guarantee contracts	**112**	—
Depreciation of items of property, plant and equipment	**62,831**	52,307
Depreciation of right-of-use assets	**9,050**	7,733
Amortisation of other intangible assets	**718**	714
Research and development costs	**1,025**	3,914
Minimum lease payments under operating leases	**10,036**	7,468
Auditor's remuneration	**480**	480
Impairment/(reversal of impairment) of financial and contract assets	**27**	(231)

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – the PRC	**4**	71
Total	**4**	71

7. DIVIDENDS

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividend for ordinary shareholders in respect of the previous financial year:		
HK0.23 cents per share (2022: HK1.13 cents)	**17,587**	87,183

A final dividend in respect of the year ended 31 December 2023 of HK0.23 cents (equivalent to RMB0.21 cents) per share was proposed pursuant to a resolution passed by the Board on 26 March 2024 and was approved at the annual general meeting of the Company on 14 June 2024.

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2024 (30 June 2023: Nil).

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

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 8,169,239,000 (2023: 8,305,107,000) in issue during the Period.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the Period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 8,169,239,000 (2023: 8,305,107,000) in issue during the Period. There has been no dilutive impact on potential ordinary shares.

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

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	**(143,681)**	23,327

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

	Number of shares	
	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the reporting period used in the basic earnings per share calculation	**8,169,239,000**	8,305,107,000
Weighted average number of ordinary shares in issue during the reporting period used in the diluted earnings per share calculation	**8,169,239,000**	8,305,107,000

9. 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 2024	31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	**234,070**	302,688
4 to 6 months	**3,906**	—
7 months to 1 year	**—**	228
1 to 2 years	**—**	413
Total	**237,976**	303,329

10. 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 2024	31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	**572,677**	1,031,541
4 to 6 months	**538,769**	620,504
7 to 12 months	**4,928**	44,257
1 to 2 years	**4,213**	4,982
2 to 3 years	**2,944**	5,421
More than 3 years	**3,390**	—
Total	**1,126,921**	1,706,705

11. SHARE AWARD SCHEME

On 19 April 2022 (the "**Adoption Date**" and the "**Grant Day I**"), the Company adopted a long-term share award scheme (the "**Share Award Scheme**"), which shall remain effective for ten years, to recognise the contributions by certain employees of the Group and to provide them with incentives. The Board had approved three batches under the Share Award Scheme with an amount of RMB35,000,000 in 2022, 2023 and 2024 for each batch, respectively.

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 comprise 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.

Pursuant to the Share Award Scheme, the Board granted the third batch of RMB35,000,000 (equivalent to a total of 75,054,000 shares plus cash equivalent in the amount of RMB9,603,000 granted by the Company to 61 senior and middle management members of the Group, and 10,792,000 Shares plus cash award in the amount of RMB1,380,800 granted to a Director, Mr. Zhang Jiawang) to 62 selected participants on 19 April 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2024, the domestic economy developed steadily but progressively, with GDP reaching RMB61,683.6 billion, representing a year-on-year growth of 5.0%; total retail sales of consumer goods reached RMB23,596.9 billion, representing a year-on-year growth of 3.7%; and retail sales of food and oil, and beverage recorded by businesses of at least a certain scale (限額以上單位) increased by 9.6% and 5.6%, respectively. In the first half of 2024, the Chinese consumer price index (CPI) rose by 0.1% year-on-year, of which food, tobacco and alcohol prices fell by 1.4%. The national disposable income per capita reached RMB20,733, representing a nominal year-on-year increase of 5.4%, and a real year-on-year increase of 5.3% after deducting price factors.

In the first half of 2024, in terms of the dairy products industry, consumption of dairy products is still recovering. The production of dairy manufacturing enterprises above the designated size (規模以上乳製品製造企業) in China was 14.33 million tonnes, representing a year-on-year decrease of 3.0%. In terms of imports, the total amount of dairy products imported into China in the first half of 2024 continued to decline as compared with the corresponding period last year, with the rising cost of imported dairy products and the falling price of domestic raw fresh milk accelerating the upward trend towards self sufficiency by relying on the domestic milk supply. China imported a total of 1,308,000 tonnes of various types of dairy products during the first half of 2024, representing a year-on-year decrease of 15.6%, and imported dairy products equivalent to 8,060,000 tonnes of raw fresh milk, representing a year-on-year decrease of 15.6%. With reference to the main categories (according to China Customs statistics), in the first half of 2024, almost all of the product categories with larger import volumes declined, including 383,000 tonnes of imported bulk powder, representing a year-on-year decrease of 20.7%, 295,000 tonnes of imported whey products, representing a year-on-year decrease of 11.6%, and 200,000 tonnes of imported packaged milk, representing a year-on-year decrease of 24.3%.

