

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



2018 INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YAO Tongshan
Mr. WU Jianye
Mr. Wang Yuehua

Non-executive Directors

Mr. SHAO Genhuo (Chief Executive Officer and Chairman)
Mr. WEN Yongping
Mr. SUN Qian

Independent Non-executive Directors

Mr. FU Wenge
Mr. WANG Liyan
Mr. LI Xuan

JOINT COMPANY SECRETARIES

Mr. WU Jianye
Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. WU Jianye
Mr. AU Wai Keung

AUDIT COMMITTEE

Mr. WANG Liyan (Chairman)
Mr. FU Wenge
Mr. LI Xuan

REMUNERATION COMMITTEE

Mr. LI Xuan (Chairman)
Mr. SUN Qian
Mr. FU Wenge

NOMINATION COMMITTEE

Mr. FU Wenge (Chairman)
Mr. SHAO Genhuo
Mr. YAO Tongshan
Mr. LI Xuan
Mr. WANG Liyan

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607
6/F, China Merchants Building
152-155 Connaught Road Central
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Food Industry Park, Deng Kou County
Bayannur City
Inner Mongolia Autonomous Region
PRC

STOCK CODE

The Main Board of The Stock Exchange of
Hong Kong Limited
1432

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1112
Cayman Islands

**HONG KONG BRANCH SHARE REGISTRAR AND
TRANSFER OFFICE**

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd., Hohhot, Ulan Branch
Bank of China Limited, Hohhot Zhongshan Branch
China Minsheng Bank Co., Ltd., Hohhot Branch
China Construction Bank Corporation,
Operation Department, Inner Mongolia Autonomous
Region Branch
Hengfeng Bank Co., Ltd., Xi'an Branch
China CITIC Bank Co., Ltd., Hohhot Branch
Baoshang Bank Co., Ltd., Hohhot Branch

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law
Linklaters

As to Cayman Islands Law
Maples and Calder

WEBSITE

<http://www.youjimilk.com>

HIGHLIGHT

	For the six-month period ended June 30,		Change
	2018 (unaudited) (RMB'000)	2017 (unaudited)	
Revenue	1,400,105	1,152,184	21.5%
Gross profit	435,045	500,413	(13.1%)
(Loss)/profit for the period	(1,186,474)	131,388	(1,003.0%)
(Loss)/profit for the period before fair value adjustment of biological assets	(300,403)	193,313	(255.4%)
(Loss)/profit attributable to owners of the parent	(1,066,894)	6,381	(16,819.9%)
(Loss)/profit attributable to owners of the parent before fair value adjustment of biological assets	(372,674)	96,834	(484.9%)

The Group's revenue increased by 21.5% from RMB1,152.2 million for the same period in 2017 to RMB1,400.1 million for the six months ended June 30, 2018.

The Group's gross profit decreased by 13.1% from RMB500.4 million for the same period in 2017 to RMB435.0 million for the six months ended June 30, 2018.

The Group's loss for the period was RMB1,186.5 million for the six months ended June 30, 2018, representing a decrease of 1,003.0% as compared to profit for the period of RMB131.4 million for the same period in 2017.

The Group's loss for the period before fair value adjustment of biological assets was RMB300.4 million for the six months ended June 30, 2018, representing a decrease of 255.4% as compared to profit for the period of RMB193.3 million for the same period in 2017.

The Group's loss attributable to owners of the parent was RMB1,066.9 million for the six months ended June 30, 2018, representing a decrease of 16,819.9% as compared to profit for the period of RMB6.4 million for the same period in 2017.

The Group's loss attributable to owners of the parent before fair value adjustment of biological assets was RMB372.7 million for the six months ended June 30, 2018, representing a decrease of 484.9% as compared to profit for the period of RMB96.8 million for the same period in 2017.

The Directors do not recommend the payment of interim dividend for the six months ended June 30, 2018 (for the six months ended June 30, 2017: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

According to relevant data, the outputs of milk products and dairy products in China reached 36.55 million tonnes and 29.35 million tonnes respectively in 2017, with the total scale only second to India and the United States, and ranking the third in the world. Now dairy industry has become one of the most vigorous and fastest growing industries in the modern agriculture and food industry.

On May 23, 2018, *the Opinions on Accelerating the Revitalization of Dairy Industry and Ensuring the Quality of Safety of Dairy Products* was passed in the executive meeting of the State Council, and the comprehensive deployment has been made on such aspects as the construction of the milk source bases, processing and circulation of dairy products, safety supervision on the dairy product quality and guidance for consumption. Yu Kangzhen, the Vice Minister of the Ministry of Agriculture and Rural Affairs held that: Firstly, we should properly raise cows and we should consolidate the foundation for the construction of high-quality milk source bases. We should carry out the genetic improvement plan of cows, build the national core cow breeding farms, step up the standardized and big-scaled raising of cow, substantially increase the proportion of the farms whose massive cultivation rate are more than 100 cows respectively, and steadily enhance the per head yield of cows; Secondly, we should strengthen supervision; namely, we should enhance the quality and safety level of fresh and raw milk. We should perfect the standards and specifications of cow cultivation, establish and perfect standardized production system for fresh and raw milk, implement the responsibility system with the cultivators as the main body, and constantly enhance the output level. Thirdly, we should promote fusion; namely, we should perfect the mechanism of linking cultivation, processing and benefits; and fourthly, we should establish a good brand; namely, we should strengthen the influence of the dairy industry in China as well as the confidence of consumers.

On June 28, Gao Hongbin, Honorary Chairman of the Dairy Association of China said at the 9th Chinese Dairy Industry Conference & 2018 Chinese Dairy Industry Exhibition in Chengdu, “Our enterprises have already laid the foundation for tremendously increasing the production capacity in a short period.” He also added that given the factors such as the importation of dairy products, the market prices of dairy products in China are still at the low level; “however, they are poised for retaking the market shares. They will witness a large-scale explosion in the output so long as the market shifts to a good trend.”

The healthy development of the dairy industry concerns the benefits of the great number of dairy farmers, as well as the safety of milk products and the health of the masses. China is a large country in terms of production and consumption of dairy products. It is the only road for the country to revitalize its milk industry by making larger and stronger the Chinese dairy industry, producing high-quality dairy products and cultivating the world-known milk brands.

BUSINESS REVIEW

The business of the Group includes the cow breeding and liquid milk businesses.

By virtue of its industrial theory of the sand and grass industry, Shengmu has successfully converted the Ulan Buh Desert with an area of 200 square kilometers into an oasis, created the pollution-free and zero-additive organic milk produced in deserts, thus has realized the whole-process organic industrial chain mode in the desert which covers the tree planting, grass planting, sand treatment, factory building, cow cultivation, milk production and processing. By means of controlling all links in the production, the Company produces the good-quality milk which has passed the ECOCERT and the China Organic Food Certification. Shengmu has combined the ecology and industry and blended the enterprise development and ecological treatment in the Ulan Buh Desert so as to realize the economization of ecotype resource and initiated the new mode of desert treatment.

Ulan Buh Desert is located at the golden milk source belt at the 40 degrees north latitude, thanks to the fertile soils and adequate water resource in the upstream of the Yellow River formed by the alluviation. The Group has made full use of the little pollution, the precious little bacteria, viruses and pests as well as the favorable climate as to the adequate sunlight in the desert hinterland to form the standard cow cultivation system with the characteristics of Shengmu in the aspects of feeding with proper nutrition, breeding in a healthy manner, and putting feces back to the fields. As the result, it has produced the raw milk whose nutritive standard and hygiene standard are higher than the industrial one.

Facing the intense and changing market competition, the Group will accelerate the construction of the corporate culture, brand, bases, cooperative partners and team in 2018. By exporting corporate culture, inspiration of career, strict training, the Company strives to create a great team; and by conducting the high-end orientation and adhering to the principle of “price and mark the first and exclusive,” it strives to make its cooperative partners stronger, and share benefits with and make common progress with them.

The first half of 2018 has witnessed the slide in price of raw milk in the main producing areas in China on a year-on-year basis; the milk price in the upstream was still weak. Given the influence by the overall environment of the industry, as well as the optimization, adjustment and innovation in the fields of sales channels, brand promotion and partners and teams since 2018, the Group is in the orderly promotion of the work at such stage; and its still needs time to reach perfection. In the 2018 Interim Period, the Group initiatively adjusted its sales structure of the downstream products and upstream products so as to match the new sales strategy of the organic milk; namely, “sales-oriented production for end product freshness” (以銷定產·保證終端產品的新鮮度). On the one hand, it reduced the output of liquid milk of its self-owned brands, strengthened the receivable management, and optimized the quality of sales outstanding of the Group; on the other hand, the Group had increased the sales volume of raw milk to the clients in the industry by virtue of its excellent cooperative relationship with the clients in the industry. As the result, it had provided protection for the steady operation of the Group by virtue of the high-quality sales cash flows.

In the 2018 Interim Period, revenue of the Group reached RMB1,400.1 million, up by 21.5% as compared with the first half of 2017 (the “2017 Interim Period”). The rate of received payment of product sales in the Interim Period exceeded 90.0%.

Herd Size and Production Volume

On June 30, 2018, the quantity of dairy herds of the Group was 116,912 heads, including 89,607 heads which produce organic milk, and 27,305 heads which produce non-organic milk. In the 2018 Interim Period, the Group had produced a total of 244,551 tonnes of organic raw milk and 95,030 tonnes of high-quality non-organic raw milk. Moreover, the output of the organic liquid milk under its self-owned brands which was produced from the raw milk supplied by the organic farms with the full self-owned certification was 37,193 tonnes.

