2019
INTERIM REPORT

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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YAO Tongshan
Mr. WU Jianye
Mr. ZHANG Jiawang *(Chief Executive Officer)*

Non-executive Directors

Mr. SHAO Genhuo *(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

Unit 1303, 13/F, Hua Fu Commercial Building
111 Queen's Road West
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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China Limited (Hohhot Zhongshan Branch)
Bank of Communications Co., Ltd. (Hohhot, Ulan Branch)
China Minsheng Bank Co., Ltd. (Hohhot Branch)
Baoshang Bank Co., Ltd. (Hohhot Branch)
Hengfeng Bank Co., Ltd. (Xi'an Branch)
Industrial Bank Co., Ltd. (Hohhot Xilin Branch)
Agricultural Bank of China Limited (Hohhot Horinger 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

HIGHLIGHTS

	For the six-month period ended 30 June		
	2019 RMB'000	2018 RMB'000	Movements
Revenue	1,420,582	1,400,105	1.5%
Gross profit	517,404	434,880	19.0%
Profit/(loss) from continuing operations	32,233	(722,170)	754,403
Loss from a discontinued operation	(52,991)	(556,033)	503,042
Loss for the period	(20,758)	(1,278,203)	1,257,445

INDUSTRY OVERVIEW

In recent years, the domestic economy has maintained a stable but rising momentum. The ultimate consumption expenditures witnessed a rising proportion of GDP, indicating that the consumption has had an obviously stronger effect to drive the economy, which brought good opportunities for the development of the overall dairy product industry. According to the industrial information, the amount of various dairy products processed and produced throughout 2018 was 26.87 million tonnes, up by 4.4% as compared to last year (on a comparable basis). In addition, the market of nutritious, functional and organic food saw a good growth at the background of the increasing awareness of health among the Chinese citizens. According to Nielsen Retail Research Data 2018, the retail amount from the segment market of the organic dairy products increased by 16.4% as compared to the same period of last year.

From 2015 to 2017, the low price of raw milk, the environmental problems and the recent two years' low efficiency and loss in the farming industry caused the exit of small-and-medium dairy farmers, resulting in reducing quantity of dairy herds in China. The raw milk has suffered a shortage of supply and its price has started to increase since the second half of 2018. In 2019, the raw milk has had a steadily rising price. The shortage between the supply and the demand will become larger as the downstream consumption enters the peak season of the Mid-Autumn Festival. The price of raw milk in the second half of 2019 will increase more obviously than the first half of 2019.

At the 10th Chinese Dairy Industry Conference, Yu Kangzhen, the Vice Minister of the Ministry of Agriculture and Rural Affairs, delivered an important speech where he emphasized that we had to deeply implement the Opinions on Accelerating the Revitalization of Dairy Industry and Ensuring the Quality and Safety of Dairy Products issued by the General Office of the State Council, capture the important period of development opportunity, produce dairy products that people are satisfied with, and build a more competitive dairy farming industry. We have to strengthen the establishment of source of high-quality milk, realize "fine breed of dairy herds, high quality of forage and standardization of production", and propel the farming to save cost, improve quality and increase efficiency, laying a solid foundation for the development of dairy industry.

In order to propel the revitalization of the dairy industry, relevant policies were issued by various local governments nationwide. In April 2019, Hohhot issued the Hohhot Proposal for Implementation of Supporting Policies of the Dairy Industry to give supporting policies for increasing quantity of dairy herds and expanding planting areas of high-quality forage.

All players in the Chinese dairy industry should produce the most premium products based on their own advantages by adhering to the strictest standards, the most advanced technology, and the most standardized management, enabling the Chinese citizens to enjoy the dairy products with highest quality and enhancing the reputation of the Chinese dairy industry.

BUSINESS REVIEW

As of 30 June 2019, the principal business of the Group was dairy farming business. The Group has completed the disposal of 51% equity interests of Shengmu Dairy to Inner Mongolia Mengniu in the first half of the year. On the one hand, the Group will develop its own liquid milk products based on the advantages of Inner Mongolia Mengniu's marketing management and distribution network, and on the other hand, the Group will focus on dairy farming business for the purpose of planting grass, breeding cows and producing milk well.

The Ulan Buh Desert forms a natural protection of Shengmu's base for milk sources with its unique strategic advantages represented by abundant resources. For many years, Shengmu has planted trees and grass in the Ulan Buh Desert by using water from the Yellow River and cow dung as fertilizer. The combination of planting and farming creates pollution free, zero-additive desert-based organic milk, which enables it to pass ECOCERT. "China-Denmark Organic Demonstration Farm" was located in the 27th farm of the Group. The establishment of China-Denmark Organic Demonstration Farm aims to introduce the advanced management concepts and production techniques of the organic farms in Denmark to the organic farms in China, enhancing the operation level and organic management system of the organic dairy industry in China. The Group has entered into an agreement to acquire minority interests in 12 farming companies located at the Ulan Buh Desert, which represents an important step for the Group to comprehensively resume organic dairy farming in Ulan Buh region in due course in view of the industry demands for organic raw milk.

In the 2019 Interim Period, the Group recorded revenue of RMB1,420.6 million, up by 1.5% as compared with the 2018 Interim Period, achieved a gross profit of RMB517.4 million, up by 19.0% as compared with the 2018 Interim Period. The Group recorded a net loss of RMB20.8 million, and the dairy farming business achieved a turnaround and a net profit of RMB32.2 million. At present, the Group has 34 dairy farms, including 11 organic farms. The quantity of dairy herds was 109,610 heads, including 47,054 heads which produce organic milk, and 62,556 heads which produce non-organic milk. In the 2019 Interim Period, the Group had produced a total of 134,027 tonnes of organic raw milk and 188,995 tonnes of high-quality non-organic raw milk. The Group captured the development opportunity of the industry and has made great progress in enhancing the awareness of customers and deepening the internal management in the first half of the year.

During the 2019 Interim Period, the Group strengthened the synergy between the supply and the demand by further deepening the synergy with Mengniu Group and coping with the demands from clients, ensuring the stability of sale volume and prices of raw milk. In the 2019 Interim Period, the sales price of raw milk was RMB4.0 per kilogram, which was higher than the industry level, representing an increase of 18.3% as compared to the 2018 Interim Period. It was mainly due to the increased synergy between the Group and its clients and the avoidance of unplanned sales of milk at a low price.

During the 2019 Interim Period, the Group further optimised the structure of organization and delegated authorities to the front line. Certain employees in the functional departments were allocated to the farms to reduce hierarchy levels, ensure the quality of professional services, downward delegate powers and responsibilities and achieve efficient execution. Meanwhile, the Group strengthened the benchmark management. The Company introduced the internal appraisal mechanism among various business units from the farms to the feeding department, the breeding department, the healthcare department and the milking department so as to stimulate the team. Externally, the Group tried to keep up with the benchmark of the industry by learning and communicating with leading domestic enterprises.

In respect of nutrition and feeding, during the 2019 Interim Period, the Group strictly controlled the quality of raw materials and enhanced the effect to use raw materials by selecting and assessing suppliers and selecting high-quality domestic and overseas products; applied the latest concept of breeding to improve the breeding effect by enhancing communication with and obtaining guidance from well-known experts worldwide; effectively reduced the cost of feeding by seeking new coarse fodder resources and experimenting on new feeding techniques against the trend of rising costs of coarse fodder; paid great attention to the feeding of reserve cows and cows having first calves, strengthened the management and control of heat stress, and strictly grouped cows to continuously reduce and optimise the costs of fodder through refined cost management.

In respect of breeding and healthcare, during the 2019 Interim Period, the Group selected the top-ranking cow breeding companies in the world. The Group signed 3 to 5 years medium and long term strategic cooperation agreements with the global top three cow breeding companies to establish breeding objectives, set breeding index, and group cows for every farm based on the information such as pedigree, parity, number of breeding, record of sickness, result of pregnancy test and milk production with a focus on breeding core herds to provide the farms with high quality milkable cows. Meanwhile, the Group strengthened the management of calves. The Group established separate calf department in farms to improve the calf management systems and add facilities such as calf awning and pasteurization sterilizer to increase the living rate of calves.