In terms of the dairy farming industry, national milk production in the first half of 2024 was 18.56 million tonnes, representing a year-on-year increase of 620,000 tonnes or 3.4%. The issue of oversupply persists in the industry. As a result of sluggish demand, dairy product manufacturing enterprises suppressed the purchase of raw milk, while the production capacity of upstream enterprises remained at a historically high level, and the price of raw milk continued to decline. The cow breeding industry is facing a survival dilemma between sales difficulties and low prices in raw milk and the industry is incurring extensive losses. Under the current situation, the industry consensus is to optimize the herd structure and appropriately retire old and low-producing cows, so as to better match the production development of the cow breeding industry with market demand. Enterprises with a stable raw milk sales channel, good cost control and good cash flow will be more viable during the industry consolidation phase. During the Period, domestic raw fresh milk prices continued to decline. In June 2024, the average price of raw fresh milk in the primary dairy-producing provinces (regions) as monitored by the Ministry of Agriculture and Rural Affairs was RMB3.3/kg, representing a decrease of 13.7% as compared with the corresponding period last year; the purchase price of raw milk has been declining year-on-year for 28 consecutive months, with the decline lasting for the longest period since 2010. In terms of feed, the price of forage has also dropped significantly as compared with the corresponding period, which to a certain extent eases the pressure on the industry's profitability. According to monitoring data from the Ministry of Agriculture and Rural Affairs, the national average price of corn in June 2024 was RMB2.57/kg, representing a year-on-year decrease of 12.0%, and the national average price of soya bean was RMB3.7/kg, representing a year-on-year decrease of 14.4%; due to the decline in the cost of imported forage, the domestic hay imports in the first half of the year increased year-on-year. According to customs statistics, in the first half of the year, China's imported of hay accumulated 753,000 tonnes, representing a year-on-year increase of 28.7%, with the average landed price of USD375.1/tonne, representing a year-on-year decline of 33.6%.

BUSINESS OVERVIEW

The principal business of the Group is dairy farming, production and sales of high-end desert-based organic raw milk and high-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 high-quality raw milk, and we will continue to develop a variety of functional raw milk to enrich the Company's product combination and enhance its profitability. The diversified and high-end product structure has enabled the Group to enjoy a clear differentiated competitive advantage in the raw milk industry.

OPERATION REVIEW

Herd Size

At 30 June 2024, the Group operated 34 farms, including 2 fattening cow farms. The Group had 148,101 cows in stock, which was comparable to the end of 2023. Of these, fattening cows increased by 20.7% as compared with the end of the previous year; the rest of the herd decreased by 1.7% as compared with the end of the previous year, mainly due to the decline in the stock of milkable cows. At the end of this Period, the reserve herd increased year-on-year, which was a result of the Group's importation of more than 3,600 high-quality young Holstein cows from Australia due to a significant drop in the cost of imported cows in the current environment, which enhanced the quality of the milkable cow herd, as well as supported the Group's strategic layout based on the optimistic forecast of a rebound in the industry cycle in the future.

	As at	
	30 June 2024	31 December 2023
Number of Farms (number)	**34**	34
Milkable Cows (heads)	**57,658**	64,193
Calves and Heifers (heads)	**76,611**	72,373
Fattening cows [(1)] (heads)	**13,832**	11,463
Total (heads)	**148,101**	148,029

(1) Fattening cows refer to a type of cow that mainly produces beef and the main purpose of which is for selling.

Peak milk yields of cows continued to grow, milk yield exceeded 12 tonnes for the first time ever

In the first half of 2024, the Group's milk yields of cows further improved and peak milk yields of cows continued to grow, with peak milk yields of first-trimester cows exceeding 40kg/day and peak milk yields of produced cows exceeding 50kg/day. The average annualized yield of milkable cows reached 12.07 tonnes, representing a year-on-year increase of 1.13 tonnes, which has consistently set new records for the highest level of cow yields since the Group's establishment. Under the current market environment, the increase in cow yields will effectively enhance the profitability of the Company. With the help of improved yields, the Group recorded raw milk sales of 0.351 million tonnes in the first half of the year, representing a year-on-year increase of 3.2%. Although the overall sales volume increased as compared with the corresponding period, the Group's sales revenue for the Period was RMB1,490.7 million, representing a year-on-year decrease of RMB74.3 million due to the decrease in selling price of raw milk.