Market Promotion

The first half of 2018 saw the slide in the prices of the raw milk in the main producing areas in China on a year-on-year basis; and the milk prices in the upstream was still weak. Given the influence by the overall environment of the industry, as well as the optimization, adjustment and innovation in the fields of sales channels, brand promotion and partners and teams since 2018, the Group is in the orderly promotion of the work at such stage; and it still needs time to reach perfection.

Comprehensively upgrade products and establish the high-end and new image of Shengmu brand

At the beginning of 2018, the Group systematized and planned the current products, and redefined the segments of the online and offline products. It had completed the design and perfection of 7 product series. By means of its high-end product image, it has further strengthened the feeling with consumers.

Create organizational structure, focus on creating the markets in its bases and the market development tends to be positive

At the beginning of 2018, the Group separated the marketing center from the Group and established the business unit, which had achieved the goal of full empowerment, flat management and more flexible decision-making.

For the marketing and promotion, it focuses on creating and establishing the markets in the bases. For the development of new markets, it had implemented the flattening of channels to cooperate with the online business. At present, the Company's sales system has approximately 500 distributors. Meanwhile, the market prices of its products tended to be stable, with the increased profit space, and basically realized the zero sales on account.

Expand new business forms and facilitate the great development of undertaking

Traditional E-commerce: For the traditional E-commerce, it adopted the differentiated competitive tactics and implemented the customer experience-type marketing. By combining with Shengmu's whole industrial chain and production of high-quality organic milk, the two major advantages, it had created the exclusive ranches with Jingdong and Suning to create the online Shengmu Brand Day. Also, it had invited online celebrities to conduct live broadcasting in the hinterland in the Ulan Buh Desert. Making use of the advantages of such online celebrities, the Group had let more consumers witness the whole industrial chain mode of Shengmu.

New-type E-commerce platform: From 2017, the Group began its cooperation with the social-type E-commerce enterprises with Yunji as the representative, thus entering this field earlier than the competitors. Meanwhile, Yunji had given more chances to the Company to demonstrate its brands. Its sales in the first half of 2018 has been close to the total sales of 2017.

The Group had optimized the innovative sales channels, focused on expanding such new business forms as high-end markets and supermarkets, fully integrating the advantageous resources, set up the strategic cooperation with such known platforms as T-mall, Jingdong and Yunji, as well as such big names as PetroChina, Starbuck, Holiland and Siebel, customized the exclusive products and expanded the market shares.

Strengthen the brand building and promotion, and enhance the brand influence

Desert Miracle---the large experience-type activity of organic milk: To let more consumers learn about the Ulan Buh Desert, the base of milk source of Shengmu and its whole-process industrial chain, Shengmu upgraded the Tour of Discovering the Ulan Buh Desert and enriched the form and contents of the activity in 2018. To fully empower the activity, it is expected that more than 10,000 people over the country, including business partners, consumers and media people will join the activity, feel the great undertaking of Shengmu at the site and increase the recognition of the society to the enterprise.

VR immersed experience: The whole industrial base of Shengmu in the desert will be moved to the marketing terminals. By cooperating with Pico, the high quality, high-end orientation and ecological public welfare of Shengmu will be conveyed to consumers in a comprehensive manner, thus breaking the pure demonstrative method used in the making of VR videos. The method of Discovery-style documentary+storyline and the combination of location shooting and CG animation are employed to demonstrate the whole industrial chain advantages of Shengmu in the desert in a comprehensive manner and at multiple angles.

FINANCIAL REVIEW

Revenue of the Group increased by 21.5% from RMB1,152.2 million in the 2017 Interim Period to RMB1,400.1 million in the 2018 Interim Period. Gross profit of the Group decreased by 13.1% from RMB500.4 million in the 2017 Interim Period to RMB435.0 million in the 2018 Interim Period. (Loss)/profit for the period decreased by 1,003.0% from profit of RMB131.4 million in the 2017 Interim Period to loss of RMB1,186.5 million in the 2018 Interim Period. (Loss)/profit for the period before fair value adjustment of biological assets decreased by 255.4% from profit of RMB193.3 million in the 2017 Interim Period to loss of RMB300.4 million in the 2018 Interim Period. Of these, (loss)/profit attributable to owners of the parent decreased by 16,819.9% from profit of RMB6.4 million in the 2017 Interim Period to loss of RMB1,066.9 million in the 2018 Interim Period. (Loss)/profit attributable to owners of the parent before fair value adjustment of biological assets decreased by 484.9% from profit of RMB96.8 million in the 2017 Interim Period to loss of RMB372.7 million in the 2018 Interim Period.

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

Revenue

Unit: RMB in thousands, except percentages

	For the six-month period ended	
	June 30	
	2018	2017
	(Unaudited)	(Unaudited)
Dairy farming business	919,705	454,814
Liquid milk business	480,400	697,370
Total	1,400,105	1,152,184

For the six-month period ended June 30	Dairy farming business				Liquid milk business				Total revenue
	Segment revenue	Inter-segment sales ⁽¹⁾	External sales	External sales as % of total revenue	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	
2018 (Unaudited)	1,126,745	207,040	919,705	65.7%	480,400	—	480,400	34.3%	1,400,105
2017 (Unaudited)	1,335,053	880,239	454,814	39.5%	697,370	—	697,370	60.5%	1,152,184

(1) Represents self-produced raw milk sold to the Group's liquid milk business.

Given the rising competition existing in the dairy products market, the Group required the market terminals to stabilize prices globally to improve the brand image of Shengmu. As such, the Group proactively adapted the sales structure of its upstream and downstream products to the new sales strategy of its organic liquid milk products, i.e. "sales-oriented production for end product freshness" (以銷定產,保證終端產品的新鮮度). It optimized the quality of sales outstanding of the Group, and on the basis of ensuring the effective operation of its self-owned brand organic liquid milk, expanded the sales of raw milk to clients of the industry. External sales of the Group's raw milk increased from RMB454.8 million in the 2017 Interim Period to RMB919.7 million in the 2018 Interim Period, representing an increase of 102.2% as compared to the same period of last year. Sales of self-owned brand liquid milk decreased from RMB697.4 million in the 2017 Interim Period to RMB480.4 million in the 2018 Interim Period, representing a decrease of approximately 31.1% as compared to the same period last year.

Dairy farming business

	For the six-month period ended June 30							
	2018 (Unaudited)				2017 (Unaudited)			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming revenue
Organic raw milk								
External sales	628,298	189,816	3,310	55.8%	235,282	56,100	4,194	17.6%
Inter-segment sales ⁽¹⁾	186,927	46,819	3,993	16.6%	827,441	158,150	5,232	62.0%
Subtotal	815,225	236,635	3,445	72.4%	1,062,723	214,250	4,960	79.6%
Premium non-organic raw milk								
External sales	291,407	86,523	3,368	25.8%	219,532	65,832	3,335	16.4%
Inter-segment sales ⁽²⁾	20,113	6,221	3,233	1.8%	52,798	13,970	3,779	4.0%
Subtotal	311,520	92,744	3,359	27.6%	272,330	79,802	3,413	20.4%
Daily farming segment								
External sales	919,705	276,339	3,328	81.6%	454,814	121,932	3,730	34.0%
Inter-segment sales	207,040	53,040	3,903	18.4%	880,239	172,120	5,114	66.0%
Total	1,126,745	329,379	3,421	100.0%	1,335,053	294,052	4,540	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

- (1) Represents self-produced organic raw milk sold to the Group's organic liquid milk business.
- (2) Represents self-produced premium non-organic raw milk sold to the Group's high-end non-organic liquid milk business.

In the 2018 Interim Period, sales volume of raw milk increased by 12.0% from 294,052 tonnes in the 2017 Interim Period to 329,379 tonnes in the 2018 Interim Period. Leveraging its sound cooperation relationship with clients of the industry, the Group expanded the sales of raw milk to its clients. The external sales volume accounted for 83.9% of sales volume of raw milk in the 2018 Interim Period, compared with 41.5% in the 2017 Interim Period. Affected by supply and demand factors in the dairy industry, some organic raw milk were sold at a price of non-organic raw milk to the industry clients, as a result, external selling price of raw milk decreased by 21.1% from RMB4,194/tonne in the 2017 Interim Period to RMB3,310/tonne in the 2018 Interim Period. Meanwhile, due to the adjustment to the sales strategy of liquid milk products, inter-segment sales volume of organic raw milk decreased. As a result, revenue from the daily farming segment decreased by 15.6% from RMB1,335.1 million in the 2017 Interim Period to RMB1,126.7 million in the 2018 Interim Period.

Liquid milk business

In the 2018 Interim Period, due to implementation of the Group's market strategy of "sales-oriented production for end product freshness" (以銷定產,保證終端產品的新鮮度), revenue from the Group's liquid milk business decreased by 31.1% from RMB697.4 million in the 2017 Interim Period to RMB480.4 million. Revenue from liquid milk business accounted for 34.3% of total revenue of the Group in the 2018 Interim Period, a significant decrease from 60.5% in the 2017 Interim Period. Despite a significant decrease in sales volume of liquid milk products, unit selling price of liquid milk products improved notably as compared to the 2017 Interim Period and quality of sales outstanding also improved significantly, showing the effect of new market strategy.