In respect of food quality and safety, during the 2019 Interim Period, the Group implemented the TQM comprehensive quality management system and established 4Q (QP, QA, QC, and QS) quality management standard. The quality was supervised and managed throughout the complete chain covering the field planting, cow feeding, cow healthcare, comfortable milking environment, and raw milk detection on truck by truck basis. In order to reach the global leading standards and surpass the standards of the European Union and the industry, the Company made strict requirement to improve the standard of raw milk to level S and control raw milk's somatic cell < 150,000/ml and microorganism < 15,000 CFU/ml so the farms can achieve refined and standardized management.

FINANCIAL REVIEW

Revenue of the Group increased by 1.5% from RMB1,400.1 million in the 2018 Interim Period to RMB1,420.6 million in the 2019 Interim Period. Gross profit of the Group increased by 19.0% from RMB434.9 million in the 2018 Interim Period to RMB517.4 million in the 2019 Interim Period. Loss for the period decreased from loss of RMB1,278.2 million in the 2018 Interim Period to loss of RMB20.8 million in the 2019 Interim Period.

As at 23 December 2018, a share purchase agreement was entered into between Inner Mongolia Mengniu and the Group. By the end of April 2019, closing of the share purchase agreement has taken place. The Group disposed 51% of its holding shares in the dairy business (Shengmu Dairy and Hohhot Dairy, being the liquid milk processing business segment of the Group) to Inner Mongolia Mengniu. According to the requirements under the IFRSs, the liquid milk business from January to April 2019 is stated as discontinued operation. With the exception of the Dairy Business, other businesses of the Group are stated as continuing operations.

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

	Dairy farming business				Liquid milk business[2]				
For the six-month period ended June 30	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	Total revenue
2019 (Unaudited)	**1,270,550**	**111,577**	**1,158,973**	**81.6%**	**261,609**	**—**	**261,609**	**18.4%**	**1,420,582**
2018 (Unaudited)	1,126,745	207,040	919,705	65.7%	480,400	—	480,400	34.3%	1,400,105

(1) The liquid milk business is still presented as the discontinued operation of the entire industrial chain instead of a discontinued operation during the 2019 Interim Period and the 2018 Interim Period in this table and tables below. Such presentation can reflect and analyse the operating condition and changes of the Group for the 2019 Interim Period and the 2018 Interim Period more reasonably;

(2) Liquid milk business includes the liquid milk business of the discontinued operation. The 2019 interim figures only include figures of January to April 2019 before disposal of the liquid milk business.

Given the rising competition in the dairy products market, the Group entered into strategic cooperation with Mengniu Group, one of the leading dairy product manufacturers in China, which owns a strong management team and a solid distribution network of dairy products in China, and accordingly, has stable revenue and raw material milk demand. In 2019 Interim Period, the raw milk supply and marketing relationship with Mengniu Group helps to stabilize the sales of raw milk; meanwhile, from the perspective of farming business, the raw milk price in 2019 showed a steadily-growing trend and the sales price of the Group's raw milk increased significantly as compared to the same period of last year. Both of the above generated stable revenue and cash flows for the Company, enabling the Group to create value for its shareholders sustainably. Sales of the Group's raw milk increased from RMB919.7 million in the 2018 Interim Period to RMB1,159.0 million in the 2019 Interim Period, representing an increase of 26.0% as compared to the same period of last year.

Dairy farming business

	For the six-month period ended June 30							
	2019 (Unaudited)				2018 (Unaudited)			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of dairy farming segment revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	518,326	110,581	4,687	40.8%	628,298	189,816	3,310	55.8%
Inter-segment sales [(1)]	98,291	19,024	5,167	7.7%	186,927	46,819	3,993	16.6%
Subtotal	616,617	129,605	4,758	48.5%	815,225	236,635	3,445	72.4%
Premium non-organic raw milk								
External sales	640,647	180,758	3,544	50.5%	291,407	86,523	3,368	25.8%
Inter-segment sales [(2)]	13,286	3,585	3,706	1.0%	20,113	6,221	3,233	1.8%
Subtotal	653,933	184,343	3,547	51.5%	311,520	92,744	3,359	27.6%
Daily farming segment								
External sales	1,158,973	291,339	3,978	91.3%	919,705	276,339	3,328	81.6%
Inter-segment sales	111,577	22,609	4,935	8.7%	207,040	53,040	3,903	18.4%
Total	1,270,550	313,948	4,047	100.0%	1,126,745	329,379	3,421	100.0%

(1) Represents self-produced organic raw milk sold to the Group's organic liquid milk business during the period from January to April 2019.

(2) Represents self-produced premium non-organic raw milk sold to the Group's high-end non-organic liquid milk business during the period from January to April 2019.

In the 2019 Interim Period, sales volume of raw milk decreased by 4.7% from 329,379 tonnes in the 2018 Interim Period to 313,948 tonnes in the 2019 Interim Period, mainly due to the decrease in the number of cows during the 2019 Interim Period as compared to the same period of last year. The external sales volume accounted for 91.3% of sales volume of raw milk in the 2019 Interim Period, compared with 81.6% in the 2018 Interim Period. In the second half of 2018, the Company turned some organic farms into non-organic farms in response to the market demand, and as a result, the external sales volume of organic raw milk decreased by 41.7% from 189,816 tonnes in the 2018 Interim Period to 110,581 tonnes in the 2019 Interim Period, while the external sales volume of non-organic raw milk increased by 108.9% from 86,523 tonnes in the 2018 Interim Period to 180,758 tonnes in the 2019 Interim Period.

Other Income and Gains

Other income and gains of the Group increased from net income of RMB29.4 million in the 2018 Interim Period to net income of RMB49.9 million in the 2019 Interim Period, mainly due to the investment income of RMB85.8 million generated from the disposal of Shengmu Dairy by the Group.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fee and employees' remunerations. In the 2019 Interim Period, selling and distributing expenses of the Group amounted to RMB118.2 million, which was no significant change as compared with that for the 2018 Interim Period.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees, as well as administrative expenses including attorney and audit fees. In the 2019 Interim Period and the 2018 Interim Period, administrative expenses of the Group were RMB67.4 million and RMB49.5 million respectively, representing an increase of approximately 36.2% as compared to the same period of last year, mainly due to the increase in valuation, consultation and audit fees as well as the remuneration of the management.

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

Loss arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows, 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 2019 Interim Period and the 2018 Interim Period, the Group's loss arising from changes in fair value less costs to sale of biological assets were RMB163.5 million and RMB886.1 million, respectively. The significant decrease in loss arising from changes in fair value less costs to sale of biological assets of the Group from the 2019 Interim Period to the 2018 Interim Period was mainly affected by, among other factors, the stable recovery of raw milk price.

Share of Profits and Losses of Associates

The Group's associates include (a) in the 2019 Interim Period, the 51% equity interests in Shengmu Dairy (later known as Inner Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd.) was disposed of by the Group to Inner Mongolia Mengniu and the 49% minority interests of which was held by the Group, therefore Shengmu Dairy became an associate of the Group; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("**Shengmu Forage**") and its subsidiary 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, producing dairy products with the raw milk purchased from the Group. In the 2019 Interim Period and the 2018 Interim Period, the Group recorded share of losses of associates of RMB21.6 million and RMB3.7 million, respectively.

Gain on Disposal of the Discontinued Operation

Due to the disposal of 51% equity interests in Shengmu Dairy, the Group recognized investment income for the period of RMB85.8 million, which was calculated as the difference between the sum of the selling price and the fair value of the remaining equity interests (49%) and the share of net asset of Shengmu Dairy since the establishment date based on original shareholding (100%).

Income Tax Expense

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a 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 RMB0.2 million in the 2019 Interim Period and RMB5.1 million in the 2018 Interim Period. The decrease in income tax expense of the Group in the 2019 Interim Period was due to the utilisation of deferred income tax assets as a result of the decrease in the Group's unrealised profit or loss from inter group sales in comparison to the balance as at 31 December 2018.

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

Profit/(loss) attributable to non-controlling interests mainly represents the profit/(loss) for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In the 2019 Interim Period, profit attributable to non-controlling interests was RMB52.7 million and in the 2018 Interim Period, loss attributable to non-controlling interests was RMB119.6 million.

In the 2019 Interim Period, due to combined effects of (1) the stable increase in the selling price of the Group's raw milk as compared to the same period of last year; (2) gain on disposal of 51% equity interests in Shengmu Dairy by the Group; (3) the decrease in 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 RMB73.5 million, decreasing by RMB1,085.1 million from loss of RMB1,158.6 million in the 2018 Interim Period.

ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 30 June 2019, total current assets of the Group were RMB1,643.1 million (as at 31 December 2018: RMB2,048.2 million), primarily consisting of inventory of RMB346.5 million (as at 31 December 2018: RMB637.0 million), biological assets of RMB3.8 million (as at 31 December 2018: RMB7.5 million), trade and bills receivables of RMB225.9 million (as at 31 December 2018: RMB344.1 million), prepayments, other receivables and other assets of RMB769.8 million (as at 31 December 2018: RMB685.3 million), and cash and bank balances and pledged deposits of RMB297.1 million (as at 31 December 2018: RMB374.3 million). There was a relatively significant decrease in the Group's current assets as at 30 June 2019 as compared with that of 31 December 2018, which was mainly attributable to the facts that (1) the Group lost its control over Shengmu Dairy, a subsidiary of the Group, upon disposal of its equity interests in Shengmu Dairy in the 2019 Interim Period, therefore the corresponding assets and liabilities were not included in the financial statements of the Group; and (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 seasonal volatility in inventories of the dairy farming industry.

Current Liabilities

As at 30 June 2019, total current liabilities of the Group amounted to RMB3,653.4 million (as at 31 December 2018: RMB4,573.4 million), primarily consisting of trade and bills payables of RMB989.8 million (as at 31 December 2018: RMB1,456.3 million), other payables and accruals of RMB658.5 million (as at 31 December 2018: RMB715.2 million), interest-bearing bank and other borrowings of RMB1,999.3 million (as at 31 December 2018: RMB2,320.7 million), and derivative financial instruments of RMB5.8 million (as at 31 December 2018: RMB81.2million). The decrease in the Group's current liabilities as at 30 June 2019 compared to that as at 31 December 2018, mainly due to (1) the Group lost its control over Shengmu Dairy, a subsidiary of the Group, upon disposal of its equity interests in Shengmu Dairy in the 2019 Interim Period, therefore the corresponding assets and liabilities were not included in the financial statements of the Group; and (2) the combined effect of the repayment of portion of corporate loans and the transfer of derivative financial instruments into capital reserve.

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and substantially all transactions are conducted in RMB. As at 30 June 2019, 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 30 June 2019, the Group had pledged deposits of approximately RMB46.9 million (as at 31 December 2018: RMB297.1 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. On 30 June 2019, biological assets of the Group with fair value of approximately RMB1,006.7 million (31 December 2018: RMB1,069.8 million) and interests in 14 non-wholly-owned subsidiaries with net assets of RMB2,271.7 million (31 December 2018: RMB2,311.9 million) were used as collaterals for the entrusted loans of the Group amounting to RMB1,300.0 million.

Liquidity, Financial Resources and Capital Structure

In the first half of 2019, the Group financed its daily operations mainly from internally generated cash flows and bank and other borrowings. As at 30 June 2019, the Group had (a) cash and bank balances of RMB250.2 million (as at 31 December 2018: RMB77.3 million), and (b) interest-bearing bank and other borrowings of RMB2,043.0 million (as at 31 December 2018: RMB2,370.2 million), of which, RMB43.7 million were repayable within one to five years and 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 71.8% as at 30 June 2019 (as at 31 December 2018: 82.3%). For the six months period ended 30 June 2019, the annual interest rate of bank borrowings ranged from 1.55% to 12.97% (for the six months period ended 30 June 2018: 1.55% to 6.97%).

Capital Commitments

As at 30 June 2019, the Group's capital commitments amounted to RMB316.7 million (as at 31 December 2018: RMB418.3 million). The decrease as compared to that as at 31 December 2018 was mainly due to the fact that the Group entered into equity transfer framework agreements with 12 individual shareholders to acquire the equity interests in 12 farms with partial consideration of RMB300.0 million and an amount of RMB87.0 million has been paid during 2019 Interim Period.

Human Resources

As at 30 June 2019, the Group had a total of 2,749 employees (as at 30 June 2018: 3,809 employees). Total staff costs in the 2019 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB120.5 million (2018 Interim Period: RMB142.4 million). The significant decrease in total staff costs as compared to the same period of last year was mainly due to the disposal of the dairy business.

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.

Contingent Liabilities

As at 30 June 2019, the Group provided guarantees with amount of RMB110.0 million (31 December 2018: RMB155.0 million), RMB98.9 million (31 December 2018: RMB123.4 million) and RMB295.0 million (31 December 2018: Nil) for the bank borrowings of Shengmu Forage, Food Union Shengmu and Shengmu Dairy, respectively. The external guarantees provided by the Group were recognised in the financial statements on the basis of the valuation of the guarantees provided by the independent professional valuer regarded as the best estimates required to pay for the performance of the relevant current obligations in accordance with the requirements of IFRSs.

MATERIAL ACQUISITIONS AND DISPOSALS

In the 2019 Interim Period, the Group disposed of 51% equity interests in Shengmu Dairy to Inner Mongolia Mengniu. Except the above, the Company did not have any other significant acquisition and disposal of subsidiaries and associates which would affect the increase or decrease in various items in the financial statements as compared to the same period of last year.

On 12 March 2019, the Company published a circular on the acquisition of the minority interests in 12 farming companies and the issuance of consideration shares pursuant to a specific mandate. The resolution was approved at the extraordinary general meeting held on 29 March 2019. In the 2019 Interim Period, purchase consideration of RMB87.0 million was paid partially. The transaction has not been completed by the date of this announcement.

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

Leveraging on the unique advantages of the Ulan Buh Desert, we will enable the Chinese people to enjoy the dairy products with highest quality worldwide through good forage, good cows and good milk.

We will properly expand the herd size by capturing the favorite opportunities in the adjustment of supply of raw milk to optimize the genes of cows and increase the reserve of additional herds. We will reduce costs and increase efficiency by establishing management system of core suppliers and optimizing the formula structure to increase the conversion rate of forage and the output per milkable cow. We will ensure the provision of resources for the source of high-quality milk through enhanced synergy with customers and the improvement of competitiveness of raw milk indicators.

We will increase the number of certified organic farms in due course based on the market demands by capturing the opportunity in the rapid development of the organic food industry and increase the profitability of the Company by improving the product structure. We will continue to carry out the activity of desert organic travels which enables more consumers to enter the Ulan Buh Desert through Mengniu and other industrial customers so as to understand Shengmu, understand the natural organic milk and improve the healthy living quality.

We will initiate Shengmu College to establish a system for cultivating differentiated talents. We will commence the information-based project to integrate IT planning with the management and control of the corporate operation so as to consolidate and upgrade our operating capability.

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 30 June 2019 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 2019 Interim Period (the 2018 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 15 July 2014 (the "**Listing Date**"). The net proceeds from the global offering amounted to approximately RMB801.2 million. Since the Listing Date and up to 30 June 2019, 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 the 2019 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 30 June 2019 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 the 2019 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 Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. In the period between 1 January 2019 to 15 January 2019, Mr Shao Genhuo performed the roles of both chairman and chief executive officer. With effect from 16 January 2019, Mr. Shao Genhuo has resigned as the acting chief executive officer of the Company and Mr ZHANG Jiawang has been appointed as the chief executive officer of the Company. Mr. SHAO Genhuo continued to act as a non-executive director and chairman of the Company.

As set out in Note 3 to the Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2019, during the year ended 31 December 2018, the Group identified the following guarantees issued by the Group in previous years which had not been disclosed or accounted for in its financial statements as previously reported for the six months ended 30 June 2018. The guarantees were issued for bank facilities granted by banks to the Group's distributors and associated companies:

1. During the year ended 31 December 2017, the Group provided joint guarantees to banks for bank loans of RMB180,000,000 granted to its distributors (the "**First Guarantees**"). As at 30 June 2019, all the bank loans granted under the First Guarantees have been fully repaid.

2. On 28 August 2017, the Group provided guarantees to the bank for the bank loans of RMB92,600,000 granted to Shengmu Forage, an associated company of the Group and a key supplier to the Group (the "**Second Guarantees**"). As at 30 June 2019, all the bank loans granted under the Second Guarantees have been fully repaid.

3. Since 20 September 2016, the Group has provided a guarantee to the bank for the one-year bank loan of RMB30,000,000 of Shengmu Forage (the "**Third Guarantee**"). The guarantee period was extended upon the renewal of the bank loan during the year ended 31 December 2017 and the six months ended 30 June 2018. As at 30 June 2019, the bank loan granted under the Third Guarantee has been fully repaid.

4. On 13 October 2017, the Group provided a joint guarantee to the bank for the bank loans of RMB130,000,000 granted to Shengmu Forage, along with Mr Yao Tongshan, a shareholder and a director of the Company (the "**Fourth Guarantee**"). As at 30 June 2019, the outstanding balance of the bank loans is RMB110,000,000 which will be due for repayment in December 2019.

5. Since 21 October 2016, the Group has provided guarantees to the bank for the three-year revolving loan facility with a cap amounted to RMB133,000,000 granted to Food Union Shengmu, an associated company of the Group (the "**Fifth Guarantees**"). As at 30 June 2019, the outstanding balance of the bank loan was RMB98,864,000.

These transactions have been accounted for in the Group's consolidated financial statements for the year ended 31 December 2018.

The First Guarantees and the Second Guarantees had not been disclosed in the interim report for the six months ended 30 June 2017 and the annual report for the year ended 31 December 2017 (the "**Previous Reports**") because the information of these guarantees has not been entered into the credit systems of the banks and the relevant documents have not been filed by the banks internally as signed contracts, while the former chief executive officer of the Company (i.e. Mr Yao Tongshan) and the former chief financial officer of the Company (i.e. Mr Cui Ruicheng) did not report to the Board nor disclose them in the Previous Reports as they took the view that the First Guarantees and the Second Guarantees were in the nature of recommending the borrowers to the banks and did not constitute a guarantee or security. The Company became aware of the First Guarantees and the Second Guarantees when some of the distributors failed to repay the loans in time and the banks presented the guarantee agreements and demanded the Group for repayment as the guarantor.

The Third Guarantee, the Fourth Guarantee and the Fifth Guarantees have been disclosed in the annual report for the year ended 31 December 2016, the interim report for the six months ended 30 June 2017, the annual report for the year ended 31 December 2017 and the interim report for the six months ended 30 June 2018. However, they had not been accounted for in these reports because the Company's previous view was that the fair value of these guarantees was not significant after assessment. All the guarantees aforementioned have been accounted for in the Company's consolidated financial statements for the year ended 31 December 2018.

In addition, the Company assessed the expected credit losses ("**ECL**") for the financial assets, mainly including accounts receivable and other receivables, during the year ended 31 December 2018 at rates different to the ones originally used in the preparation of the interim financial statements for the six months ended 30 June 2018. When the Company prepared the interim financial statements for the six months ended 30 June 2018, the Company used previous data to compute the expected credit loss rates and calculated the expected credit loss of the trade receivables and other receivables accordingly. Such interim financial statements have not been audited or reviewed by independent auditor. When the Company prepared the annual financial statements for the year ended 31 December 2018, the Company considered the previous data, future expected credit loss and the overall situation of the industry and reassessed and revised the expected credit loss rates. The Company used the revised rates to calculate the expected credit loss of the trade receivables and other receivables during the preparation of the annual financial statements for the year ended 31 December 2018. Accordingly, an adjustment was made to the balance of retained earnings as at 1 January 2018 in the preparation of the annual financial statements for the year ended 31 December 2018. In this connection, the Company considered that the comparatives for the six months ended 30 June 2018 should be restated based on the revised rates for the year ended 31 December 2018 when the financial statements for the six months ended 30 June 2019 are presented with such comparatives.

The Company's failure to disclose or account for the aforementioned guarantees shows that the Company has room for improvement in its compliance with code provisions C.2.1 and C.2.3 of the Code. Pursuant to code provision C.2.1 of the Code, the Board should oversee the issuer's risk management and internal control systems on an ongoing basis. In particular, pursuant to code provision C.2.3 of the Code, the Board should consider the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and significant control failings and weaknesses that have been identified during the period. After such guarantees were identified, the Company has conducted a comprehensive investigation internally and engaged an independent professional qualified valuer to evaluate the credit risks of the guarantees, terminated the business relationship with distributors with low creditworthiness, focused on customers with higher creditworthiness and issued the Power and Responsibility Matrix of Group Financials setting out the approval process and authorisation of different types of business activities of the Group, in particular that the provision of any guarantee by the Group to external parties requires approval from the Board. The Company will also enhance the background check and the review of credit risk of counterparties before entering into any transaction, review the credit risk of the counterparties in authorised transactions every six months and continue to engage independent professional qualified valuer to evaluate the credit risk of the guarantees every six months.

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 2019 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 2019 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 low temperature 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). 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.

Save as disclosed above, all Directors have confirmed that during the six-month period ended 30 June 2019, 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 2019 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., whose details were disclosed in the section headed "Report of the Directors – Connected and Continuing Connected Transactions" in the 2018 annual report of the Company.

2. The non-exempt continuing connected transactions conducted pursuant to the Dabeinong Group Feed Supply Framework Agreement entered into with Beijing Dabeinong Technology Group Co., Ltd. ("**Dabeinong Group**"), whose details were disclosed in the section headed "Report of the Directors – Connected and Continuing Connected Transactions" in the 2018 annual report of the Company. For the six months ended 30 June 2019, the total purchase amount of feed by the Group from Dabeinong Group was RMB3,033,000.00.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 16 to the financial statements. The related party transactions mainly comprise: (1) sale of raw materials 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 Dabeinong Group in accordance with the Dabeinong Group Feed Supply Framework Agreement; (3) provision of financial assistance for the external borrowings of Shengmu Dairy and Shengmu Forage; and (4) payment of emoluments to key management of the Group. 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 2019 Interim Period.

CHANGE OF DIRECTOR'S INFORMATION

Mr. Wu Jianye was re-elected as an executive Director, Mr. Sun Qian was re-elected as a non-executive director and Mr. Fu Wenge was re-elected as an independent non-executive Director at the 2019 AGM. For further information on the re-election of Mr. Wu, Mr. Sun and Mr. Fu as Directors, please refer to the section headed "Proposed Re-election of the Retiring Directors" in the circular of the Company in relation to the 2019 AGM dated 29 April 2019.

Mr. Wang Yuehua has resigned as an executive Director of the Company on 25 January 2019 and Mr. Zhang Jiawang has been appointed as an executive Director of the Company with effect from 25 January 2019. For further information on the resignation of Mr. Wang as an executive Director and the appointment of Mr. Zhang as an executive Director, please refer to the announcement of the Company dated 25 January 2019.

Save as disclosed herein, during the 2019 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 30 June 2019, 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(1)	20.48%
Yao Tongshan	Beneficial Owner	409,092,700	6.44%
Wu Jianye	Beneficial Owner	32,706,261	0.51%
Zhang Jiawang	Beneficial Owner	138,130,000	2.17%

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

(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 30 June 2019, 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 30 June 2019, 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
Start Great Holdings Limited	Beneficial owner	1,467,193,490 (L)	23.09% (L)
China Mengniu	Interest of a controlled corporation	1,467,193,490 (L)	23.09% (L)
Greenbelt Global Limited	Beneficial Owner	536,097,305 (L)	8.44% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	536,097,305 (L)	8.44% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	536,097,305 (L)	8.44% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	536,097,305 (L)	8.44% (L)
Salata Jean	Interest of a controlled corporation	536,097,305 (L)	8.44% (L)
Zhang Junli (張軍力)	Interest of the spouse	409,092,700 (L)	6.44% (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	Investment Manager	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.	Interest of a controlled corporation	405,551,200(L)	6.38% (L)
		9,647,000(S)	0.15% (S)
Nong You	Beneficial Owner	1,301,651,000(L)	20.48% (L)
Beijing Zhi Nong	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)	35.00%
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)	35.00%
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)	35.00%
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)	35.00%

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 30 June 2019, 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.

ISSUE OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

On 10 December 2018 and 23 December 2018, Shengmu High-tech and Inner Mongolia Mengniu entered into two entrusted loan agreements respectively, where term loan facilities in the aggregated amount of RMB1.3 billion (the "Loan Facilities") were granted, via the Horinger County Branch of Agricultural Bank of China Limited, to Shengmu High-tech. The Company considers that the terms of the Loan Facilities are more favourable than the terms available to the Group from independent third parties.

On 23 December 2018, the Company entered into a warrant subscription agreement (the "Warrant Subscription Agreement A") with Start Great Holdings Limited (the "Subscriber A") in relation to the warrant subscription of a total of 1,197,327,890 unlisted warrants (the "Warrants A") by the Subscriber A in consideration of the grant of the Loan Facilities by Inner Mongolia Mengniu to Shengmu High-tech at more favourable terms than available from independent third parties. Upon the exercise of the subscription rights attaching to the Warrants A in full, a maximum of 1,197,327,890 new ordinary shares (the "Warrant Shares A") of par value HK$0.00001 each in the issued share capital of the Company (with an aggregate nominal value of HK$11,973.2789), will be issued and allotted by the Company at a subscription price of HK$0.33 per Warrant Share A.

On the same day, the Company entered into a warrant subscription agreement (the "Warrant Subscription Agreement B", together with Warrant Subscription Agreement A, the "Warrant Subscription Agreements") with Greenbelt Global Limited (the "Subscriber B") in relation to the warrant subscription of a total of 140,862,105 unlisted warrants (the "Warrants B") by the Subscriber B at the warrant issue price of HK$0.0427 per Warrant B. Upon the exercise of the subscription rights attaching to the Warrants B in full, a maximum of 140,862,105 new ordinary shares (the "Warrant Shares B", together with Warrant Shares A, the "Warrant Shares") of par value HK$0.00001 each in the issued share capital of the Company (with an aggregate nominal value of HK$1,408.62105), will be issued and allotted by the Company at a subscription price of HK$0.33 per Warrant Share B.

As at 23 December 2018 (the date when the Warrant Subscription Agreements were entered into), the market closing price per shares of the Company was HK$0.3.

Completion of the Warrant Subscription Agreement A is conditional upon the fulfilment or waiver of the conditions set out in the sections headed "Letter from the Board — (2) Warrant Subscription Agreements — (i) Warrant Subscription Agreement A — Conditions for the issue of the Tranche 1 Warrants A" and "Letter from the Board — (2) Warrant Subscription Agreements — (i) Warrant Subscription Agreement A — Conditions for the issue of the Tranche 2 Warrants A" in the circular of the Company dated 7 January 2019.

Completion of the Warrant Subscription Agreement B is conditional upon the fulfilment or waiver of the conditions set out in the sections headed "Letter from the Board — (2) Warrant Subscription Agreements — (i) Warrant Subscription Agreement B — Conditions for the issue of the Tranche 1 Warrants B" and "Letter from the Board — (2) Warrant Subscription Agreements — (i) Warrant Subscription Agreement B — Conditions for the issue of the Tranche 2 Warrants B" in the circular of the Company dated 7 January 2019.

Details of the Warrant Subscription Agreements are set out in the announcements and circular of the Company dated 24 December 2018, 27 December 2018, 3 January 2019, 7 January 2019 and 11 January 2019 respectively.

The Board considered that the issue of Warrant Shares represented an opportunity to raise additional funds for the Company while broadening the capital base of the Company.

During the six months ended 30 June 2019, the issuance of 1,080,248,000 and 127,088,000 warrants to Start Great Holdings Limited and Greenbelt Global Limited, respectively, was approved by the shareholders of the Company at the EGM held on 24 January 2019. The warrants may be exercised at HKD0.33 per warrant share, in whole or in part, at the discretion of the relevant warrant holder at any time during the eighteen-month period commencing from the date of issuance of the respective warrants.

SHARE OPTION SCHEME

On 18 June 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 18 June 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, 29 August, 2019

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Independent review report
To the board of directors of China Shengmu Organic Milk Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

Introduction

We have reviewed the interim financial statements set out on pages 26 to 52, which comprises the condensed consolidated statement of financial position of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements is not prepared, in all material respects, in accordance with IAS 34.

Other Matter

Without qualifying our review conclusion, we draw attention to the fact that the interim condensed consolidated financial statements includes comparative information as required by IAS 34. The interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows and related explanatory notes for the six-month period ended 30 June 2018 have not been audited or reviewed.

Ernst & Young

Certified Public Accountants

Hong Kong
29 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	2019	2018
		(Unaudited)	(Unaudited) Restated*
		RMB'000	RMB'000
CONTINUING OPERATIONS			
REVENUE	4	1,200,780	969,370
Cost of sales		(756,195)	(682,506)
Gross profit		444,585	286,864
Loss arising from changes in fair value less costs to sell of biological assets		(163,495)	(886,071)
Other income and (losses)/gains		(16,472)	16,351
Selling and distribution expenses		(17,809)	(27,583)
Administrative expenses		(57,336)	(37,148)
Impairment losses on financial and contract assets, net		(12,802)	(1,016)
Finance costs		(122,860)	(70,650)
Share of losses of associates		(21,361)	(3,398)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	5	32,450	(722,651)
Income tax (expense)/credit	6	(217)	481
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		32,233	(722,170)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	7	(52,991)	(556,033)
LOSS FOR THE PERIOD		(20,758)	(1,278,203)
Profit/(loss) attributable to:			
Owners of the parent		(73,501)	(1,158,623)
Non-controlling interests		52,743	(119,580)
		(20,758)	(1,278,203)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For loss for the period		(RMB0.012)	(RMB0.182)
– For loss for continuing operations		(RMB0.003)	(RMB0.095)
Diluted			
– For loss for the period		(RMB0.012)	(RMB0.182)
– For loss for continuing operations		(RMB0.003)	(RMB0.095)

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the six months ended 30 June 2018 and reflect adjustments made. Refer to note 3 to the interim condensed consolidated financial statements for the six months ended 30 June 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	2019	2018
	(Unaudited)	(Unaudited) Restated*
	RMB'000	RMB'000
LOSS FOR THE PERIOD	(20,758)	(1,278,203)
Exchange differences on translation of foreign operations	(1,903)	(4,198)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(1,903)	(4,198)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(1,903)	(4,198)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(22,661)	(1,282,401)
Profit/(loss) attributable to:		
Owners of the parent	(75,404)	(1,162,821)
Non-controlling interests	52,743	(119,580)
	(22,661)	(1,282,401)

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the six months ended 30 June 2018 and reflect adjustments made. Refer to note 3 to the interim condensed consolidated financial statements for the six months ended 30 June 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019	31 December 2018
		(Unaudited) RMB'000	(Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,044,931	2,087,045
Right-of-use assets		20,074	—
Prepaid land lease payments		—	18,845
Other intangible assets		10,813	11,463
Investments in associates		199,118	90,328
Biological assets	11	2,568,631	2,667,427
Prepayments, other receivables and other assets		88,074	1,014
Long term receivables		11,794	11,516
Deferred tax assets		410	410
Other non-current assets		11,289	9,930
Total non-current assets		4,955,134	4,897,978
CURRENT ASSETS			
Inventories		346,496	604,060
Biological assets	11	3,778	7,492
Trade and bills receivables	12	225,871	246,715
Prepayments, other receivables and other assets		769,809	599,092
Pledged deposits		46,887	150,617
Cash and bank balances		250,235	74,052
Assets of a disposal group classified as held for sale		—	978,355
Total current assets		1,643,076	2,660,383
CURRENT LIABILITIES			
Trade and bills payables	13	989,827	997,085
Other payables and accruals		658,519	486,235
Derivative financial instruments		5,779	81,238
Interest-bearing bank and other borrowings		1,999,288	2,218,864
Liabilities directly associated with the assets classified as held for sale		—	790,006
Total current liabilities		3,653,413	4,573,428
NET CURRENT LIABILITIES		(2,010,337)	(1,913,045)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,944,797	2,984,933

	Note	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		43,665	49,518
Long term payables		57,205	56,528
Total non-current liabilities		100,870	106,046
Net assets		2,843,927	2,878,887
EQUITY			
Equity attributable to owners of the parent			
Share capital	14	50	50
Reserves		2,018,063	2,017,863
		2,018,113	2,017,913
Non-controlling interests		825,814	860,974
Total equity		2,843,927	2,878,887

Zhang Jiawang	Wu Jianye
Director	Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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/ (Accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019 (audited)	50	1,757,767	423,317	95,558	464,561	17,551	(740,891)	2,017,913	860,974	2,878,887
Profit/(loss) for the period	—	—	—	—	—	—	(73,501)	(73,501)	52,743	(20,758)
Exchange differences related to foreign operations	—	—	—	—	—	(1,903)	—	(1,903)	—	(1,903)
Total comprehensive profit/(loss) for the period	—	—	—	—	—	(1,903)	(73,501)	(75,404)	52,743	(22,661)
Distribution of dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	(87,903)	(87,903)
Equity-settled warrant arrangements	—	—	75,604	—	—	—	—	75,604	—	75,604
At 30 June 2019 (unaudited)	50	1,757,767#	498,921#	95,558#	464,561#	15,648#	(814,392)#	2,018,113	825,814	2,843,927

These reserve accounts comprise the consolidated reserves of RMB2,018,063,000 (31 December 2018: RMB2,017,863,000) in the condensed consolidated statement of financial position.

		Attributable to owners of the parent									
	Note	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/ (Accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018 (audited)		50	1,757,767	423,317	95,558	463,130	19,911	1,485,740	4,245,473	1,059,451	5,304,924
Loss for the period as reported in the 2018 interim condensed consolidated financial statements (unaudited)		–	–	–	–	–	–	(1,066,894)	(1,066,894)	(119,580)	(1,186,474)
Correction of prior period errors for the period	3	–	–	–	–	–	–	(91,729)	(91,729)	–	(91,729)
Loss for the period (unaudited) (restated*)		–	–	–	–	–	–	(1,158,623)	(1,158,623)	(119,580)	(1,278,203)
Exchange differences related to foreign operations		–	–	–	–	–	(4,198)	–	(4,198)	–	(4,198)
Total comprehensive loss for the period (restated*)		–	–	–	–	–	(4,198)	(1,158,623)	(1,162,821)	(119,580)	(1,282,401)
Distribution of dividends to non-controlling shareholders		–	–	–	–	–	–	–	–	(24,500)	(24,500)
At 30 June 2018 (unaudited) (restated*)		50	1,757,767	423,317	95,558	463,130	15,713	327,117	3,082,652	915,371	3,998,023

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the six months ended 30 June 2018 and reflect adjustments made. Refer to note 3 to the interim condensed consolidated financial statements for the six months ended 30 June 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Note	2019	2018
		(Unaudited)	(Unaudited) Restated*
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		(20,541)	(1,273,085)
From continuing operations		32,450	(722,651)
From a discontinued operation	7	(52,991)	(550,434)
Adjustments for:			
Change in fair value of biological assets		163,495	886,071
Interest income		(5,543)	(2,110)
Finance costs		126,805	75,753
Share of profits and losses of associates		21,569	3,673
Gain on disposal of a subsidiary		(85,751)	—
Fair value losses, net:			
Derivative financial instruments		1,706	—
Depreciation of property, plant and equipment		98,279	105,977
Depreciation of right-of-use assets/recognition of prepaid land lease payments		855	813
Amortisation of other intangible assets		861	763
Loss on disposal of items of property, plant and equipment		4,906	443
Foreign exchange differences, net		2,555	(6,889)
		309,196	(208,591)
Decrease in inventories		210,361	401,316
(Increase)/decrease ecrease in trade and bills receivables		(11,883)	346,049
Increase in prepayments, other receivables and other assets		(299,981)	(134,758)
(Increase)/decrease in pledged deposits		136,414	(130,217)
Increase in other non-current assets		(1,358)	—
Increase in trade and bills payables		158,942	51,989
Increase/(decrease) in receipts in advance		(22,751)	159,232
Increase in other payables and accruals		227,663	190,920
Cash generated from operations		706,603	675,940
Interest received		5,200	1,710
Income taxes paid		—	(130)
Net cash flows from operating activities		711,803	677,520

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the six months ended 30 June 2018 and reflect adjustments made. Refer to note 3 to the interim condensed consolidated financial statements for the six months ended 30 June 2019.

	Note	2019	2018
		(Unaudited)	(Unaudited) Restated*
		RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(37,269)	(90,910)
Additions to right-of-use assets		(948)	—
Additions to other intangible assets		(4)	(1,165)
Purchases of biological assets		(1,479)	1,058
Reversal of prepayment of biological assets		706	—
Payments for breeding calves and heifers		(230,364)	(286,044)
Proceeds from disposal of biological assets		238,911	167,007
Proceeds from disposal of items of property, plant and equipment		(285)	171
Purchases of time deposits with original maturity of more than three months		—	(200)
Proceeds from disposal of time deposits with original maturity of more than three months		—	284,611
Disposal of a subsidiary	7	(520)	—
Increase in pledged time deposits		—	(110,376)
Net cash flows used in investing activities		(31,252)	(35,848)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to non-controlling shareholders		(87,903)	—
New bank loans and other borrowings		879,000	828,272
Acquisition of non-controlling interests		(86,684)	—
Repayment of bank loans and other borrowings		(1,107,535)	(1,445,667)
Interest paid		(98,453)	(79,386)
Net cash flows used in financing activities		(501,575)	(696,781)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		178,976	(55,109)
Cash and cash equivalents at beginning of period		77,283	297,672
Effect of foreign exchange rate changes, net		(6,024)	(417)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		250,235	242,146
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		250,235	242,146
Time deposits with original maturity of more than three months		(200)	—
Cash and short-term deposits attributable to a discontinued operation		—	(6,649)
Cash and cash equivalents as stated in the statement of cash flows		250,035	235,497

* Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the six months ended 30 June 2018 and reflect adjustments made. Refer to note 3 to the interim condensed consolidated financial statements for the six months ended 30 June 2019.

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

Going concern

The Group had net current liabilities of RMB2,010,337,000 and capital commitments of RMB316,706,000 as at 30 June 2019 (31 December 2018: net current liabilities of RMB1,913,045,000 and capital commitments of RMB418,257,000). In view of the net current liability position, the board of directors (the "Directors") has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group has sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB866,012,000 as at 30 June 2019, the entrusted loan facility of RMB1,000,000,000 with the maturity date extended to 24 December 2020 and cash flow projections for the period ending 30 June 2020, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the interim condensed consolidated financial 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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial statements. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease)
	RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	20,163
Decrease in prepaid land lease payments	(18,845)
Decrease in prepayments, other receivables and other assets	(1,318)
	—

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 16 (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 16 (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and the movement during the period are as follows:

	Right-of-use assets
	Prepaid land lease payments RMB'000
As at 1 January 2019	20,163
Additions	686
Depreciation charge	(775)
As at 30 June 2019	20,074

The Group recognised rental expenses from short-term leases of RMB2,392,000 and leases of low-value assets of RMB982,000 for the six months ended 30 June 2019.

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial statements.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial statements.

3 CORRECTION OF PRIOR PERIOD ERRORS

During the year ended 31 December 2018, the Group identified the following guarantees issued by the Group in previous years which had not been disclosed or accounted for in its financial statements as previously reported for the six months ended 30 June 2018. The guarantees were issued for bank facilities granted by banks to the Group's distributors and associated companies:

(1) During the year ended 31 December 2017, the Group provided joint guarantees to banks for bank loans of RMB180,000,000 granted to its distributors. As at 30 June 2018, the balance of the bank loans on which the guarantees were granted was RMB71,750,000.

(2) On 28 August 2017, the Group provided guarantees to the bank for the bank loans of RMB92,600,000 granted to Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage"), an associated company of the Group and a key supplier to the Group.

(3) Since 20 September 2016, the Group has provided a guarantee to the bank for the one-year bank loan of RMB30,000,000 of Shengmu Forage. The guarantee period was extended upon the renewal of the bank loan during the year ended 31 December 2017 and the six months ended 30 June 2018. The guarantee expired upon the repayment of the bank loan on 10 February 2019.

(4) On 13 October 2017, the Group provided a joint guarantee to the bank for the bank loans of RMB130,000,000 granted to Shengmu Forage, along with Mr. Tongshan Yao, a shareholder and a director of the Company.

(5) Since 21 October 2016, the Group has provided guarantees to the bank for the three-year revolving loan facility with a cap amounted to RMB133,000,000 granted to Food Union Shengmu Dairy Co., Ltd. ("Food Union Shengmu"), an associated company of the Group. As at 30 June 2018, the utilized balance of the bank loan was RMB123,419,000.

These transactions have been accounted for in the Group's consolidated financial statements for the year ended 31 December 2018.

In addition, the Group assessed the expected credit losses ("ECL") for the financial assets, mainly including accounts receivable and other receivables, during the year ended 31 December 2018 at rates different to the ones originally used in the preparation of the interim financial statements for the six months ended 30 June 2018. Accordingly, an adjustment was made to the balance of retained earnings as at 1 January 2018 in the preparation of the annual financial statements for the year ended 31 December 2018. In this connection, the Group considered that the comparatives for the six months ended 30 June 2018 should be restated based on the revised rates for the year ended 31 December 2018 when the financial statements for the six months ended 30 June 2019 are presented with such comparatives.

3 CORRECTION OF PRIOR PERIOD ERRORS (continued)

The Group has quantified the financial impact of the guarantees and ECL of financial assets on its financial statements and the impact on the Group's interim condensed consolidated statement of profit or loss and the interim condensed consolidated statement of changes in equity for the six months ended 30 June 2018 is provided in the table below.

	As Reported	Adjustments	Restated-Group	Restated-Continuing operations
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Cost of sales	(965,060)	(165)	(965,225)	(682,506)
Other income and gains/(losses)	(486,387)	515,809	29,422	16,351
Selling and distribution expenses	(114,888)	(4,074)	(118,962)	(27,583)
Impairment losses on financial and contract assets*	—	(603,299)	(603,299)	(1,016)
Loss before tax	(1,181,356)	(91,729)	(1,273,085)	(722,651)
Loss for the period	(1,186,474)	(91,729)	(1,278,203)	(722,170)
Total comprehensive loss for the period	(1,190,672)	(91,729)	(1,282,401)	(726,368)
Loss attributable to owners of the parent	(1,066,894)	(91,729)	(1,158,623)	(602,590)
Total comprehensive loss attributable to owners of the parent	(1,071,092)	(91,729)	(1,162,821)	(606,788)
Basic loss per share attributable to ordinary equity holders of the parent	(0.168)	(0.014)	(0.182)	(0.095)
Diluted loss per share attributable to ordinary equity holders of the parent	(0.168)	(0.014)	(0.182)	(0.095)
Retained profits as at 30 June 2018	525,932	(198,815)	327,117	327,117
Equity attributable to owners of the parent as at 30 June 2018	3,281,467	(198,815)	3,082,652	3,082,652
Total equity as at 30 June 2018	4,196,838	(198,815)	3,998,023	3,998,023

* The adjustment comprised the correction of prior period errors of expected credit losses of RMB106,651,000 and the reclassification of expected credit losses of RMB496,648,000 from other income and gains/(losses) to impairment losses on financial and contract assets to comply with the current period's presentation.

4. REVENUE

An analysis of revenue from continuing operations is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue from contracts with customers		
Sales of goods	1,200,780	969,370

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Type of goods or services		
Sales of goods	1,200,780	969,370
Geographical markets		
Mainland China	1,200,780	969,370
Timing of revenue recognition		
At a point in time	1,200,780	969,370

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Cost of inventories sold	756,195	682,506
Loss arising from changes in fair value less costs to sell of biological assets	163,495	886,071
Depreciation of items of property, plant and equipment from continuing operations	76,293	75,567
Amortisation of prepaid land lease payments from continuing operations	775	715
Amortisation of other intangible assets from continuing operations	649	617
Research and development costs	2,546	989
Minimum lease payments under operating leases	600	600
Auditor's remuneration	660	—
Impairment losses on financial and contract assets	12,802	1,016
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	107,530	104,785
Other social insurances and benefits	7,912	5,017
Pension scheme contributions	5,077	5,413
	120,519	115,215

6. INCOME TAX (EXPENSE)/CREDIT

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Current - PRC	—	—
Deferred	(217)	481
Total tax (expense)/credit for the period from continuing operations	(217)	481
Total tax expense for the period from a discontinued operation	—	(5,599)
	(217)	(5,118)

7. DISCONTINUED OPERATION

On 23 December 2018, the Company announced the decision of its board of directors to dispose of 51% of the equity interests of Inner Mongolia Shengmu High-tech Dairy Co.,Ltd. ("Shengmu Dairy") and Hohhot Shengmu High-tech Dairy Co.,Ltd. ("Hohhot Dairy") to Inner Mongolia Mengniu Dairy (Group) Co., Ltd. ("Inner Mongolia Mengniu"), a subsidiary of China Mengniu. Shengmu Dairy and Hohhot Dairy engage in producing and distributing liquid milk products. As at 31 December 2018, Shengmu Dairy and Hohhot Dairy were classified as a disposal group held for sale and as a discontinued operation. The disposal was completed by the end of April 2019.

With Shengmu Dairy and Hohhot Dairy, which comprised the majority of the Group's liquid milk business, being classified as a discontinued operation, presenting information by operating segment is no longer required as the Group only has the dairy farming business retained upon the disposal of the liquid milk business.

The results of Shengmu Dairy and Hohhot Dairy for the period are presented below:

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	219,802	430,735
Cost of sales	(146,983)	(282,719)
Gross profit from the discontinued operation	72,819	148,016
Other income and (losses)/gains	(19,402)	13,071
Selling and distribution expenses	(100,364)	(91,379)
Administrative expenses	(10,038)	(12,377)
Finance costs	(3,945)	(5,103)
Other expenses	—	(104)
Share of losses of associates	(208)	(275)
Impairment losses on financial and contract assets	(77,604)	(602,283)
Loss before tax from the discontinued operation	(138,742)	(550,434)
Gain on disposal of the discontinued operation	85,751	—
Income tax expense	—	(5,599)
Loss for the period from the discontinued operation	(52,991)	(556,033)

The net cash flows generated from the disposal of Shengmu Dairy and Hohhot Dairy are as follows:

	For the six months ended 30 June
	2019
	RMB'000 (Unaudited)
Cash received from disposal of the discontinued operation	—
Cash and bank balances disposed of	520

7. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Shengmu Dairy and Hohhot Dairy are as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Operating activities	(53,979)	(377,347)
Investing activities	(34,158)	(11,990)
Financing activities	85,427	373,203
Net cash outflows	(2,710)	(16,134)
Loss per share:		
Basic, from the discontinued operation	(RMB0.009)	(RMB0.087)
Diluted, from the discontinued operation	(RMB0.009)	(RMB0.087)

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Loss attributable to ordinary equity holders of the parent from the discontinued operation	(52,991)	(556,033)
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation (note 9)	6,354,400,000	6,354,400,000
Weighted average number of ordinary shares used in the diluted loss per share calculation (note 9)	6,354,400,000	6,354,400,000

8. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of RMB73,501,000 (2018: RMB1,158,623,000), and the weighted average number of ordinary shares of 6,354,400,000 (2018: 6,354,400,000) shares in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of RMB73,501,000 (2018: RMB1,158,623,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss per share calculation of 6,354,400,000 (2018: 6,354,400,000) shares, plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise warrants and dilutive potential ordinary shares of 68,152,000 shares (2018: Nil).

No adjustment has been made to the basic loss per share amount presented for the six months period ended 30 June 2019 in respect of a dilution because the impact of the warrants and dilutive potential ordinary shares had an anti-dilutive effect on the basic loss per share amount presented.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB38,624,000 (30 June 2018: RMB35,315,000).

Assets (other than those classified as held for sale) with a net book value of RMB4,456,000 were disposed of by the Group during the six months ended 30 June 2019 (30 June 2018: RMB670,000), resulting in a net loss on disposal of RMB4,857,000 (30 June 2018: RMB 440,000).

11. BIOLOGICAL ASSETS

The biological assets of the Group are dairy cows held to produce raw milk and cows held for sale. Dairy cows held to produce raw milk are categorised as bearer biological assets and cows held for sale are categorised as consumable biological assets.

(A) Quantity of biological assets

The Group's biological assets include heifers and calves, milkable cows and beef cattle. Heifers and calves are dairy cows that have not had their first calves. The Group's beef cattle are raised for sale.

	30 June 2019	31 December 2018
	Head (Unaudited)	Head (Audited)
Milkable cows	67,695	72,773
Heifers and calves	41,136	38,453
Beef cattle	779	1,379
	109,610	112,605

11. BIOLOGICAL ASSETS (continued)

(B) Values of biological assets

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

	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Milkable cows	1,918,550	2,025,336
Heifers and calves	650,081	642,091
Beef cattle	3,778	7,492
	2,572,409	2,674,919

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 professionally 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 and cows held for sale are consistent with those set out in the Group's 2018 annual report.

12. TRADE AND BILLS RECEIVABLES

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

	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 3 months	222,780	239,821
4 to 6 months	—	3,446
7 months to 1 year	1,358	2,424
Over 1 year	1,733	1,024
	225,871	246,715

13. TRADE AND BILLS PAYABLES

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

	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
1 to 3 months	835,055	789,020
4 to 6 months	59,820	109,151
7 to 12 months	62,931	65,068
1 to 2 years	18,762	27,110
2 to 3 years	10,588	6,449
Over 3 years	2,671	287
	989,827	997,085

14. SHARE CAPITAL

Shares

	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Authorized:		
30,000,000,000 ordinary shares of HK$0.00001 each (2018: 30,000,000,000 ordinary shares HK$0.00001 each)	236	236
Issued and fully paid:		
6,354,400,000 (2018: 6,354,400,000) ordinary shares	50	50

15. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	43,875	57,821
Land and buildings	59,515	49,436
Capital contribution payable to Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. and associates	213,316	311,000
	316,706	418,257

16. RELATED PARTY TRANSACTIONS

(A) In addition to the transactions detailed elsewhere in this financial statements, the Group had the following transactions with related parties during the period:

	Note	For the six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Associates:			
Sale of products	(i)	30,815	98,680
Purchases of raw materials	(i)	15,331	71,353
Sales of raw materials	(i)	48,508	11,575
Affiliates of a substantial shareholder:			
Purchases of raw materials	(i)	3,033	44,839

Note:

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

16. RELATED PARTY TRANSACTIONS (continued)

(B) Other transactions with related parties:

During the period, Shengmu Forage provided bio-waste (i.e., cow dung) collecting services to the Group's dairy farms for free. Such services included collecting unprocessed bio-waste and cleaning the Group's farms. In return, Shengmu Forage obtained unprocessed bio-waste for free from the Group's farms.

During the six months ended and as of 30 June 2019, the Group provided guarantees to banks in respect of the bank loans of the following related parties:

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Shengmu Forage	—	30,000
Food Union Shengmu	—	20,539
Shengmu Dairy	295,000	—

	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Shengmu Forage	110,000	155,000
Food Union Shengmu	98,864	123,419
Shengmu Dairy	295,000	—
Associates distributors	—	20,820

During the six months ended 30 June 2019, the Group has paid RMB20,820,000 (30 June 2018: RMB23,967,000) and RMB15,000,000 (30 June 2018: Nil) for the purpose of fulfilling the guarantees for the associate - distributors and Shengmu Forage, respectively.

As at 30 June 2019, there were no deposits (31 December 2018: RMB30,617,000) pledged to provide guarantees for the bank loans to Shengmu Forage.

(C) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2019	2018
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Short term employee benefits	1,621	929
Pension scheme contributions	37	9
	1,658	938

16. RELATED PARTY TRANSACTIONS (continued)

(D) Outstanding balances with related parties

	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Amounts owed by/(owed to) associates included in:		
Trade and bills receivables	116,118	22,847
Trade and bills payables	(117,769)	(38,796)
Prepayments, other receivables and other assets	564,319	507,444
Other payables and accruals	(246,338)	(1,662)

Other than the balances disclosed in the aforementioned table, as at 30 June 2019, included in the Group's prepayments, deposits and other receivables were the amounts due from Shengmu Forage of RMB93,330,000 (31 December 2018: RMB78,330,000) for the payment made to fulfil the guarantees granted by the Group and nil balance of the amounts due from the Group's associates distributors for the working capital financing provided to these associates by Shengmu Dairy (31 December 2018: RMB242,216,000) and for the payment made to fulfil the guarantees granted to these associates by the Group (31 December 2018: RMB35,526,000). The corresponding ECLs arising from the working capital financing provided to associates distributors and the payment made to fulfil the guarantees have been fully provided as at 31 December 2018 and the balance of the amounts due from the Group's associates distributors have been deconsolidated as at 30 June 2019 as a result of the disposal of Shengmu Dairy during the six months ended 30 June 2019.

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 credit terms similar to those offered by/to third parties.

17. 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 fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
Financial assets				
Long term receivables	11,794	11,516	11,794	11,516
Financial liabilities				
Long term payables	57,205	56,528	57,205	56,528
Interest-bearing bank and other borrowings	2,042,953	2,268,382	2,052,641	2,256,035

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

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, and 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 the non-current portion of long term receivables, the non-current portion of interest-bearing bank loans and long term payables 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)	
	30 June 2019	31 December 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Long term receivables	11,794	11,516
Long term payables	57,205	56,528
Interest-bearing bank and other borrowings	2,052,641	2,256,035

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Derivative financial instruments	—	5,779	—	5,779
Financial guarantee contracts	—	2,161	—	2,161
	—	7,940	—	7,940

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
Derivative financial instruments	—	81,238	—	81,238
Financial guarantee contracts	—	43,203	—	43,203
	—	124,441	—	124,441

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (six months ended 30 June 2018: Nil).

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2019.