Improved quality and efficiency, reduced costs to effectively cope with low milk prices, gross profit margin basically unchanged from the corresponding period last year

In the first half of 2024, the overall price of raw milk in the industry decreased significantly as compared with the corresponding period last year, and the rate of decrease was significantly higher than that of the corresponding period last year. However, due to the uniqueness and good quality of the desert organic raw milk sold by the Group, the price of organic raw milk decreased at a lower rate than the industry average under the current industry trend. During the Period, the average selling price of the Group's consolidated raw milk was RMB4.25 per kilogram, representing a year-on-year decrease of 7.7%. The Group benefited from the downward trend in the prices of feed in major markets, which alleviated the pressure on feed costs. Meanwhile, the Group proactively developed measures to reduce costs and increase efficiency, optimized feeding formulas, and explored new technologies and resources. In terms of forage selection, the Group has adopted low-cost forage substitution while also focusing on comprehensive benefit considerations. The optimized forage formula has not only effectively controlled feeding costs, but has also improved herd health and alleviated the impact of stress on cow yields and milk indexes. The increase in cow milk yield and the decrease in feed costs resulted in the Group's cost of sales of a kilogram of milk for the first half of the year reaching RMB3.12 per kilogram, representing a year-on-year decrease of RMB0.25 per kilogram, of which the cost of feed for a kilogram of milk was RMB2.51 per kilogram, representing a year-on-year decrease of RMB0.24 per kilogram. As a result of this effect, the Group's gross profit margin for the first half of the year was 26.5%, which was basically the same as that of 26.7% for the corresponding period of 2023. Under the prevailing situation where profitability of the industry has been drastically compressed, the stable level of gross profit margin is a reflection of the differentiated competitiveness of the Group's core business, and further reinforces the Group's sustained profitability which is ahead of the industry.

Strategic optimization of herd structure and continuous improvement of farming standards

In the face of the oversupply of raw milk in the industry, the Group proactively responded to the situation. Following the focus on herd optimization in the first half of 2023, the Group responded to the trend by continuously proactively optimizing the herd structure in the first half of this year by focusing on the retirement of less efficient cows in the herd, which resulted in a significant improvement in the health level of the herd and efficiency capacity. During the first half of the year, the Croup focused on retiring inefficient cows, the culling rate of cows increased as compared with the corresponding period, and the rate of self-reproduction and expansion of cows decreased by approximately 4.1% as compared with the corresponding period. The continuous improvement of the breeding capacity of cows is the backbone of the Group's initiative to optimize the herd. The Group's cow breeding level continued to gain momentum in the first half of the year, with various important indicators affecting breeding, such as the 21-day pregnancy rate of milkable cows, the 21-day pregnancy rate of young cows, and the percentage of cows that were infertile for 150 days, all of which have reached the industry's leading level. In terms of end-products, the Group's organic products won the Gold Award of Asia Organic Expo again in the 17th Asia International Organic Products Expo. The Group has specialized in desert organic for 15 years, and the organic concept of "slow cultivation of nature (自然慢養)" advocated by the Group has struck a strong chord within the industry. The Group firmly believes that premium milk comes from a good natural source, and that "slow cultivation of soil(慢養土)", "slow cultivation of grass(慢養草)" and "slow cultivation of cows(慢養牛)" are precisely the keys to the success of Shengmu's organic milk.

Commencement of operation of desert organic smart farm, imported cows to enhance herd quality

In line with the future strategic plan to achieve growth in organic milk sales, the newly built smart farm by the Group in the Ulan Buh Desert Base was formally put into operation in the first half of this year. Currently, there are approximately 3,800 cows, most of which are high-quality young Holstein cows imported by the Group from Australia last year. It is expected that the first batch of high-quality raw milk will be produced by the end of this year in the smart farm and will be available for sale. Under the current situation where the cost of imported cows continues to decline, the Group continued to purchase approximately 4,600 additional imported young Holstein cows in the first half of this year, and it is expected that all of these cows will arrive at the smart farm for breeding in the current year. The high quality breeding capability and good milk yield of the cows will provide important assistance to the Group to further strengthen the quality of the Group's herd in the future, and is also a strategic layout of the Group based on the optimistic forecast of a rebound in the industry cycle in the future.