Organic liquid milk business

	For the six-month period ended June 30		Increase/ (Decrease)
	2018	2017	
	(Unaudited)	(Unaudited)	
Revenue (RMB'000)	450,378	688,438	(34.6%)
Sales volume (Tonnes)	39,967	70,860	(43.6%)
Average selling price (RMB/Tonne)	11,269	9,716	16.0%

Cost of Sales, Gross Profit and Gross Margin

Unit: RMB in thousands, except percentages

	For the six-month period ended June 30					
	2018 (Unaudited)			2017 (Unaudited)		
	Cost of sales Amount	Gross profit Amount	Gross margin	Cost of sales Amount	Gross profit Amount	Gross margin
Dairy farming business						
Organic raw milk						
Before elimination	614,462	200,763	24.6%	512,512	550,211	51.8%
After elimination ⁽¹⁾	492,276	136,022	21.6%	134,199	101,083	43.0%
Premium non-organic raw milk						
Before elimination	225,507	86,013	27.6%	192,238	80,092	29.4%
After elimination ⁽³⁾	210,201	81,206	27.9%	153,637	65,895	30.0%
Subtotal						
Before elimination	839,969	286,776	25.5%	704,750	630,303	47.2%
After elimination	702,477	217,228	23.6%	287,836	166,978	36.7%
Liquid milk business						
Organic liquid milk						
Before elimination	335,851	114,527	25.4%	591,297	97,141	14.1%
After elimination ⁽²⁾	237,307	213,071	47.3%	358,260	330,178	48.0%
High-end non-organic liquid milk						
Before elimination	31,971	(1,949)	(6.5%)	8,286	646	7.2%
After elimination ⁽³⁾	25,276	4,746	15.8%	5,675	3,257	36.5%
Subtotal						
Before elimination	367,822	112,578	23.4%	599,583	97,787	14.0%
After elimination	262,583	217,817	45.3%	363,935	333,435	47.8%
Total after elimination	965,060	435,045	31.1%	651,771	500,413	43.4%

(1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk plus (b) the volume of organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

(2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is arrived at by calculating the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk, calculated using the formula in note (1) above.

(3) Premium non-organic raw milk after elimination is calculated using the formula in note (1) above, and the premium non-organic liquid milk after elimination is calculated using the formula in note (2) above.

Cost of sales of the Group increased from RMB651.8 million in the 2017 Interim Period to RMB965.1 million in the 2018 Interim Period. Gross profit decreased from RMB500.4 million in the 2017 Interim Period to RMB435.0 million in the 2018 Interim Period. Gross profit margin decreased from 43.4% in the 2017 Interim Period to 31.1% in the 2018 Interim Period.

In the 2018 Interim Period, the Group adjusted the product sales structure, which led to an obvious decrease in the sales of grass-to-glass organic liquid milk of high gross profit. Further, affected by factors including organic raw milk supply and demand, the unit price of external sales of organic raw milk decreased significantly. As a result, cost of sales of the Group in the 2018 Interim Period increased by 48.1% from the 2017 Interim Period and gross profit of the Group in the 2018 Interim Period decreased by 13.1% from the 2017 Interim Period.

Other Income and Losses

Other income and losses of the Group increased from net losses of RMB85.4 million in the 2017 Interim Period to net losses of RMB486.4 million in the 2018 Interim Period, mainly attributable to the provision for impairment of trade receivables and other receivables referring to expected credit losses and the recoverability of individual account receivables using aging analysis by the Group.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, marketing fee and employees' remunerations. In the 2018 Interim Period, selling and distributing expenses of the Group amounted to RMB114.9 million, less than RMB120.7 million in the 2017 Interim Period, mainly attributable to the decline of sales volume of liquid milk business as compared to the 2017 Interim Period.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees. In the 2018 Interim Period and the 2017 Interim Period, administrative expenses of the Group were RMB49.5 million and RMB50.9 million respectively, representing a decrease of approximately 2.8% as compared to the same period of last year.

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

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

In the 2018 Interim Period and the 2017 Interim Period, the Group's net losses arising from changes in fair value less costs to sell of biological assets were RMB886.1 million and RMB61.9 million respectively. The significant increase in losses arising from changes in fair value less costs to sell of biological assets of the Group from the 2018 Interim Period to the 2017 Interim Period was mainly attributable to the combined effects of (1) the Group's control over its cow numbers in response to the weak demand for raw milk in the market and (2) the sharp decline of raw milk price.

Share of Profits and Losses of Associates

The Group's associates include (a) the companies that were jointly established by the Group and its premium distributors in its key distribution cities to distribute the liquid milk products with the Group's self-owned brand; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("Shengmu Forage") in which the Group invested and held minority interests; and (c) Food Union Shengmu Dairy Co., Ltd. ("Food Union Shengmu") and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests and which produces dairy products with the raw milk to be purchased by it from the Group. In the 2018 Interim Period and the 2017 Interim Period, the Group recorded share of losses of associates of RMB3.7 million and RMB7.4 million respectively.

Income Tax (Expense)/Credit

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

In accordance with "The Notice of Tax Policies Relating to the Implementation of the Western China Development Strategy" jointly issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation (Cai Shui [2011] No.58) (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)), the Group's taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax expense of the Group was RMB5.1 million in the 2018 Interim Period while income tax credit was RMB25.8 million in the 2017 Interim Period. Income tax expense of the Group in the 2018 Interim Period was due to the write down of deferred income tax assets for decrease in the Group's unrealised profit or loss from internal sales relatively to the beginning of the year.

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

(Loss)/profit attributable to non-controlling interests mainly represents the (loss)/profit for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In the 2018 Interim Period, loss attributable to non-controlling interests was RMB119.6 million and in the 2017 Interim Period, profit attributable to non-controlling interests was RMB125.0 million.

In the 2018 Interim Period, due to combined effects of (1) a significant decrease in the sales volume of the Group's self-owned brand organic liquid milk products; (2) a sharp decrease in the selling price of the Group's raw milk as compared to the corresponding period last year; (3) a substantial loss arising from changes in fair value less costs to sell of biological assets attributable to the parent; and (4) the provision for asset impairment of trade receivables and other receivables, loss attributable to owners of the parent of the Group was RMB1,066.9 million, decreasing by 16,819.9% as compared with profit of RMB6.4 million in the 2017 Interim Period.

ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at June 30, 2018, total current assets of the Group were RMB2,925.0 million (as at December 31, 2017: RMB3,604.3 million), primarily consisting of inventory of RMB551.7 million (as at December 31, 2017: RMB860.8 million), biological assets of RMB4.7 million (as at December 31, 2017: RMB33.5 million), trade and bills receivables of RMB777.6 million (as at December 31, 2017: RMB1,100.0 million), prepayments, deposits and other receivables of RMB979.2 million (as at December 31, 2017: RMB898.8 million), and cash and bank balances and pledged deposits of RMB611.8 million (as at December 31, 2017: RMB711.2 million). There was a relatively significant decrease in the Group's current assets as at June 30, 2018 as compared with that of December 31, 2017, which was mainly attributable to the facts that (1) on one hand, some achievements have been made in the Group's control over trade receivables; on the other hand, the Group made provisions for impairment pursuant to the provision policy for asset impairment established by the Group based on its actual production and operation conditions and by reference to its expected credit losses; (2) there was a remarkable reduction in inventory, i.e. feed at the end of this period as compared with that of the beginning of the year affected by the dairy farming industry featuring volatility in inventories.

Trade and Bills Receivable

Unit: RMB in thousands

	As at	
	June 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Trade and bills receivables	1,935,874	1,840,492
Impairment	(1,158,263)	(740,486)
Total	777,611	1,100,006

Pursuant to the provision policy for asset impairment established by the Group based on its actual production and operation conditions and the expected credit loss of trade receivables, the Group determined the receivable group by using aging as a credit risk characteristic and, by aging analysis, made provisions for bad debts in respect of account and other receivables, and also estimated the expected credit losses with reference to the recoverability of individual account receivables and customer creditworthiness, so as to estimate the provisions for asset impairment. In the 2018 Interim Period, the Group made a total provision of RMB430.8 million for the impairment of trade receivables.

Current Liabilities

As at June 30, 2018, total current liabilities of the Group amounted to RMB4,588.8 million (as at December 31, 2017: RMB4,300.9 million), primarily consisting of trade and bills payables of RMB1,525.8 million (as at December 31, 2017: RMB1,189.0 million), receipts in advance of RMB170.9 million (as at December 31, 2017: RMB14.7 million), other payables and accruals of RMB467.0 million (as at December 31, 2017: RMB441.7 million), interest-bearing bank and other borrowings of RMB2,423.6 million (as at December 31, 2017: RMB2,654.0 million), and income tax payable of RMB1.5 million (as at December 31, 2017: RMB1.5 million).

Non-Current Liabilities

As at June 30, 2018, the total non-current liabilities of the Group amounted to RMB145.8 million (as at December 31, 2017: RMB803.0 million), primarily consisting of interest-bearing bank and other borrowings of RMB91.9 million (as at December 31, 2017: RMB720.2 million) and long-term payables of RMB53.9 million (as at December 31, 2017: RMB82.8 million). There was a relatively significant decrease in the Group's non-current liabilities as at June 30, 2018 as compared with that of December 31, 2017, which was mainly attributable to the facts that the domestic corporate bonds issued by the Group with a nominal amount of RMB600 million would fall due within 12 months, while the Group does not have an unconditional right to defer settlement of the liability. Accordingly, such corporate bonds would be classified as non-current liability due within one year.