Continous practice of ESG and contribution to global sustainable development

The Group has always been committed to corporate sustainable development and has always incorporated ESG concepts into its strategic plan and daily operations. During the Period, the Group formally joined the World Business Council for Sustainable Development (WBCSD). Becoming a member of the WBCSD signifies an important step for the Group on the global sustainable development stage. In the first half of the year, the Group won the "Pioneer Award for Contribution to ESG Disclosure" at the Hong Kong Green and Sustainability Contribution Conference organized by the Hong Kong Quality Assurance Agency (HQAA) in recognition of the Group's excellence in ESG performance and proactive disclosure. The Group has also benefited from the construction of ESG and sustainable development. In the first half of the year, the Group successfully completed the grant of the first naturally beneficial commercial ESG-linked loan in China, which not only set a precedent for ESG financing in the Inner Mongolia Autonomous Region, but also established a new milestone in the practice of green finance. The loan amount is RMB100 million for a term of 2 years with an interest rate of 2.53% per annum, demonstrating the strong support of the financial industry for green projects. It is also further evidence of the Group and the Bank's active response to the national strategy of "Promoting Quality Development" and "Actively Implementing the United Nations 2030 Agenda for Sustainable Development". This not only strengthens the cooperation between enterprises and financial institutions in promoting the construction of an ecological civilization, but also provides a new example of financial assistance for enterprises to explore the path of sustainable development. The successful issuance of this green loan is another practical demonstration of the Group's commitment to sustainability following the successful issuance of the nation's first social responsibility debentures in 2022. The Group will also leverage its experience and strengths in the ESG field to provide more sustainable solutions to the society and contribute to the building of a greener, more harmonious and sustainable world.

Human Resources and Employee Remuneration

In terms of human resources, the Group focuses on improving people efficiency and stimulating team dynamics through organizational optimization and performance incentives. During the Period, the Group's man-to-cow ratio, production per capita and income per capita were all significantly higher than those of the corresponding period. The Group had a total of 2,187 employees as at 30 June 2024 (as at 31 December 2023: 2,701 employees).

During the Period, the Group's Share Award Scheme was continuously implemented. The remaining 50% of the first tranche of share awards granted under this Share Award Scheme (approximately 108,942,111 award shares in total), have been vested in the relevant grantees; and the first 50% of share awards granted under this Share Award Scheme (approximately 99,954,000 award shares in total), was vested on 20 April 2024 as a result of the achievement of various performance targets of the Company, which fulfilled the vesting conditions of the Share Award Scheme, and the remaining 50% of the second tranche of share awards granted under this Share Award Scheme will be vested on 20 April 2025. On 19 April 2024, a total of 85,846,000 award shares, together with the cash award of RMB10,983,800 have been granted to a Director, Mr. Zhang Jiawang, as well as 61 middle and senior management members of the Group, which were intended by the Group to motivate such members to continue to make contributions in order to promote the overall business performance in 2024 and the sustainable development of the Group. The vesting of the award shares and the cash award are subject to the fulfilment of vesting conditions.

FINANCIAL REVIEW

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

Sales revenue

	For the six months ended 30 June	
	2024	2023
Sales revenue (RMB'000)	**1,490,702**	1,565,011
Sales volume (tonnes)	**350,848**	340,086
Average selling price (RMB/tonnes)	**4,249**	4,602

During the Period, the Group's raw milk sales revenue amounted to RMB1,490.7 million (2023: RMB1,565.0 million), representing a year-on-year decrease of 4.7%, of which, the sales volume of raw milk amounted to 0.351 million tonnes (2023: 0.34 million tonnes), representing a year-on-year increase of 3.2%. As a result of the domestic imbalance between the supply and demand of raw milk, raw milk prices continued to be on a downward trend, and the average selling price of raw milk for the Period decreased by 7.7 percentage points year-on-year to RMB4,249 per tonne (2023: RMB4,602 per tonne).

Cost of sales, gross profit and gross profit margin

	For the six months ended 30 June	
	2024	2023
Cost of sales (RMB'000)	**1,096,193**	1,146,722
Gross profit (RMB'000)	**394,509**	418,289
Gross profit margin	**26.5%**	26.7%

During the Period, the cost of sales of raw milk of the Group amounted to RMB1,096.2 million (2023: RMB1,146.7 million), recording a year-on-year decrease of 4.4% in total costs despite the year-on-year increase of 3.2% in sales volume scale, which was mainly benefited from the Group's improvement in operational efficiency and decrease in feed costs.