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and substantially all transactions are conducted in RMB. As at June 30, 2018, the Group did not have significant foreign exchange risk from its operations nor has it entered into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Credit risk related to the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Charge on Assets

As at June 30, 2018, the Group had pledged deposits of approximately RMB369.5 million (as at December 31, 2017: RMB128.9 million) in total to banks as deposits for the issuance of letters of credit and bank drafts and as guarantees for the bank loans of Shengmu Forage.

Liquidity, Financial Resources and Capital Structure

In the first half of 2018, the Group financed its daily operations mainly from internally generated cash flows and bank and other borrowings. As at June 30, 2018, the Group had (a) cash and bank balances of RMB242.3 million (as at December 31, 2017: RMB582.3 million), and (b) interest-bearing bank and other borrowings of RMB2,515.5 million (as at December 31, 2017: RMB3,374.2 million), of which, RMB28.4 million were repayable within one to five years and RMB63.5 million repayable within five to eight years, while the remaining interest-bearing bank and other borrowings were repayable within one year. The gearing ratio (calculated as total debt (total bank borrowings) divided by total equity) was 59.9% as at June 30, 2018 (as at December 31, 2017: 62.3%). For the six months period ended June 30, 2018, the annual interest rate of bank borrowings ranged from 1.55% to 6.97% (for the six months period ended June 30, 2017: 1.55% to 6.50%).

CAPITAL COMMITMENTS

As at June 30, 2018, the Group's capital commitments amounted to RMB190.0 million (as at December 31, 2017: RMB214.6 million), primarily relating to construction of plants and purchase of machinery for the expansion of liquid milk production capacity.

HUMAN RESOURCES

As at June 30, 2018, the Group had a total of 3,809 employees (as at June 30, 2017: 3,609 employees). Total staff costs in the 2018 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB142.4 million (2017 Interim Period: RMB138.9 million) (excluding equity-settled share option expenses).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The Group has also approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme is to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

CONTINGENT LIABILITIES

As at June 30, 2018, the Group provided guarantees with amount of RMB252.6 million (December 31, 2017: RMB160.0 million), RMB133.4 million (December 31, 2017: RMB102.88 million) and RMB71.75 million for the bank borrowings of Shengmu Forage, Food Union Shengmu and some distributors respectively.

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries and associated companies in the 2018 Interim Period.

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

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

OUTLOOK

“By treatment of the industry, we will strive to convert the Ulan Buh Desert with an area of 1,000 square kilometers into an oasis and create the No.1 brand in the organic milk industry in China”---this is the vision of Shengmu as well as the long-range goal of all staff of the Group. To increase its brand influence and expand its marketing channels, the Group has made the following development strategies:

Implement the whole industrial chain QC system and strictly control the product quality

Shengmu has always insisted on the concept of “good milk comes from high-quality grass” so that it has strengthened the whole industrial chain QC system from the grasslands, pastures to the processing plants. The quality of each link can be traced so that the quality of each pack of milk can be guaranteed.

Create a great team which is bold enough to win the competition

Inspired by the great entrepreneurship stories of Shengmu and its advantage of the whole-process organic milk industrial chain, an increasing number of its staff members have been encouraged and more people join the Group. It has set up the Shengmu Entrepreneurship Academy at such universities as Qinghua University and Zhejiang University to provide its employees and cooperative partners with the systematic training which features three layers: business skills, entrepreneurship and business management. In such way the Group has fully motivated the capacity of the team, and created a team which has the sense of mission and is bold enough to win the competition.

Increase the investment in the promotion of the brand

With the enhancement of the sales volume and market share of Shengmu’s products, the Group will launch the promotional strategy for its brand, which will further vigorously assist in the expansion of the market and increase its market share. It will greatly boost the development of Shengmu’s organic milk in a healthy, benign and fast manner.

Step up the construction of the markets in its bases

With respect to the market promotion, Shengmu will continue to expand market share in its bases, and enhance the support for its product distributing and displaying in the market, as well as personnel arrangement, promotion and marketing; it will strive to enhance the management level and the business capability, summarize the standard and duplicable business management methods, and by means of establishing a benchmark, it will tap more markets and assist the great development of Shengmu’s great undertaking.

Facing the complicated severe and challenging situation in the industry, Shengmu has focused on the construction of its bases, optimized and created new sales channels, upgraded its product image and enhanced the capability of its business partners since 2018; moreover, it has made progress and kept exploring in the brand building, thus has accumulated valuable experience for the significant development of Shengmu. The whole staff of Shengmu are full of confidence about its future, and will forge ahead to create the Top 1 organic milk brand in the world.



REPORT OF THE DIRECTORS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company herein presents the interim report of the Group for the six months ended June 30, 2018 together with the unaudited condensed consolidated financial report, and such interim financial report has been reviewed by the audit committee (“**Audit Committee**”) of the Board.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2018 Interim Period (the 2017 Interim Period: Nil).

USE OF PROCEEDS

The Company completed its initial public offering of 444,800,000 shares at the offer price of HK\$2.39 per share and dealings in the shares of the Company commenced on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on July 15, 2014 (the “**Listing Date**”). The net proceeds from the global offering amounted to approximately RMB801.2 million. Since the Listing Date and up to June 30, 2018, such net proceeds have been applied in accordance with the proposed applications as set out in “Future Plans and Use of Proceeds” in the Prospectus.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During 2018 Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

EVENT AFTER THE REPORTING PERIOD

There has been no significant event since June 30, 2018 and up to the date of this interim report.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “**Code**”) as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) (as amended from time to time) as its own code to govern its corporate governance practices.

In the opinion of the Board, during 2018 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code except the code provision A.2.1 of the Code as disclosed below.

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. SHAO Genhuo currently performs these two roles (chairman and chief executive officer). The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning and implementation for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established the Audit Committee in compliance with the Listing Rules. The Audit Committee has been established with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises Mr. WANG Liyan, Mr. FU Wenge and Mr. LI Xuan, and is chaired by Mr. WANG Liyan. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results for the 2018 Interim Period.

REMUNERATION COMMITTEE

The Company has established the remuneration committee in compliance with the Listing Rules. The remuneration committee has been established with written terms of reference in compliance with the Listing Rules. The remuneration committee comprises Mr. LI Xuan, Mr. SUN Qian and Mr. FU Wenge and is chaired by Mr. LI Xuan. The primary functions of the remuneration committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members.

NOMINATION COMMITTEE

The Company has established the nomination committee in compliance with the Listing Rules. The nomination committee has been established with written terms of reference in compliance with the Listing Rules. The nomination committee comprises Mr. FU Wenge, Mr. SHAO Genhuo, Mr. YAO Tongshan, Mr. LI Xuan and Mr. WANG Liyan, and is chaired by Mr. FU Wenge. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by its Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the 2018 Interim Period.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Mr. WEN Yongping, a non-executive Director of the Company, has been appointed as the vice president and the general manager of the milk sources business department of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of China Mengniu Dairy Company Limited ("China Mengniu"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2319). Since March 29, 2017, Mr. WEN Yongping has been a non-executive director of China Modern Dairy Holdings Ltd. ("China Modern Dairy"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117). For further information on the businesses of China Mengniu and the potential competition between those businesses with the businesses of the Group, please refer to the section headed "Relationship with Controlling Shareholders – Directors' Interests in Competing Business" in the Prospectus.

China Modern Dairy is primarily engaged in (i) dairy farming business, under which it mainly produces and sells raw milk to customers; and (ii) liquid milk products business under its own brands. As the Board is independent of the board of directors of China Modern Dairy, and businesses of the Group and businesses controlled by China Modern Dairy are managed by independent entities under independent management and administration respectively, businesses of the Group and businesses controlled by China Modern Dairy are independent of each other and are conducted separately at arm's length.

Save as disclosed above, all Directors have confirmed that during the six-month period ended June 30, 2018, and as at the date of this report, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with our business.

CONTINUING CONNECTED TRANSACTIONS

The Company's continuing connected transactions during the 2018 Interim Period are as follows:

1. The non-exempt continuing connected transactions conducted pursuant to the Milk Supply Framework Agreement, Framework Agreement for Sale and Purchase of Cows and Financial Assistance Framework Agreement entered into with Bayannur Shengmu Pangu Farming Co., Ltd., and the Feed Supply Framework Agreement entered into with Inner Mongolia Sijichun Co. Ltd. (內蒙古四季春飼料有限公司) ("**Sijichun**"), whose details were disclosed in the section headed "**Report of the Directors - Continuing Connected Transactions**" in the 2017 annual report of the Company. On March 20, 2018, Shengmu Holding entered into a termination agreement with Sijichun to terminate the Feed Supply Framework Agreement with effect from the same day.
2. On March 20, 2018, Shenmu Holding and Beijing Dabeinong Technology Group Co., Ltd. ("**Dabeinong Group**") entered into a framework agreement in relation to the purchase of feed by the Group from Dabeinong Group ("**Dabeinong Group Feed Supply Framework Agreement**"). As a non-executive Director of the Company, Mr. SHAO Genhuo holds more than 30% equity interest in Dabeinong Group, and holds the entire equity interests of Beijing Zhi Nong Investment Co., Ltd. (北京智農投資有限責任公司) ("**Beijing Zhi Nong**"), which in turns holds the entire equity interests of Nong You Co., Ltd. ("**Nong You**"), a substantial shareholder of the Company, the transactions under the Dabeinong Group Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Dabeinong Group Feed Supply Framework Agreement is from March 20, 2018 to December 31, 2020. Under the Dabeinong Group Feed Supply Framework Agreement, the total annual purchase amount by the Group from Dabeinong Group shall not exceed RMB60 million for each of the three years ending December 31, 2018, 2019 and 2020, respectively. For the six months ended June 30, 2018, the total purchase amount of feed by the Group from Dabeinong Group was RMB 44,839,000. Reasons and benefits of the transactions under the Dabeinong Group Feed Supply Framework Agreement are that the products of Dabeinong Group accord to very high technological and quality and safety assurance levels and it is in the interests of the Company to purchase feed from Dabeinong Group in view of its stable and reliable supply of good quality feed. Details of the Dabeinong Group Feed Supply Framework Agreement are set out in the announcement of the Company dated March 20, 2018 with respect to continuing connected transactions of the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 21 to the financial statements. The related party transactions mainly comprise: (1) sale of products to certain entities which have been accounted for as associates of the Company as the Group holds interests in such entities. None of the connected person of the Company holds interests in or position with such entities, and such entities are not considered as connected person under the Listing Rules; (2) purchase of feed from Sijichun in accordance with the Feed Supply Framework Agreement; (3) purchase of feed from Dabeinong Group in accordance with the Dabeinong Group Feed Supply Framework Agreement; (4) provision of financial assistance for the external borrowings of Shengmu Forage, Food Union Shengmu and some distributors; (5) payment of emoluments to key management of the Group; and (6) provision of guarantee for the bank borrowings of the Group by the Company and senior management of the Company. The arrangement whereby Shengmu Forage provided biowaste (i.e. cow dung) cleaning services to our organic dairy farms for free in return for our supply of such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free, is an exempt continuing connected transaction, details of which has been set out in the section headed "Continuing Connected Transaction" in the Prospectus. All the requirements under Chapter 14A of the Listing Rules have been complied with during the 2018 Interim Period.

CHANGE OF DIRECTOR'S INFORMATION

Each of Ms. Gao Lingfeng and Mr. Cui Ruicheng did not offer himself/herself for re-election as an executive Director at the annual general meeting of the Company held on June 29, 2018 ("2018 AGM"), and had ceased to be a Director with effect from the conclusion of the 2018 AGM.

Each of Mr. Fan Xiang, Mr. Cui Guiyong and Mr. Zhang Jiawang did not offer himself for re-election as a non-executive Director at the 2018 AGM and had ceased to be a Director with effect from the conclusion of the 2018 AGM.

Each of Mr. Li Changqing and Ms. Ge Xiaoping did not offer himself/herself for re-election as a an independent non-executive Director at the 2018 AGM and had ceased to be a Director with effect from the conclusion of the 2018 AGM. Mr. Li Changqing has also ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company, and Ms. Ge Xiaoping has also ceased to be the chairman of the Audit Committee.

Mr. WANG Yuehua was elected as an executive Director at the 2018 AGM. For further information on the election of Mr. Wang as a Director, please refer to the section headed "Election of New Executive Director" in the circular of the Company in relation to the 2018 AGM dated June 29, 2018.

Mr. Shao Genhuo, a non-executive Director and Chief Executive Officer of the Company, and the chairman of the Board, had ceased to act as the president of Dabeinong Group, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 002385) since June 5, 2018.

Mr. Wang Liyan, an independent non-executive Director of the Company, has been appointed as an independent director of Shandong Gettop Acoustic Co., Ltd. (山東共達電聲股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002655) since April 12, 2018.

Save as disclosed herein, during 2018 Interim Period, there was no change of information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to any Director or chief executive of the Company, as at June 30, 2018, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code, to be immediately notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of Interest	Number of Shares/ Underlying Shares	Percentage
SHAO Genhuo	Interest of a controlled corporation ⁽¹⁾	1,301,651,000	20.48%
YAO Tongshan	Beneficial Owner	380,876,700	5.99%
WU Jianye	Beneficial Owner	132,706,261	2.09%

(1) Mr. SHAO Genhuo (邵根夥) holds the entire equity interests of Beijing Zhi Nong, which in turn holds the entire equity interests of Nong You. Therefore, Mr. Shao is deemed to be interested in the Shares held by Nong You.

For details of changes of share numbers held by the executive directors of the Company, please refer to the section on "PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME" of this interim report.

(ii) Long position in the shares of associated corporation

Name	Name of Associated Corporation	Percentage of Interest
YAO Tongshan	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)	1.45%
WU Jianye	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司)	45.00%
	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)	6.83%

Save as disclosed above and to the best knowledge of the Directors, as at June 30, 2018, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at June 30, 2018, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of Interest	Number of Shares/ Underlying Shares	Percentage
Greenbelt Global Limited	Beneficial Owner	395,235,200(L)	6.22% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Salata Jean	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000(L)	5.95% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
Sequoia Capital China Advisors Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
The Goldman Sachs Group, Inc.	Beneficial Owner	405,551,200(L) 9,647,000(S)	6.38% (L) 0.15% (S)
Nong You Co., Ltd.	Beneficial Owner	1,301,651,000(L)	20.48% (L)
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000(L)	20.48% (L)

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS OF ANY MEMBER OF THE GROUP (OTHER THAN THE COMPANY)

Name	Name of Member Company	Percentage of Interest
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科技牧業有限公司)	30.00%
Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. (內蒙古聖牧沙草業有限公司) ("Shengmu Sand and Grass")	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.00%
Shengmu Sand and Grass	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.00%
Shengmu Sand and Grass	Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司)	35.00%
Shengmu Sand and Grass	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.00%
Shengmu Sand and Grass	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.00%
Shengmu Sand and Grass	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	26.00%
YUAN Lun (院輪)	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	9.00%
Shengmu Sand and Grass	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.00%
Shengmu Sand and Grass	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	15.48%
Shengmu Sand and Grass	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.00%
Shengmu Sand and Grass	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	23.40%
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	11.60%
Shengmu Sand and Grass	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	26.00%
REN Junming (任俊明)	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	9.00%
Shengmu Sand and Grass	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	26.00%
YU Gong (於工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	9.00%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as at June 30, 2018, was interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company has approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on April 30, 2014. The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the Directors, as well as the senior management of the Group and Shengmu Forage, to provide a means of compensation through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. Participants of the Pre-IPO Share Option Scheme include (a) the executive Directors, (b) senior management of the Group, (c) management of the subsidiaries of the Company, and (d) management of Shengmu Forage.

The Pre-IPO Share Option Scheme provides that, within two (2) years (being the period from May 4, 2015 to May 4, 2017) after the Vesting Date, a grantee shall not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrants, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over (either directly or indirectly, conditionally or unconditionally) any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.

According to the Pre-IPO Share Option Scheme, options granted (and vested on the Vesting Date) must be exercised by the relevant grantee within six (6) months after the Vesting Date. Options not exercised within such six (6) months shall lapse immediately afterwards. Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

As the options to subscribe for 488,484,000 Shares were fully vested to 181 grantees on the Vesting Date (i.e. May 4, 2015), they will lapse if not being exercised on or before November 4, 2015.

Pursuant to a resolution approved by the Shareholders at the extraordinary general meeting on November 3, 2015, the Pre-IPO Share Option Scheme was amended as follows:

- (1) All the Shares issued pursuant to the exercise of options during the Amended Exercise Period (as defined hereunder) would not be subject to any restriction applicable during the Lock-up Period (being the period from May 4, 2015 to May 4, 2017) provided under the Pre-IPO Share Option Scheme. Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the options during the Amended Exercise Period (as defined hereunder).
- (2) The exercise period provided under the Pre-IPO Share Option Scheme (from May 4, 2015 to November 4, 2015) was varied to the "Amended Exercise Period" in the following manner:

Amended Exercise Period	Maximum Percentage of Options Exercisable during the Respective Amended Exercise Period
from May 4, 2016 to May 4, 2017	50% of the options vested
from November 4, 2016 to May 4, 2017	50% of the options vested

REPORT OF THE DIRECTORS

If the grantee ceased employment with the Group or Shengmu Forage before May 4, 2016, 100% of the options held by him/her shall lapse immediately, and if the grantee ceased employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2016, 50% of the options held by him/her shall lapse immediately.

Apart from the above amendments, the other terms of the Pre-IPO Share Option Scheme remain the same. The Pre-IPO Share Option Scheme was conditionally approved and adopted pursuant to shareholders' resolutions passed on April 30, 2014. On the same date, all options under the Pre-IPO Share Option Scheme were granted to the respective grantees. The Pre-IPO Share Option Scheme will remain in force for a period of four years commencing on the date on which an option is granted pursuant to the scheme, and accordingly expired on April 30, 2018.

The table below sets out the particulars of changes of options granted under the Pre-IPO Share Option Scheme from January 1, 2018 to June 30, 2018:

Name or Category of Participant	Number of options ⁽¹⁾			As at June 30, 2018	Date of grant of options	Exercise period of options (both dates inclusive)	Exercise price of options (HK\$)
	As at January 1, 2018	Exercised during the period	Lapsed/ Cancelled during the period				
Directors of the Company							
YAO Tongshan	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56
WU Jianye	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56
GAO Lingfeng (ceased to be a director with effect from the conclusion of the 2018 AGM)	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56
CUI Ruicheng (ceased to be a director with effect from the conclusion of the 2018 AGM)	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56

Name or Category of Participant	Number of options ⁽¹⁾			As at June 30, 2018	Date of grant of options	Exercise period of options (both dates inclusive)	Exercise price of options (HK\$)
	As at January 1, 2018	Exercised during the period	Lapsed/ Cancelled during the period				
Directors of subsidiaries of the Company not mentioned above	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56
Other grantees who are employees of the Group	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56
Other 6 grantees who are employees of Shengmu Forage	Nil	Nil	Nil	Nil	April 30, 2014	(1) May 4, 2016 – May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽¹⁾	HK\$1.56
Total:	Nil	Nil	Nil	Nil			

Note:

- (1) As at May 4, 2017, a total of 144 grantees held a total of 408,835,800 options granted under the Pre-IPO Share Option Scheme to subscribe for 408,835,800 shares had been fully vested. As none of such 408,835,800 options were exercised on or prior to May 4, 2017, all such options had lapsed in accordance with the terms of the Pre-IPO Share Option Scheme as amended by way of shareholders' approval on November 3, 2015.

As illustrated in the table above, all outstanding options granted under the Pre-IPO Share Option Scheme have lapsed in their entirety as at 30 June 2018. Pursuant to the terms of the Pre-IPO Share Option Scheme, no further share options may be granted under the Pre-IPO Share Option Scheme.

A detailed summary of the terms (including the terms of the scheme and vesting periods and conditions) of the Pre-IPO Share Option Scheme and list of grantees has been set out in the section headed "Appendix IV – Statutory and General Information – D. Pre-IPO Share Option Scheme" of the Prospectus.

Share Option Scheme

On June 18, 2014, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any invested entity.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 635,440,000 Shares, which also represents 10% of the issued share capital of the Company as at the date of this interim report.

The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to an eligible participant under the Share Option Scheme which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the above said limit shall be subject to our Shareholders' approval in general meeting with such participant and his associates (as defined under the Listing Rules) abstaining from voting.

The amount of HK\$1.00 is payable as consideration for each grant of options under the Share Option Scheme, upon acceptance of such grant. The subscription price in respect of Shares upon exercise of options under the Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

No share option has been granted under the Share Option Scheme since the adoption date of the Share Option Scheme and up to the latest practicable date prior to the publication of this interim report. A summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV: Statutory and General Information – E. Share Option Scheme" in the Prospectus.

The Share Option Scheme was approved by shareholders' resolutions of the Company passed on June 18, 2014, and will remain in force for a period of 10 years following such date.

By Order of the Board
China Shengmu Organic Milk Limited
Shao Genhuo
Chairman

Hong Kong, August 30, 2018



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

	Notes	For the six-month period ended	
		June 30, 2018	June 30, 2017
		(unaudited) RMB'000	(unaudited) RMB'000
REVENUE	4	1,400,105	1,152,184
Cost of sales		(965,060)	(651,771)
Gross profit		435,045	500,413
Loss arising from changes in fair value less costs to sell of biological assets		(886,071)	(61,925)
Other income and losses	5	(486,387)	(85,435)
Selling and distribution expenses		(114,888)	(120,659)
Administrative expenses		(49,525)	(50,949)
Finance costs	7	(75,753)	(68,386)
Other expenses		(104)	—
Share of profits and losses of associates		(3,673)	(7,425)
(LOSS)/PROFIT BEFORE TAX	6	(1,181,356)	105,634
Income tax (expense)/credit	8	(5,118)	25,754
(LOSS)/PROFIT FOR THE PERIOD		<u>(1,186,474)</u>	<u>131,388</u>
OTHER COMPREHENSIVE (LOSS)/INCOME			
Exchange differences on translation of foreign operations		(4,198)	634
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(4,198)	634
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		<u>(1,190,672)</u>	<u>132,022</u>

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

	Notes	For the six-month period ended	
		June 30, 2018	June 30, 2017
		(unaudited) RMB'000	(unaudited) RMB'000
(Loss)/profit attributable to:			
Owners of the parent		(1,066,894)	6,381
Non-controlling interests		(119,580)	125,007
		<u>(1,186,474)</u>	<u>131,388</u>
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(1,071,092)	7,015
Non-controlling interests		(119,580)	125,007
		<u>(1,190,672)</u>	<u>132,022</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	9	<u>(RMB0.168)</u>	<u>RMB0.001</u>
– Diluted		<u>(RMB0.168)</u>	<u>RMB0.001</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at	
		June 30, 2018	December 31, 2017
		(unaudited) RMB'000	(audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,738,310	2,798,328
Prepaid land lease payments		37,324	36,550
Other intangible assets		14,014	13,611
Investments in associates		102,110	105,784
Available-for-sale investments		2,007	2,007
Biological assets	12	3,027,820	3,867,389
Prepayments for property, plant and equipment and biological assets	14	1,367	6,209
Long term receivables		14,059	14,059
Deferred tax assets		27,209	32,197
Other non-current assets		42,100	39,212
Total non-current assets		6,006,320	6,915,346
CURRENT ASSETS			
Inventories		551,709	860,828
Biological assets	12	4,713	33,511
Trade and bills receivables	13	777,611	1,100,006
Prepayments, deposits and other receivables	14	979,154	898,837
Pledged deposits	15	369,477	128,884
Cash and bank balances	15	242,346	582,283
Total current assets		2,925,010	3,604,349
CURRENT LIABILITIES			
Trade and bills payables	16	1,525,774	1,188,964
Receipts in advance		170,865	14,700
Other payables and accruals	17	467,031	441,718
Interest-bearing bank and other borrowings	18	2,423,613	2,654,046
Income tax payable		1,455	1,455
Total current liabilities		4,588,738	4,300,883
NET CURRENT LIABILITIES		(1,663,728)	(696,534)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,342,592	6,218,812
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	18	91,866	720,201
Long term payables		53,888	82,829
Total non-current liabilities		145,754	803,030
Net assets		4,196,838	5,415,782
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	50	50
Reserves		3,281,417	4,356,281
Non-controlling interests		3,281,467	4,356,331
		915,371	1,059,451
Total equity		4,196,838	5,415,782

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
As at December 31, 2017	50	1,757,767	423,317	95,558	463,130	19,911	1,596,598	4,356,331	1,059,451	5,415,782
Adjustment on adoption of IFRS 9, net of tax (Note 2.2)							(3,772)	(3,772)		(3,772)
At January 1, 2018	50	1,757,767	423,317	95,558	463,130	19,911	1,592,826	4,352,559	1,059,451	5,412,010
Loss for the period	—	—	—	—	—	—	(1,066,894)	(1,066,894)	(119,580)	(1,186,474)
Other comprehensive loss for the period	—	—	—	—	—	(4,198)	—	(4,198)	—	(4,198)
Total comprehensive loss for the period	—	—	—	—	—	(4,198)	(1,066,894)	(1,071,092)	(119,580)	(1,190,672)
Distribution of dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	(24,500)	(24,500)
At June 30, 2018 (unaudited)	50	1,757,767 [#]	423,317 [#]	95,558 [#]	463,130 [#]	15,713 [#]	525,932 [#]	3,281,467	915,371	4,196,838
At January 1, 2017	50	1,757,767	423,317	95,558	412,737	16,830	2,632,780	5,339,039	1,008,088	6,347,127
Profit for the period	—	—	—	—	—	—	6,381	6,381	125,007	131,388
Other comprehensive income for the period	—	—	—	—	—	634	—	634	—	634
Total comprehensive income for the period	—	—	—	—	—	634	6,381	7,015	125,007	132,022
At June 30, 2017 (unaudited)	50	1,757,767 [#]	423,317 [#]	95,558 [#]	412,737 [#]	17,464 [#]	2,639,161 [#]	5,346,054	1,133,095	6,479,149

[#] As at June 30, 2018, these reserve accounts comprise the consolidated reserves of RMB3,281,417,000 (June 30, 2017: RMB5,346,004,000) in the interim consolidated statement of financial position.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2018	June 30, 2017
	(unaudited) RMB'000	(unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(1,181,356)	105,634
Adjustments for:		
(Gain)/loss arising from changes in fair value less costs to sell of biological assets	886,071	61,925
Interest income	(2,110)	(4,051)
Finance costs	75,753	68,386
Share of profits and losses of associates	3,673	7,425
Depreciation	105,977	90,899
Amortisation of prepaid land lease payments	813	1,438
Amortisation of other intangible assets	763	693
Loss on disposal of items of property, plant and equipment	443	1,992
Foreign exchange differences, net	(6,889)	(1,893)
	(116,862)	332,448
Increase in inventories	401,316	66,638
Increase in trade and bills receivables	302,672	(335,980)
Increase in prepayments, deposits and other receivables	(134,758)	(17,657)
(Increase)/decrease in pledged deposits	(130,217)	(15,940)
Increase/(decrease) in trade and bills payables	51,989	51,090
Increase/(decrease) in receipts in advance	159,232	2,936
Increase/(decrease) in accruals and other payables	142,568	(75,783)
Cash generated from operations	675,940	7,752
Interest received	1,710	20,545
Income taxes paid	(130)	—
Net cash flows from operating activities	677,520	28,297

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2018	June 30, 2017
	(unaudited) RMB'000	(unaudited) RMB'000
Net cash flows from operating activities	677,520	28,297
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(90,910)	(183,156)
Additions to other intangible assets	(1,165)	(79)
Purchases of biological assets	1,058	(82,239)
Payments for breeding calves and heifers	(286,044)	(615,251)
Proceeds from disposal of biological assets	167,007	129,365
Proceeds from disposal of items of property, plant and equipment	171	2,073
Acquisition of associates	—	(580)
Proceeds from disposal of available-for-sale investments	—	120,000
Acquisition of available-for-sale investments	—	(31,000)
Purchases of time deposits with original maturity of more than three months	(200)	(121,160)
Proceeds from disposal of time deposits with original maturity of more than three months	284,611	115,000
Increase in pledged deposits	(110,376)	—
Net cash flows used in investing activities	(35,848)	(667,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	487,550	906,136
New other loans	340,722	572,745
Repayment of bank loans	(1,372,116)	(613,791)
Repayment of other loans	(73,551)	(24,163)
Interest paid	(54,886)	(55,256)
Dividends paid to non-controlling interests	(24,500)	—
Net cash flows (used in)/from financing activities	(696,781)	785,671
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(55,109)	146,941
Cash and cash equivalents at beginning of period	297,672	932,382
Effect of foreign exchange rate changes, net	(417)	1,893
CASH AND CASH EQUIVALENTS AT END OF PERIOD	242,146	1,081,216



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During 2018 Interim Period, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 *Basis of preparation*

The interim condensed consolidated financial statements for the six-month period ended June 30, 2018 (the "Interim Period") have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2017.

Going concern

The Group had net current liabilities of RMB1,663,728,000 as at June 30, 2018 (as at December 31, 2017: net current liabilities of RMB696,534,000). In view of the net current liabilities position, the board of directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB1,848,815,000 and unused credit facility of super short-term notes of RMB1,300,000,000 and unused credit facility of medium-term notes of RMB300,000,000 available as at June 30, 2018, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The financial statements do not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 *New standards, interpretations and amendments adopted by the Group*

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new and revised IFRSs effective as at January 1, 2018. The Group has not early adopted any other standards or amendments that have been issued but are not yet effective.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Included in Annual Improvement to IFRSs 2014-2016 Cycle	<i>Amendments to IFRS 1 and IAS 28</i>

- The Group adopts IFRS 9 from January 1, 2018. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) *Classification and measurement*

The adoption of IFRS 9 by the Group does not have a significant impact on the classification and measurement of its financial assets. The Group continues measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) *Impairment*

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applies the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

1. The Group adopts IFRS 9 from January 1, 2018. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows: (continued)

(b) Impairment (continued)

The reconciliation of the impairment provision of financial assets by adopting IFRS 9 as at the initial applicable date of January 1, 2018 is as follows:

	Impairment provision under IAS 39 and IAS 37	Impairment provision under IFRS 9 ((a), (b))		
	December 31, 2017 RMB'000	Reclassified RMB'000	Remeasured RMB'000	January 1, 2018 RMB'000
Trade and other receivables, except for prepayments	1,399,568	—	(3,772)	1,395,796
Total	1,399,568	—	(3,772)	1,395,796

The impact of the Group's statement of changes in equity by adopting IFRS 9 as at the initial applicable date of January 1, 2018 is as follows:

	Opening balances ((a), (b))			
	Attributable to owners of the parent			Non-controlling Interests
	Retained Earnings RMB'000	Other Reserve RMB'000	Total Reserve RMB'000	RMB'000
As at December 31, 2017	1,596,598	2,759,683	4,356,281	1,059,451
Increase in provision for trade and other receivables except for prepayments and contract assets, net of tax	(3,772)	—	(3,772)	—
As at January 1, 2018	1,592,826	2,759,683	4,352,509	1,059,451

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

2. the Group adopts IFRS 15 and Amendments to IFRS 15 from January 1, 2018. IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard supersedes all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard.

The transitional adjustment to be made on January 1, 2018 upon initial adoption of IFRS 15 isn't material to the Group. The Group's principal activities consist of the sales of raw milk and dairy products. The impacts arising from the adoption of IFRS 15 on the Group are not significant.

In addition to IFRSs that disclosed the impact to the Group, the Group first applied other IFRSs listed above on January 1, 2018, but the application of other IFRSs has had no financial effect on the amounts reported in these condensed consolidated financial statements.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.3 Issued but not yet effective international financial reporting standards

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
IFRS 16	<i>Leases²</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures¹</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement¹</i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments¹</i>
Included in annual Improvements 2015-2017 Cycle	<i>Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23¹</i>

¹ Effective for annual periods beginning on or after January 1, 2019

² Effective for annual periods beginning on or after January 1, 2021

³ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) Dairy farming – breeding dairy cows to produce and distribute raw milk;
- (b) Liquid milk products – producing and distributing self-owned brand ultra-heat treated liquid milk, organic yogurt and other dairy products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the period. The adjusted profit/(loss) for the period is measured consistently with the Group's profit after tax except that gain/(loss) arising from fair value less costs to sell of biological assets is excluded from this measurement as management believes that such adjusted information is most relevant in evaluating the results of the dairy farming segment as compared to the results of other entities that operate within the dairy farming industry.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION (continued)

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices and internally agreed between dairy farming segment and liquid milk products segment.

For the six-month period ended June 30, 2018 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	919,705	480,400	1,400,105
Intersegment sales	207,040	—	207,040
<i>Reconciliation</i>	1,126,745	480,400	1,607,145
Elimination of intersegment sales			(207,040)
Revenue			<u>1,400,105</u>
Segment results	173,894	(577,749)	(403,855)
<i>Reconciliation</i>			
Elimination of intersegment results			99,428
Loss arising from changes in fair value less costs to sell of biological assets			(886,071)
Corporate and other unallocated expenses			4,024
Loss for the period			<u>(1,186,474)</u>
As at June 30, 2018 (unaudited)			
Segment assets	9,027,171	2,086,858	11,114,029
<i>Reconciliation</i>			
Elimination of intersegment receivables			(2,304,646)
Corporate and other unallocated assets			121,947
Total assets			<u>8,931,330</u>
Segment liabilities	4,098,164	2,872,655	6,970,819
<i>Reconciliation</i>			
Elimination of intersegment payables			(2,304,646)
Corporate and other unallocated liabilities			68,319
Total liabilities			<u>4,734,492</u>

3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended June 30, 2017 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	454,814	697,370	1,152,184
Intersegment sales	880,239	—	880,239
	1,335,053	697,370	2,032,423
<i>Reconciliation</i>			
Elimination of intersegment sales			(880,239)
Revenue			1,152,184
Segment results	517,653	(162,539)	355,114
<i>Reconciliation</i>			
Elimination of intersegment results			(155,475)
Loss arising from changes in fair value less costs to sell of biological assets			(61,925)
Corporate and other unallocated expenses			(6,326)
Profit for the period			131,388
As at December 31, 2017 (audited)			
Segment assets	9,993,243	2,437,525	12,430,768
<i>Reconciliation</i>			
Elimination of intersegment receivables			(2,212,939)
Corporate and other unallocated assets			301,866
Total assets			10,519,695
Segment liabilities	4,250,247	2,741,230	6,991,477
<i>Reconciliation</i>			
Elimination of intersegment payables			(2,212,939)
Corporate and other unallocated liabilities			325,375
Total liabilities			5,103,913

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. Revenue of the Group from contracts with customers is as follows:

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
Type of goods		
– Raw milk	919,705	454,814
– Liquid milk products	480,400	697,370
	<u>1,400,105</u>	<u>1,152,184</u>
Geographical region		
– PRC	<u>1,400,105</u>	<u>1,152,184</u>
Timing of revenue recognition		
– At a point in time	<u>1,400,105</u>	<u>1,152,184</u>

5. OTHER INCOME AND LOSSES

An analysis of other income and losses is as follows:

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
– Government grants	5,524	60
– Bank interest income	2,110	4,051
– Impairment of trade receivables and other receivables	(496,648)	(72,234)
– Loss from sales of raw materials	(2,480)	(17,030)
– Foreign exchange differences, net	6,888	1,866
– Loss on disposal of items of property, plant and equipment	(443)	(1,991)
– Others	(1,338)	(157)
	<u>(486,387)</u>	<u>(85,435)</u>

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
Cost of inventories sold	965,060	651,771
Loss arising from changes in fair value less costs to sell of biological assets	886,071	61,925
Depreciation of items of property, plant and equipment	105,977	90,899
Amortisation of prepaid land lease payments	813	1,438
Amortisation of other intangible assets	763	693
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	126,675	120,079
Other social insurances and benefits	7,829	12,049
Pension scheme contributions	7,878	6,820
	<u>142,382</u>	<u>138,948</u>

7. FINANCE COSTS

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
Interest expense on bank loans	25,622	27,631
Interest expense on bill discounting	6,233	3,808
Interest expense on ultra-short term notes	6,133	300
Interest expense on corporate bonds	38,451	38,361
Finance costs on long term payables	1,935	2,520
Less: Interest capitalised	(2,621)	(4,234)
	<u>75,753</u>	<u>68,386</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX (EXPENSE)/CREDIT

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
Current - PRC	130	148
Deferred	4,988	(25,902)
	<u>5,118</u>	<u>(25,754)</u>

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

The basic loss per share amount for the six-month period ended June 30, 2018 is calculated by dividing the loss for the period attributable to ordinary equity holders of the parent of RMB1,066,894,000 (profit for the six-month period ended June 30, 2017: RMB6,381,000), by the weighted average number of ordinary shares of 6,354,400,000 (for the six-month period ended June 30, 2017: 6,354,400,000) of the Company in issue during the period.

The diluted earnings per share amount is calculated by dividing the (loss)/profit for the period attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares used in the calculation of the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	Number of shares For the six-month period ended June 30,	
	2018	2017
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	6,354,400,000	6,354,400,000
Effect of dilution of share options	—	—
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	<u>6,354,400,000</u>	<u>6,354,400,000</u>

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six-month period ended June 30, 2018 (for the six-month period ended June 30, 2017: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
Carrying amount at January 1	2,798,328	2,710,368
Additions	46,632	93,408
Disposals	(673)	(976)
Depreciation provided for the period	(105,977)	(90,899)
Carrying amount at June 30	<u>2,738,310</u>	<u>2,711,901</u>

12. BIOLOGICAL ASSETS

The biological assets of the Group comprise primarily dairy cows held to produce raw milk and beef cattle raised for sale.

(A) *Quantity of biological assets*

The quantity of biological assets owned by the Group as at 30 June 2018 and 31 December 2017 is shown below. The Group's biological assets include milkable cows, heifers and calves, beef cattle. Heifers and calves are dairy cows that have not had their first calves.

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) Head	(audited) Head
Milkable cows	76,334	72,959
Heifers and calves	40,578	51,383
Beef cattle	1,819	7,675
Total	<u>118,731</u>	<u>132,017</u>

12. BIOLOGICAL ASSETS (continued)

(B) Value of biological assets

The value of Group's biological assets as at June 30, 2018 and December 31, 2017 is as follows:

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Milkable cows	2,182,058	2,720,866
Heifers and calves	845,762	1,146,523
Beef cattle	4,713	33,511
Total	<u>3,032,533</u>	<u>3,900,900</u>

The Group's biological assets in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

The valuation techniques and principal valuation assumptions used in the determination of the fair value of dairy cows are the same as those set out in the Group's 2017 annual report.

13. TRADE AND BILLS RECEIVABLES

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Trade and bills receivables	1,935,874	1,840,492
Impairment	(1,158,263)	(740,486)
	<u>777,611</u>	<u>1,100,006</u>

The Group normally allows a credit limit or offer to its customers credit terms which are adjustable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade and bills receivables are non-interest-bearing.

13. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade and bills receivables as at June 30, 2018 and December 31, 2017, based on the invoice dates and net of provision, is as follows:

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Within 3 months	347,201	550,907
4 to 6 months	122,436	269,445
7 to 12 months	234,142	272,596
1 to 2 years	70,317	7,058
over 2 years	3,515	—
	<u>777,611</u>	<u>1,100,006</u>

During the Period, the Group provided for an impairment of RMB430,797,000 for trade receivables, which was included in the reduction of other income and gains.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Prepayments	657,724	520,918
Deposits and other receivables	265,050	325,372
Prepaid expenses	57,747	58,756
	<u>980,521</u>	<u>905,046</u>
Non-current prepayments	(1,367)	(6,209)
Current portion	<u>979,154</u>	<u>898,837</u>

During the Period, the Group provided for an impairment of RMB68,979,000 for other receivables, which was included in the reduction of other income and gains.

15. CASH AND BANK BALANCES

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Cash and cash equivalents	242,146	297,672
Time deposits with original maturity of more than 3 months	200	284,611
Pledged deposits	369,477	128,884
Cash and bank balances and pledged deposits	611,823	711,167
Less: Pledged deposits	(369,477)	(128,884)
Cash and bank balances	242,346	582,283

16. TRADE AND BILLS PAYABLES

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

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
1 to 3 months	1,096,911	967,986
4 to 6 months	182,804	138,930
7 to 12 months	234,501	69,365
1 to 2 years	8,368	12,255
2 to 3 years	2,925	351
3 years and more	265	77
	1,525,774	1,188,964

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

17. OTHER PAYABLES AND ACCRUALS

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Payables for acquisition of property, plant and equipment	196,461	207,916
Payables for purchase of dairy cows	1,233	3,472
Payables for third parties' deposits	43,419	40,067
Payables for purchase of transportation services	93,247	80,017
Salary and welfare payables	65,691	43,225
Long term payables due within one year	27,006	25,071
Interest payables	28,853	32,985
Payables for taxes other than corporate income tax	385	984
Others	10,736	7,981
	<u>467,031</u>	<u>441,718</u>

Other payables are non-interest-bearing.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Current		
Bank loans - unsecured	635,050	1,066,141
Bank loans - secured	180,000	180,000
Domestic corporate bonds – unsecured	1,597,077	997,619
Current portion of long term bank and other borrowings - unsecured	11,486	11,486
Ultra short - term notes - unsecured	—	398,800
	<u>2,423,613</u>	<u>2,654,046</u>
Non-current		
Bank and other loans - unsecured	91,866	122,544
Domestic corporate bonds - unsecured	—	597,657
	<u>91,866</u>	<u>720,201</u>
	<u>2,515,479</u>	<u>3,374,247</u>

Notes:

- a) The Group's bank and other borrowings are denominated in RMB and bear fixed interest rates except for bank and other borrowings of RMB64,852,000 which are denominated in Euro and bear fixed interest rates. During the six-month period ended June 30, 2018, the annual interest rate of bank loans is 1.55% to 6.97% (for the six-month period ended June 30, 2017: 1.55% to 6.50%).
- b) Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司), an indirect wholly-owned subsidiary of the Group, had been approved by the National Association of Financial Market Institutional Investors to issue domestic short-term debentures of an aggregate principal amount up to RMB1.7 billion in PRC. Completion of the issuance of the first tranche of debentures of an aggregate principal amount of RMB0.4 billion took place on June 23, 2017 with a term of 270 days from the date of issuance and bearing interests rate of 6.5% per annum, and repaid due principal and interest of the domestic short-term debentures on schedule as at 22 March 2018.
- c) As at 30 June 2018, the Company and some of its key management have provided guarantee for certain of the Group's bank loans amounted to RMB180,000,000 (As at 31 December 2017: RMB180,000,000).

19. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As at June 30, 2018 and December 31, 2017, the Company has authorized share capital of HK\$300,000, divided into 30,000,000,000 shares with a par value of HK\$0.00001 each.

As at June 30, 2018 and December 31, 2017, the Company's issued share capital was HK\$63,544 with 6,354,400,000 shares in issuance.

20. COMMITMENTS

The Group had the following capital commitments as at June 30, 2018 and December 31, 2017:

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Contracted, but not provided for:		
Land and buildings	94,726	96,614
Plant and machinery	95,276	117,951
	<u>190,002</u>	<u>214,565</u>

21. RELATED PARTY DISCLOSURES

(A) In addition to the transactions and balances which are disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following significant transactions with its associates.

	Note	For the six-month period ended June 30,	
		2018	2017
		(unaudited) RMB'000	(unaudited) RMB'000
Associates:			
Sales of products	(i)	98,680	252,359
Purchases of raw materials	(i)	71,353	89,912
Sales of raw materials	(i)	11,575	7,297
Affiliates of a substantial shareholder:			
Purchases of raw materials	(i)	44,839	—

Note:

- (i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

21. RELATED PARTY DISCLOSURES (continued)

(B) Other transactions with related parties:

During the interim period of 2018 and 2017, Shengmu Forage provided biowaste (i.e., cow dung) cleaning services to the dairy farms of the Group for free. Such services include collecting and cleaning unprocessed biowaste from the farms. In return, Shengmu Forage collected free unprocessed biowaste from the farms.

During the interim period of 2018, the Group provided guarantees with an amount of RMB252,600,000 (During the interim period of 2017: RMB300,000,000), RMB133,400,000 (During the interim period of 2017: RMB60,250,000) and RMB58,000,000 for the bank loans of Shengmu Forage, Food Union Shengmu and some distributors, respectively. As at June 30, 2018, the Group provided guarantees with an aggregate amount of RMB252,600,000 (As at December 31, 2017: RMB160,000,000), RMB133,400,000 (As at December 31, 2017: RMB102,880,000) and RMB58,000,000 for the bank loans of Shengmu Forage, Food Union Shengmu and some distributors, respectively.

During the period ended 30 June 2018, the Company and some of its key management have provided guarantee for certain of the Group's bank loans amounted to RMB180,000,000 (During the period ended 30 June 2017: Nil).

(C) Compensation of key management personnel of the Group

	For the six-month period ended June 30,	
	2018	2017
	(unaudited) RMB'000	(unaudited) RMB'000
Short term employee benefits	929	679
Pension scheme contributions	9	23
	<u>938</u>	<u>702</u>

21. RELATED PARTY DISCLOSURES (continued)

(D) Outstanding balances with related parties

	As at	
	June 30, 2018	December 31, 2017
	(unaudited) RMB'000	(audited) RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	299,605	524,216
– Trade and bills payables	(44,605)	(1,001)
– Prepayments, deposits and other receivables	766,958	700,258
– Other payables and accruals	(1,533)	(1,416)

As at 30 June 2018, included in the Group's prepayments, deposits and other receivables are the prepayment to the Group's associates for the purchase of raw materials of RMB 585,021,000 (As at 31 December 2017: RMB 464,382,000) and the amounts due from the Group's associates of RMB 181,937,000 (As at 31 December 2017: RMB 235,876,000) for the working capital financing provided to these associates.

Other than those balances included in trade receivables and trade payables, the above balances with related parties are unsecured, interest-free and have no fixed terms of repayment. Trade receivables and trade payables with related parties have similar credit terms to those offered by/to third parties.

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to the fair values, are as follows:

	As at			
	June 30, 2018		December 31, 2017	
	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	2,515,479	2,188,676	3,374,247	3,324,471

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Management has assessed that the fair values of cash and cash equivalents, short term pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments of which fair value is disclosed:

	Fair value measurement using significant unobservable inputs (Level 3)	
	As at	
	June 30, 2018	December 31, 2017
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank and other borrowings	2,188,676	3,324,471

23. APPROVAL OF ISSUANCE OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements have been authorized for issuance by the board of directors on August 30, 2018.