The Group achieved continuous improvement in the milk yield of cows and feed conversion ratio through precise nutritional technology. During the Period, the average annualised yield of milkable cows reached 12.07 tonnes, representing a year-on-year double-digit growth, and the high yield also achieved the improvement of marginal benefits. On the raw material procurement side, the Group actively expanded procurement channels, reduced the number of intermediaries, adopted the source procurement mode and strengthened the cooperation viscosity of strategic suppliers; through the strategic procurement system, the Group integrated the resources of all parties to select the best price and quality for major forages, and achieved a year-on-year decrease in bulk feed prices.

As a result of the above factors, the average cost of sales of raw milk for the Period was RMB3.12/kg (2023: RMB3.37/kg), representing a year-on-year decrease of RMB0.25/kg. Of which, the feed cost of a kilogram of raw milk was RMB2.51/kg (2023: RMB2.75/kg), representing a year-on-year decrease of RMB0.24/kg, and the raw milk gross profit margin of 26.5% (2023: 26.7%) was recorded, which was basically unchanged from the corresponding period.

Loss arising from changes in fair value less costs to sell of biological assets

Loss arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows brought about by changes in the physical attributes and market prices of the dairy cows and the discounted future cash flow to be generated by those cows. In general, the value of a heifer increases when it grows to a milkable cow, as the discounted cash flow from milkable cows is higher than the selling price of heifers. Further, when a milkable cow is ousted and sold, its value decreases.

The Group's loss arising from changes in fair value less costs to sell of biological assets amounted to RMB451.0 million (2023: RMB286.1 million), the year-on-year increase in loss was mainly attributable to: (1) the number of inefficient cows retired by the Group proactively increased significantly year-on-year, coupled with the low price in the beef market; and (2) the demand for beef cow was weaker than expected and the selling price dropped significantly and the loss in fattening cow business increased year-on-year.

Other income and gains

During the Period, other income and gains amounted to RMB49.9 million (2023: RMB26.4 million), representing a year-on-year increase of 89.0%, which was mainly due to the year-on-year increase in government subsidies. Apart from that, other income and gains also included interest income and beef cow breeding business, etc.

Among them, as a result of the weaker-than-expected demand in the beef cow market and the significant drop in selling prices during the Period, the slaughtering volume and sales revenue of the Group's beef cow breeding business fell sharply as compared with the corresponding period, and the loss in the operation increased year-on-year.

Beef cow breeding business

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Sales volume (heads)	**2,492**	3,520
Revenue of beef cow breeding business	**20,288**	39,744
Cost of beef cow breeding business	**35,770**	46,029
Gross profit	**(15,482)**	(6,285)
of which: classified to loss arising from changes in fair value less costs to sell of biological assets	**(15,482)**	(6,285)

Selling and distribution expenses

During the Period, selling and distribution expenses amounted to RMB27.9 million (2023: RMB27.0 million), representing a year-on-year increase of 3.2%. This was mainly due to the increase in transport costs, which was similar to the growth in the sales volume scale of raw milk. In addition to this, selling and distribution expenses also include salaries and benefits, etc.

Administrative expenses

During the Period, administrative expenses amounted to RMB62.7 million (2023: RMB72.7 million), representing a year-on-year decrease of 13.8%, and accounted for 4.2% (2023: 4.6%) of sales revenue. It mainly included staff costs, travelling expenses, overheads, brokerage services and depreciation expenses and other administrative types of expenses.

Other expenses

During the Period, other expenses amounted to RMB26.0 million (2023: RMB1.1 million), representing a year-on-year increase of RMB24.9 million, which is mainly due to the provision for impairment of inventory milk powder during the Period due to the market situation of dairy products. Apart from this, other expenses also included litigation provision expenses and donation expenses.

Finance costs

During the Period, total finance costs amounted to RMB23.5 million (2023: RMB26.0 million), representing a year-on-year decrease of 9.6%. The Group deepened the cooperation between banks and enterprises and maintained a credit facility of RMB10 billion; continued to practice green finance and received the first ESG-linked loan with natural benefits in China; and continued to optimize its debt structure, with the proportion of medium- and long-term loans increasing to 65.1% and the consolidated finance cost ratio dropping by 0.65% as compared with last year.

Share of profits/(losses) of associates

The Group's associates 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), owned as to 49.0% 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) 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 the Group held minority interests in and produces dairy products with 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 held minority interests and is principally engaged in the production of high-end organic milk powders; and (d) Mudanjiang Liangyuan Technology Limited (牡丹江糧源科技有限公司), which the Group held minority interests, and is primarily engaged in feed processing. During the Period, the share of gain of the above associates amounted to RMB1.3 million (loss in 2023: RMB10.7 million).

Income tax expense

All profits of the Group were derived from its operations in the People's Republic of China (the "**PRC**" or "**China**"). 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 tax authorities as required.

During the Period, the income tax expense of the Group was RMB4,000 (2023: RMB71,000).

(Loss)/profit attributable to owners of the parent company and loss attributable to non-controlling interests

During the Period, the Group's EBITDA profit was RMB404.7 million (2023: RMB368.6 million), representing a year-on-year increase of 9.8%.

As a result of the above combined factors, loss attributable to owners of the parent company for the Period was RMB143.7 million (attributable profit in 2023: RMB23.3 million).

Profit attributable to non-controlling interests mainly represents the profit for the Period attributable to the dairy farmers with whom we cooperated with in relation to dairy farm management of our farms. During the Period, loss attributable to non-controlling interests was RMB1.8 million (2023: RMB2.1 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity and financial resources

The Group has maintained a prudent financial policy by expanding external financing channels, strengthening co-operation with banks, obtaining sufficient credit lines, ensuring liquidity, reasonably matching the long-term and short-term financing structure and effectively reducing the risk of the Group's use of short-term debts for long-term investments; and internally, centralising the management of funds to improve cash flow operations. The Group's finance department regularly examines the overall cash and debt situation and flexibly arranges financing plans based on the Group's cash flow from operating activities and the maturity profile of financing.

As at 30 June 2024, the Group had cash and cash equivalents of RMB420.2 million (31 December 2023: RMB395.5 million).

Interest-bearing bank and other borrowings

During the Period, the Group continued to maintain a credit facility of RMB10 billion, which continuously protected the Company's stable operation against the current industry backdrop. As at 30 June 2024, the Group's available and unutilized credit facilities amounted to approximately RMB9,028.1 million (31 December 2023: RMB8,957.4 million). Having considered (i) the projected cash flows from operating activities of the continuing operations; (ii) the existing financial assets and leverage level of the Group, the Directors believe that the Group has sufficient financial assets to settle its debts and to finance its day-to-day business operations as well as its contracted capital expenditure as at 30 June 2024.

As at 30 June 2024, the Group's interest-bearing bank and other borrowings amounted to RMB2,486.6 million (as at 31 December 2023: RMB2,131.2 million), which were denominated in RMB, of which RMB1,619.7 million was repayable within one to five years and the remaining interest-bearing bank and other borrowings were repayable within one year.

The Group's net borrowings are calculated as interest-bearing bank and other borrowings (excluding lease liabilities) less cash and bank balances and short-term investment deposits. Net borrowings as at 30 June 2024 amounted to RMB1,409.7 million (31 December 2023: RMB1,053.4 million), representing an increase of 33.8% as compared with the end of 2023.

During the Period, the interest rate on interest-bearing liabilities ranged from 1.05% to 3.2% per annum (for the year ended 31 December 2023: 0.87% to 3.26%).

Capital Structure

As at 30 June 2024, the Group's total equity amounted to RMB4,082.5 million (as at 31 December 2023: RMB4,236.3 million), comprising current assets of RMB1,649.3 million, non-current assets of RMB6,407.8 million, current liabilities of RMB2,309.5 million and non-current liabilities of RMB1,665.1 million.

The Group's financial gearing ratio is calculated as interest-bearing bank and other borrowings (including lease liabilities) divided by total equity. The financial gearing ratio as at 30 June 2024 was 62.4% (as at 31 December 2023: 51.5%).

Charge on assets

As at 30 June 2024, the Group's total restricted bank deposits amounted to RMB108.0 million (as at 31 December 2023: RMB148.8 million), of which RMB22.3 million was pledged to banks in the PRC as deposits for the issuance of letters of credit and bank drafts and RMB85.7 million was frozen due to litigation.

Capital commitments

As at 30 June 2024, the Group's commitments in relation to acquired property, plant and equipment amounted to RMB19.5 million (as at 31 December 2023: RMB43.7 million), representing a decrease of 55.4% as compared to the end of 2023. This was mainly due to the fact that construction project of smart farm was nearing completion and its capital commitments had declined.

Contingent liabilities

As at 30 June 2024, the Group provided guarantees for bank borrowings of RMB98.0 million (as at 31 December 2023: RMB69.0 million) 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, adopting the valuation of the guarantees as determined by the independent professional valuer as the best estimate of payment required for the performance of the relevant existing obligations in accordance with the requirements of IFRSs.

Foreign exchange risk

The Group's operations are primarily located in the Chinese Mainland and the majority of transactions are conducted in RMB. As at 30 June 2024, the Group had no significant foreign exchange risk in respect of its operations except for cash balances of approximately RMB26.1 million, RMB1.7 million and RMB0.2 million denominated in HKD, USD, and EURO. As at 30 June 2024, 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 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.

Material acquisitions and disposals

During the Period, the Group did not make any material acquisitions and disposals of subsidiaries, associates and joint ventures.

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 section headed "Future Plans and Use of Proceeds" in the prospectus, as at the date of this announcement, the Group does not have any plan for material investments or acquisition of capital assets.

Events after the reporting period

Save as disclosed in this announcement, there was no material subsequent event of the Group from the end of the reporting period to the date of this announcement.

FUTURE OUTLOOK

China's No. 1 central document for 2024 pointed out it is necessary to adhere to the development of agriculture through industry, quality and green agriculture and accelerate the construction of a modern rural industrial system that integrates grain, economy and feed, agriculture, forestry, animal husbandry and fisheries, production, processing and marketing, and the integration of agriculture, culture and tourism, and make agriculture a modernized large industry. In terms of dairy cattle breeding, the document also pointed out that it is necessary to vigorously promote the breakthrough of key core technologies in agriculture such as germplasm, accelerate the expansion of beef cow and sheep farming and dairy production, and vigorously promote the upgrading and transformation of grassland pastoralism. The 2024 Policy on Promoting High-Quality Development of the Milk Industry issued by the Inner Mongolia Autonomous Region mentions the need to stabilize the supply of high-quality milk sources, support the cultivation of high-quality seed sources, increase subsidies for forage storage, promote the increase in production of domestically-produced high-quality alfalfa, and support the expansion of the processing capacity of dairy processing enterprises and the development of deep and intensive processing, etc. The Group will closely follow the policy guidelines of the national and local governments, with the strong empowerment of industrial resources and leveraging on the unique resource endowment of the Ulan Buh Desert, earnestly push forward the implementation of various business objectives and strive to achieve the strategic goal of doubling the sales volume of organic raw milk in 2025 as compared with that of 2020.

In 2024, there remains tension in supply and demand in the industry, and the enhancement of the enterprise's internal lean management capability is an important means to cope with external uncertainties. The Group will focus on important issues such as overall cost control, efficiency improvement, herd optimization, green storage acquisition and commissioning of new farms and farm digitization, in order to achieve a new breakthrough in the Group's operational capability. In terms of business, the Group will make every effort to support the high quality of growth of the desert organic milk business of its major customer, Mengniu Group and the high-standard construction of the Deluxe Milk Organic Industrial Zone. Operationally, the Group will enhance its digital innovation capabilities and build a highly efficient supply chain to achieve sustainable development.

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 to the value of the Company, and that good corporate governance is in the interest of the Company and its shareholders as a whole.

During the Period, we have adopted, applied and complied with the code provisions contained in the Corporate Governance Code as set out in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") (as amended from time to time).

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 C3 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code during the Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in this announcement, during the Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

As at 30 June 2024, 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 system and financial reporting matters, including the review of the Group's interim results for the six months ended 30 June 2024.

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 2024 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the six months ended 30 June 2024. 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.

PROPOSED INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: nil).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.youjimilk.com. The interim report of the Company for 2024 containing all the information required by the Listing Rules will be dispatched to shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to our shareholders for their continued support to the Group, and to all our staff for their hard work and loyal service.

By Order of the Board
China Shengmu Organic Milk Limited
Chen Yiyi
Chairman

Hong Kong, 28 August 2024

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. Chen Yiyi, Mr. Zhang Ping, Mr. Zhao Jiejun, Mr. Sun Qian and Ms. Shao Lijun; and the independent non-executive Directors of the Company are Mr. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng.