2019 ANNUAL 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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. SHAO Genhuo *(Chairman)*
Mr. ZHAO Jiejun
Mr. LU Boxiang
Mr. SUN Qian

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. ZHANG Jiawang
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

Note: Mr. WU Jianye resigned as an executive director and a joint company secretary, Mr. WEN Yongping resigned as a non-executive director, and Mr. ZHAO Jiejun and Mr. LU Boxiang were appointed as non-executive directors on March 30, 2020.

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)
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

LOCATION MAP OF ORGANIC PRODUCTION BASE

CHAIRMAN'S STATEMENT

SHAO Genhuo
Chairman

Dear Shareholders,

I, hereby on behalf of the board of the Company, present the annual report of the Company and its subsidiaries for the year ended 31 December 2019.

Aligned with the generally improved situation in industry driven by the central government's effort to promote national dairy industry revitalization and affected by consumption upgrading, the operating results of China Shengmu is generally positive as it witnessed a turnaround from loss to profit. In the face of the industrial landscape full with opportunities and challenges, the Group has been able to lay a solid foundation for its improved operating performance achieved in 2019 by disposing of the downstream businesses to China Mengniu in order to focus on the upstream planting and farming industries, producing safe and quality desert-based grass-to-glass organic raw milk based on its proven grass-to-glass organic planting and farming technology, improving brand building as well as strengthening its cooperation relationship with downstream dairy enterprises.

China Shengmu is ranked No.8 globally among the Top Ten Dairy Farming Groups Worldwide 2020 selected by IFCN, an internationally renowned dairy industry research organization, based on the two aspects of annual total raw milk production and the number of milkable cow belongs to subordinated dairy farms.

In May 2019, "China-Denmark Organic Demonstration Farm" was located in the 27th farm of Shengmu High-tech, which has provided strong support for upgrading the Shengmu organic standard, cultivating talents for organic undertaking, enhancing the core competitiveness of organic dairy industry and creating a globally quality organic demonstration farm.

In order to satisfy the arising marketing demand, Shengmu has conducted independent research and development and explored for innovation in the field of production of functional raw milk, and has made technology breakthroughs constantly. For example, Shengmu has successfully produced and launched functional raw milk with rich native DHA by feeding cows with algae powder as well as studying corresponding diet formula and feeding and management

technologies. According to regular sampling measurement, the volume of native DHA contained in the functional raw milk amounted to more than 18mg/100g in mid-November 2019. This product, once launched, has not only satisfied the demands from the clients, but also diversified the Company's new products in the series of functional raw milk.

In 2019, China Shengmu disposed of its downstream businesses to shift its business focus to upstream planting and farming industries. Meanwhile, with establishing a safe base for milk sources as its core and producing high quality organic raw milk as its target, China Shengmu also enhanced organic planting and farming technology and strengthened its cooperation relationship with downstream dairy enterprises, thus accumulating valuable experiences in and laying a solid foundation for boosting sustainable development of Shengmu.

Shengmu High-tech tapped into Ulan Buh Desert, Inner Mongolia in 2009 where it fought against sands, grew forage crops, constructed pastures and produced quality milk, thereby establishing the first looped desert-based organic circular industry chain in the world. Thanks to our efforts to realize succession and leapfrog development and our hand-in-hand cooperation over the past decade, China Shengmu has been able to set an example for the development of the organic milk industry in China and create a development miracle that realizes synergy effects among economy, society and ecology.

Developing into a top brand in organic milk industry worldwide has been the goal of China Shengmu. In the future, we will devote unremitting efforts to realizing Shengmu's dream of the organic undertaking by taking "raw milk brand establishment" as its important development strategy, catering to the constantly changing market demand, improving operation efficiency, making contribution in the field of organic planting and farming industrial technology and intensifying its efforts to public welfare activities for desert control, so as to achieve sound performance in return for strong support from the shareholders and investors.

INDUSTRIAL OVERVIEW

At the 10th Dairy Conference of China, the Dairy Association of China published a white book, the Dairy Industry in China. According to the white book, during 2018, the production of milk amounted to 30.75 million tonnes nationwide and that of dairy products 26.87 million tonnes nationwide. Since the founding of our country, the production of dairy products has increased by 17.5% on an annually average basis and the average per capita consumption of milk products has reached 34.3 kilogram. Looking back to the situation of the industry during the past three years, the loss in the farming industry and the shutdown for environmental problems resulted in exit of a number of dairy farms with low quantity of herds. In the second half of 2018, the price of milk witnessed a turnaround from decrease to increase due to decreased supply and higher demand. Throughout the year 2019, sustained short supply of raw milk brought larger room of profits to the dairy farming enterprises.

In December 2018, "Certain Opinions on Further Promoting Prosperous Development of the Dairy Industry" (《關於進一步促進奶業振興的若干意見》) was jointly issued by the Ministry of Agriculture and Rural Affairs and the other eight government ministries and commissions. It is clearly proposed therein to make efforts to develop high-quality forage industry, improve production efficiency of dairy cows, and enhance the building of socialised service system for the dairy industry. In February 2019, "Certain Opinions of Central Committee of the Communist Party of China and the State Council on Prioritizing the Development of Agriculture and Rural Areas and Providing Comprehensive Services for 'Agriculture, Rural Areas and Farmers'" (《中共中央國務院關於堅持農業農村優先發展做好"三農"工作的若干意見》) again emphasised the implementation of the "action to revitalize the dairy industry" by intensifying the construction of high-quality milk source bases. According to "Opinions of the Executive Office of the People's Government of Inner Mongolia Autonomous Region on Promoting the Revitalization of Dairy Industry" (《內蒙古自治區人民政府辦公廳關於推進奶業振興的實施意見》) published by the People's Government of Inner Mongolia Autonomous Region in August of the same year, Inner Mongolia made a definite target to lead the development of the dairy industry throughout the country and take lead in realizing the revitalization of the dairy industry by striving to reach 3.5 million dairy stocks, 10 million tonnes of dairy production and RMB300 billion of output value of dairy processing enterprises by 2025.

Two major dairy enterprises, Mengniu and Yili, strived to promote the plan for realizing the early revitalization of the dairy industry in Inner Mongolia through industrial layout. In August 2019, the project of "China Dairy Industrial Park" initiated by the China Mengniu Group was officially started to explore a new path of high-quality development of the dairy industry based on eco-priority and green development. The project of "Yili Modern Smart Healthy Valley" directed by Yili Group also facilitated the implementation of revitalization strategy of the dairy industry in Inner Mongolia.

At the start of 2020, in response to the epidemic of novel coronavirus, National Health Commission and other departments published "Guideline of Nutrient Diet for Prevention and Control of Novel Coronavirus Pneumonia" (《新型冠狀病毒感染的肺炎防治營養膳食指導》), clearly stating that one egg and 300 gram milk or dairy products per day is an effective way to improve immunity and is beneficial to the prevention of novel coronavirus pneumonia.

Looking back, the dairy industry in China has experienced great improvement and change in many aspects such as business entity, farming methods, dairy cow species, breeding management and milk quality, making earth-shaking changes. The development and growth of leading enterprises, the propelling of brand building and the intensifying of quality regulation have made active contribution to safeguard the supply of dairy products. In the future, the dairy enterprises will continue to improve the industry through strong and practical actions, leading the development of the dairy industry to facilitate the revitalization of the dairy industry throughout the country, deliver the social responsibility of dairy enterprises and make efforts to protect the nutrition and health of the people in our country.

BUSINESS OVERVIEW

In 2019, the principal business of the Company was dairy farming business. Leveraging on the natural strategic and geographic advantage of the Ulan Buh Desert, the Group has built 22 dairy farms in the desert to produce high-quality milk. Among such farms, 11 farms have passed the organic certification from both China and EU and produce 731 tonnes of organic fresh milk per day, forming the largest organic raw milk base in China. The other 11 farms can transform to organic farms within 6 months under the organic certification requirements according to the demand from the market.

The Group has made important strategic measures in the development and growth of its organic dairy farming business. According to the development of the raw milk industry, the Group acquired minority interests in 12 joint venture farms in the Ulan Buh Desert, which effectively enhanced the efficient management of the farms and the level of standardised operation. In April, the Group completed the closing of the sale of 51% equity interests in Shengmu Dairy to the China Mengniu Group and the liquid milk business of Shengmu was consolidated to the China Mengniu Group. Leveraging on the established sale channels and professional sale talents in Mengniu, the Group had a wish to make Shengmu organic liquid milk brand larger and stronger. Shengmu Group is dedicated to the development of dairy farming business, striving to realize successful grass planting, cow breeding and producing premium milk. In May, "China-Denmark Organic Demonstration Farm" was located in the 27th farm of the Group, aiming to cultivate talents in the organic field by leveraging on the advanced knowhow and practical experience from Denmark farms, so as to enhance the core competitiveness of the organic dairy industry and create a premium organic demonstration farm all over the world.

In 2019, the Group recorded revenue of RMB2.76 billion, achieving a net profit of RMB0.14 billion. At present, the Group has 34 dairy farms in total in the Inner Mongolia region, including 11 organic farms. The Group had 106,074 dairy cows, including 44,802 dairy cows or 42.2% which produced organic milk. In 2019, the Group had produced a total of 642,166 tonnes of high-quality raw milk, including 266,851 tonnes of organic raw milk.

OPERATION REVIEW OF FARMING BUSINESS

ORGANIC FORAGE

Through many years of dedicated investment in the Ulan Buh Desert, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("**Shengmu Forage**") has currently built an organic forage base of over 200,000 mu. Shengmu Forage has built an organic fertilizer processing plant with an annual capacity of 70,000 tons and 7 liquid fertilizer plants. It has installed 328 fertilizing systems of organic liquid fertilizer for the planting base and built 9 cow dung processing plants with annual capacity of 250,000 cubic meters for the farms. Shengmu Forage is currently capable of satisfying the demand of organic forage planting for fertilizer. It has established a complete management system for planting organic forage, paving solid foundation for the development model of organic industry chain.

Shengmu Forage has established and fully implemented the corporate standard quality management systems of "Organic Forage" and "Organic Grass" to further establish an industrial standard. Through standardization of planting management, grass-to-glass organic tracking and organic product quality, Shengmu Forage has passed organic certification from authorized institutions within and outside the country for seven years consecutively and become the demonstration base for domestic large-scale organic planting industry.

CLIENT-ORINTED AND RESOURCE SYNERGY

The Group further deepened its synergy with the China Mengniu Group in 2019 to match demand of clients. The synergy between plans of the supply and the demand was intensified to avoid the sales of low-price milk outside of the plan, ensuring steady sales volume and price of raw milk. In 2019, the Group sold raw milk at a price of RMB4,183/tonne, with an increase of 14.0% as compared to that in 2018.

The unified procurement with the China Mengniu Group through Ai Yang Niu platform of the China Mengniu Group effectively decreased the procurement cost of bulk materials. The leveraging on the strong capital base and financing ability of the China Mengniu Group and the synergy of resources effectively replenished the working capital and lowered the financial risk.

INNOVATIVE PRODUCTS WITH SCIENTIFIC FORMULATION

In respect of nutrition and feeding, the Group enhanced the quality of forage mainly through internally produced premium silage alfalfa and internally produced fermented forage to increase the conversion rate of forage. Meanwhile, by introducing latest feeding concepts in the world and strengthening communication with and direction from globally famous experts, the Group improved the spot management level and feeding techniques. The output per milkable cow in 2019 rose by 7% compared with last year.

In respect of research and development of products, in response to the upgrade of consumption in the domestic market and the demands from clients in the dairy industry, the Group has made constant breakthroughs in technical bottlenecks through its internal research and development in the production area. Through adjustment of formula for feeding dairy cows, the Group successfully developed original DHA raw fresh milk with DHA content exceeding 18mg/100g. Such DHA milk produced through biological conversion is easier to be absorbed by human body.

BREEDING AND HEALTHCARE

In respect of breeding, the Group selected a cow genetic breeding company ranking third in the world to conduct strategic cooperation. By providing genetic materials of cows and breeding application techniques, the Group wanted to complete a 3-5 year core herd breeding plan to breed Holstein cows with high quality and output. The Group organized senior experts in the industry to conduct frequent front line training so that the breeding indicators such as pregnancy rate of cows and percentage of cows hard to get pregnant have been improved obviously. The dairy farms have established a calf management department to strengthen calf management, increasing the rate of female calves kept for breeding and the reserve of replacement heifers so as to optimize the structure of herds.

In respect of healthcare, the Group adopted many measures, such as optimization of daily food formula for dairy cows, emphasis on adjustment of rumen health, improvement of comfort of cowsheds, and enhancement of healthcare management process of dairy farms. Meanwhile, the Group worked together with top five global animal protection companies and top two domestic vaccine companies to make the animal benefit plan with the highest standard and the prevention and control of epidemic plan for dairy farms. As such, the Group can improve the positive immunity mechanism of herds and enhance the self immunity of dairy cows so as to control the culling rate of the dairy farms. Through cooperation with excellent animal protection companies, the Group actively carried out training and on site practical study and formulated a special subject on control of mastitis and a plan for prevention and control of limping disease, effectively enhancing the healthcare effect and decreasing disease occurring rate, and effectively improving the body health of dairy cows and decreasing the culling rate.

QUALITY AND SAFETY MANAGEMENT

Based on the concept of "providing globally most premium desert-based organic milk" as its mission, making reference to ten international and domestic standards such as AQ, Arlagarden, ISO9000, ISO22000 and ISO22002 as well as 52 laws and regulations and standards related to animal husbandry and breeding, China Shengmu has formulated a standard of "Shengmu Quality and Safety Management System for Dairy Industry and Farms" to cover dairy farm management and key parts in entirety. The standard involves management of 93 key control points in 4 categories including quality management of source of raw and auxiliary materials, health benefit of dairy cows, guarantee of milk quality and operating support, realizing an improving total quality management model based on clients with all staff engaged.

In respect of raw milk quality management, leveraging on the unique farming environment in the Ulan Buh Desert and the hardware configuration and management level in the dairy farms with large size, the Group formulated QP, QA, QC and QS management standards to strictly control forage quality from the source. With reference to GB13078 forage hygiene standard, the Group checked for every batch of raw and auxiliary materials in order to guarantee the quality and prohibited entry of unqualified raw and auxiliary materials, ensuring that premium forage is supplied for dairy cows to produce premium raw milk. The Group placed an emphasis on creating and improving central inspection room and implemented an internal risk investigation and prevention plan. The Group set an internal target to improve quality of raw milk to Level S qualification rate (TBC≤30,000, SCC≤200,000). In 2019, with the average TBC of 10,700 and the average SCC of 158,100, the annual qualification rate reached 95%, far higher than the current international and domestic standard.

INTERNAL OPERATION MANAGEMENT

The Group optimized its organization structure by granting power to front line, cutting hierarchy and putting downward rights and responsibilities, to grant full authorities to dairy farms. The Group promoted a remuneration system managed based on performance. The Group strengthened the benchmark management. Internally, the Group introduced a comparison mechanism among each business unit from the dairy farms to the feeding department, the breeding department, the healthcare department and milking department; externally, the Company learned from and communicated with domestic leading enterprises to align with the benchmark of the industry.

FINANCIAL REVIEW

In 2019, the Group's revenue amounted to RMB2,759.4 million and gross profit increased by 7.5% from RMB939.6 million in 2018 to RMB1,010.0 million in 2019. In 2019, the Group recorded profit after income tax of RMB135.7 million, representing an increase of RMB2,446.9 million compared with loss after income tax of RMB2,311.2 million in 2018. Profit after income tax from the continuing operations was RMB188.9 million and loss after income tax from a discontinued operation was RMB53.2 million.

As at 23 December 2018, a share purchase agreement was entered into between China Mengniu Group and the Group. By the end of April 2019, closing of the share purchase agreement took place. The Group disposed of its 51% interests in the liquid milk business 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 liquid milk business, other businesses of the Group (hereinafter referred to as the "**dairy farming business**") are stated as continuing operations.

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

Revenue

Unit: RMB in thousands, except percentages

	Dairy farming business				Liquid milk business [(2)]				
For the year ended 31 December	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	2,609,337	111,577	2,497,760	90.5%	261,609	—	261,609	9.5%	2,759,369
2018	2,404,084	356,340	2,047,744	70.9%	839,423	—	839,423	29.1%	2,887,167

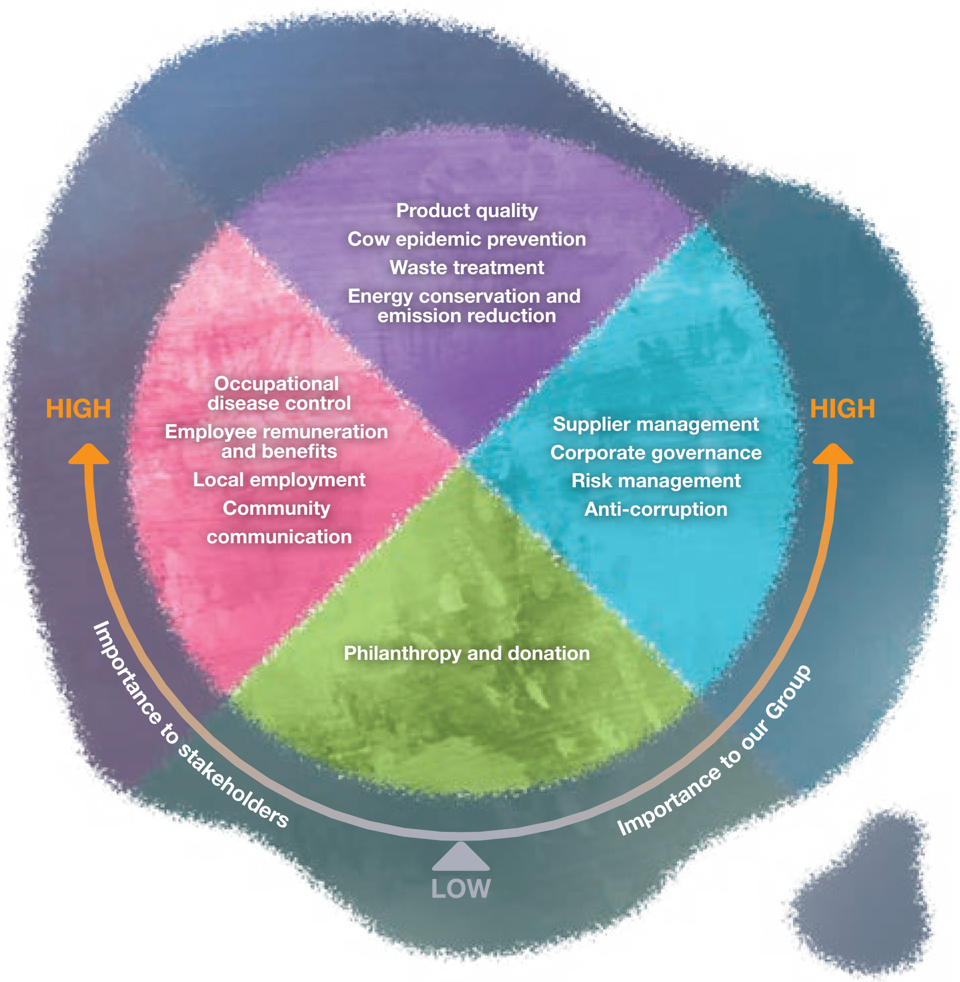
(1) Liquid milk business from January to April is included in the current year in this table and tables below. Such presentation can reflect and analyze the operating condition and changes of the Group for the current and previous year more reasonably;

(2) Liquid milk business includes the discontinued liquid milk business and the milk powder business. The annual figures only include figures of January to April before disposal of the liquid milk business.

Given the rising competition in the dairy products market, the Group entered into strategic cooperation with China 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. This was beneficial to the continuous growth of the liquid milk business, thus driving the development of upstream raw milk business. In 2019, the strategic raw fresh milk supply and marketing relationship with China Mengniu Group assured the stable sales; meanwhile, the raw milk price in the dairy farming business showed a steadily-growing trend. Both of the above generated stable revenue and cash flows for the Company, creating value for its shareholders sustainably. Sales of the Group's raw milk increased from RMB2,047.7 million in 2018 to RMB2,497.8 million in 2019, representing an increase of 22.0% as compared to the same period of last year.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales of the Group decreased from RMB1,947.6 million in 2018 to RMB1,749.4 million in 2019. Gross profit increased from RMB939.6 million in 2018 to RMB1,010.0 million in 2019. Gross profit margin increased from 32.5% in 2018 to 36.6% in 2019. This is mainly affected by (1) the stable increase in the selling price of raw milk; and (2) change in the relationship between supply of and demand for organic raw milk so the Group adjusted the structure of raw milk products on a timely basis to increase gross profit.



Other Income and Gains and Impairment Losses on Financial and Contract Assets

Other income and gains and impairment losses on financial and contract assets of the Group decreased from net losses of RMB1,176.3 million in 2018 to net losses of RMB21.9 million in 2019, mainly attributable to a decrease of RMB1,034.7 million in impairment losses on financial and contract assets recognised for liquid milk business from RMB1,112.3 million in 2018 to RMB77.6 million in 2019.

Selling and Distribution Expenses

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fees and employees' remunerations. In 2019 and 2018, selling and distributing expenses of the Group amounted to RMB131.1 million and RMB341.1 million, respectively. Significant decrease in 2019 as compared to 2018 was mainly due to significant decrease in selling expenses of the Group resulting from the Group's disposal of liquid milk business in April 2019 which generated most of selling expenses of the Group.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees and expenses relating to professional services provided by lawyers and auditors. In 2019 and 2018, administrative expenses of the Group were RMB141.3 million and RMB151.7 million, respectively. Decrease in administrative expenses of approximately 6.9% as compared to the previous year was mainly due to the decrease in administrative expenses of the Group resulting from excluding liquid milk business from consolidation scope as a result of disposal of liquid milk business in April 2019. In 2019 and 2018, administrative expenses accounted for 5.1% and 5.3% of revenue, respectively.

Net Gains or Losses 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 2019 and 2018, the Group's loss arising from changes in fair value less costs to sale of biological assets were RMB284.9 million and RMB1,321.6 million, respectively. The significant decrease in loss arising from changes in fair value less costs to sale of biological assets of the Group from 2019 to 2018 was mainly affected by, among other factors, the higher output per milkable cow of the Group.

Share of Profits and Losses of Associates

The Group's associates include (a) in 2019, 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% interests of which was held by the Group, therefore Shengmu Dairy became an associate of the Group; (b) Shengmu Forage and its subsidiary in which the Group invested and held minority interests; and (c) 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 2019 and 2018, the Group recorded share of losses of associates of RMB65.2 million and RMB15.6 million, respectively.

Income Tax Expense

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a 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 RMB0.6 million in 2019 and RMB27.9 million in 2018, respectively. The decrease in income tax expense of the Group in 2019 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.

Profit 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 2019, profit attributable to non-controlling interests was RMB108.0 million and in 2018, loss attributable to non-controlling interests was RMB86.0 million.

In 2019, there were 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) the decrease in loss arising from changes in fair value less costs to sell of biological assets; and (3) the Group's completion in disposal of 51% of the equity interests in Shengmu Dairy, the downstream business, in April 2019 and the significant decrease in impairment on financial and contract assets during the year, etc. As a result, profit attributable to owners of the parent of the Group was RMB27.7 million, decreasing by RMB2,252.9 million from loss of RMB2,225.2 million in 2018.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at 31 December 2019, total current assets of the Group were RMB1,783.3 million (as at 31 December 2018: RMB2,048.2 million), primarily consisting of inventory of RMB678.1 million (as at 31 December 2018: RMB637.0 million), trade and bills receivables of RMB167.1 million (as at 31 December 2018: RMB344.1 million), prepayments, deposits and other receivables of RMB614.1 million (as at 31 December 2018: RMB685.3 million), cash and bank balances of RMB310.2 million (as at 31 December 2018: RMB374.3 million), and consumable biological assets of RMB13.8 million (as at 31 December 2018: RMB7.5 million). There was a relative decrease in the Group's current assets as at 31 December 2019 as compared with that of 31 December 2018, which was mainly attributable to the disposal of the 51% equity interests in its subsidiary Shengmu Dairy in April 2019, therefore the corresponding assets and liabilities were no longer included in the financial statements of the Group.

Current Liabilities

As at 31 December 2019, total current liabilities of the Group amounted to RMB4,121.0 million (as at 31 December 2018: RMB4,573.4 million), primarily consisting of trade and bills payables of RMB1,365.8 million (as at 31 December 2018: RMB1,456.3 million), other payables and accruals of RMB574.8 million (as at 31 December 2018: RMB715.2 million), interest-bearing bank and other borrowings of RMB2,177.1 million (as at 31 December 2018: RMB2,320.7 million), and derivative financial instruments of RMB3.3 million (as at 31 December 2018: RMB81.2 million). The decrease in the Group's current liabilities as at 31 December 2019 compared to that as at 31 December 2018, was mainly due to (1) upon disposal of the 51% equity interests in Shengmu Dairy, a subsidiary of the Group, in April 2019, therefore the corresponding assets and liabilities were no longer 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 most transactions are conducted in RMB. As at 31 December 2019, the Group did not have significant foreign currency exposure from its operations, except for balances equivalent to approximately RMB0.6 million and RMB1.3 million which were denominated in United States dollars and Euro, respectively. As at 31 December 2019, the Group did not enter 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 31 December 2019, the Group had pledged deposits of approximately RMB177.5 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. As at 31 December 2019, biological assets of the Group with fair value of approximately RMB945.7 million (31 December 2018: RMB1,069.8 million) and partial interests in 13 wholly-owned subsidiaries and 2 non-wholly-owned subsidiaries (31 December 2018: 14 non-wholly-owned subsidiaries) with an aggregate net assets of RMB2,393.9 million (31 December 2018: RMB2,311.9 million) were used as collaterals for the entrusted loans of the Group amounting to RMB1,370.0 million (31 December 2018: RMB1,300.0 million).

Liquidity, Financial Resources and Capital Structure

Throughout 2019, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. As at 31 December 2019, the Group had (a) cash and bank balances of RMB132.6 million (as at 31 December 2018: RMB77.3 million), and (b) interest-bearing bank and other borrowings of RMB2,216.6 million (as at 31 December 2018: RMB2,370.2 million), all denominated in RMB, of which, RMB39.4 million were repayable within one to five years, while the remaining interest-bearing bank and other borrowings were repayable within one year. Except bank and other borrowings equivalent to RMB50.6 million which are denominated in Euros and bear fixed interest rates, the Group's remaining bank and other borrowings are denominated in RMB and bear fixed interest rates. For the year ended 31 December 2019, the annual interest rate of bank borrowings ranged from 1.55% to 12.97% (for the year ended 31 December 2018: 1.55% to 12.97%), with the interest rate of bank borrowings of 12.97% representing only that of the borrowings of RMB1,300.0 million attached with warrants.

Environmental Policies and Performance

The Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC in 2019.

Capital Commitments

As at 31 December 2019, the Group's capital commitments amounted to RMB81.1 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 cash consideration of RMB300.0 million and the transaction has been completed during the year.

Human Resources

As at 31 December 2019, the Group had a total of 2,668 employees (as at 31 December 2018: 3,814 employees). Total staff costs throughout 2019 (including the emoluments of Directors and senior management of the Company) amounted to RMB270.5 million (2018: RMB293.3 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 liquid milk 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 31 December 2019, the Group provided guarantees with amount of RMB80.0 million (31 December 2018: RMB155.0 million), RMB65.4 million (31 December 2018: RMB123.4 million) and RMB198.0 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 2019, 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 2019, payment of cash consideration of RMB300.0 million was completed. The transaction has been completed by 31 December 2019.

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

The industry is in the golden time at present with consumption upgrade resulting in rapid development of the organic industry and various favorable policies facilitating sound development of the dairy industry. Leveraging on the natural strategic geographical advantage of the Ulan Buh Desert, the Group will further consolidate the desert-based grass-to-glass organic management system to deepen the influence of desert organic milk brand, attracting industrial clients to the Ulan Buh Desert to experience an organic living.

Grasping the favorable opportunity from adjustment of supply of raw milk, the Group will appropriately expand the size of its herds, optimize the genes of dairy cows, and increase the percentage of core herds by increasing the reserve of replacement herds. The Group will optimize the nutrient formula, increase the conversion rate of forage and the output per milkable cow to lower the cost and increase efficiency. According to the market demand, the Group will increase the output of organic milk in due course. With continuous innovation and research and development of new products, the Company will improve its product structure to enhance its core competitiveness.

In 2020, Shengmu College initiated by the Group will establish a differentiated talent development system to cultivate interdisciplinary talents who are experts in one area with multiple skills. The information-based project initiated at the same time will also complete the integration and unity of the IT planning with the management and control of the operation of the Group, so as to upgrade the operating capability of the Group while consolidating basic management.

The situation of the industry and the development of the Company are gradually getting better. In the future, shouldering the mission, Shengmu will insist on creating global No.1 brand of the dairy industry to make more contribution to the revitalization of the dairy industry of China.

The Board has the pleasure in submitting its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019. Save as stated otherwise in this report, the defined terms herein shall have the same meaning as in the prospectus (the "**Prospectus**") dated 30 June 2014.

BUSINESSES REVIEW

The Group's principal businesses consist of dairy farming business. For details of the principal subsidiaries of the Group, please refer to note 1 to the financial statements.

The Group's income is mainly derived from its business activities in the PRC. Further details of the Group's business review of the financial year are set out in the section headed "Management Discussion and Analysis" of this annual report.

The Group is exposed to a variety of business risks, including financial risk, regulatory and environmental risks, climate, disease and other natural risks in the ordinary course of business.

Further details of the Group's principal risks, please refer to note 17 and note 39 to the financial statements.

RESULTS

The Group's consolidated results for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income in the financial statements.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" in this annual report.

PROPERTY, PLANT AND EQUIPMENT

For details of the changes in the properties, plant and equipment of the Group during the year, please refer to note 13 to the financial statements.

DONATIONS

The Group made donations with a total amount of RMB163,000 during the year of 2019 (2018: RMB140,000).

DIVIDEND POLICY AND DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: nil). The Board intends to consider dividend distribution upon receiving profit contribution from the principal business of the Group.

DISTRIBUTABLE RESERVES

The Company's distributable reserves amounted to RMB3,003.8 million as at 31 December 2019. For details of the changes in the Company's reserves in 2019, please refer to note 42 to the financial statements.

SHARE CAPITAL

For details of the changes in the Company's share capital in 2019, please refer to the consolidated statement of changes in equity in the financial statements and note 30 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events for disclosure since the end of reporting period of the Group and up to the latest practicable date prior to the publication of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on June 19, 2020. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from June 16, 2020 to June 19, 2020, both days inclusive. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 15 June 2020.

The notice of annual general meeting and related circular will be despatched to the shareholders in due course.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the laws of the Cayman Islands, where the Company is incorporated, contains any provisions relating to pre-emptive rights.

MAJOR CUSTOMERS AND SUPPLIERS

In 2019, the five largest customers of the Group in aggregate accounted for 97.9% of the Group's total revenue from continuing operations and the largest customer accounted for 92.6% of the Group's total income from continuing operations. In 2019, the five largest suppliers of the Group accounted for 23.5% of the Group's total amount of purchases from continuing operations and the largest supplier accounted for 9.8% of the Group's total amount of purchases from continuing operations.

In 2019, to the knowledge of the Directors, none of any of shareholders or any of Directors or any of their close associates who owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers of the Group.

In 2019, we did not experience any material disputes with our customers or suppliers.

DIRECTORS

For the year ended 31 December 2019, the Company's Directors were as follows:

Executive Directors

Mr. YAO Tongshan
Mr. WU Jianye (re-elected on 21 June 2019)
Mr. ZHANG Jiawang (appointed on 25 January 2019)

The former executive Director, Mr. WANG Yuehua resigned with effect from 25 January 2019 due to his other business commitments.

Mr. Wu Jianye resigned as an executive director and a joint company secretary with effect from 30 March 2020 due to his other business commitments.

Non-executive Directors

Mr. SHAO Genhuo *(Chairman)*
Mr. WEN Yongping
Mr. SUN Qian (re-elected on 21 June 2019)

Mr. WEN Yongping resigned with effect from 30 March 2020 due to his other business commitments. Mr. ZHAO Jiejun and Mr. LU Boxiang were appointed as non-executive Director on 30 March 2020.

Independent Non-executive Directors

Mr. FU Wenge (re-elected on 21 June 2019)
Mr. WANG Liyan
Mr. LI Xuan

BIOGRAPHICAL DETAILS OF DIRECTORS AND MEMBERS OF OUR SENIOR MANAGEMENT

Biographical details of Directors and members of our senior management are set out in the section headed "Directors and Senior Management" in this annual report.

PERMITTED INDEMNITY PROVISION

During the financial year, the Company has maintained adequate liability insurances cover in respect of potential legal actions against its Directors.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years starting from the respective appointment date and shall retire by rotation at the general meeting according to the requirements of the Articles of Association of the Company. The Board may appoint any person as a Director from time to time and at any time either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. None of our Directors has entered into any service contract or appointment letter which cannot be terminated within one year without payment of compensation (other than statutory compensation) with the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. SHAO Genhuo, a non-executive Director of the Company, has ceased to act as the acting chief executive officer of the Company since 16 January 2019. Mr. Zhang Jiawang has been appointed as the chief executive officer of the Company with effect from 16 January 2019.

Mr. WANG Yuehua, a former executive Director of the Company, has ceased to act as the acting chief financial officer of the Company since 16 January 2019.

Mr. WEN Yongping, a former non-executive Director of the Company, has ceased to act as the non-executive director of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司) ("**China Modern Dairy**"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117) since 16 January 2019.

Mr. WANG Liyan has been re-appointed as an independent non-executive director of Jinshang Bank Co., Ltd., a joint stock company incorporated in the PRC whose shares are listed on the Main Board of the Stock Exchange (stock code: 2558) since 5 November 2019.

Save as disclosed herein, as at 31 December 2019, there was no change to the information required to be disclosed by the Directors pursuant to paragraph (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. WEN Yongping, a former 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) ("**Inner Mongolia Mengniu**"), a subsidiary of China Mengniu Dairy Company Limited, since 29 March 2017. Mr. Zhao Jiejun, a non-executive Director of the Company, has been appointed as the vice president and the general manager of milk sources and group supply chain of Inner Mongolia Mengniu since November 2019. He is also currently a non-executive Director and a member of the strategy and development committee of China Modern Dairy.

For further information on the businesses of China Mengniu and the potential competition between those businesses with the business of the Group, please refer to the section headed "Relationship with Mengniu Group – Competition" in the Prospectus.

The principal activities of China Modern Dairy are (i) production and sale of raw milk to customers for processing into dairy products; and (ii) production and sale of liquid milk products. The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, has acted and will continue to act in the best interests of the Group.

Save as disclosed above, all Directors have confirmed that for the year ended 31 December 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.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the criteria set out in Rule 3.13 of the Listing Rules, the Company considers that Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan are independent parties and has received from them written confirmations on their independence.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Supplemental Agreements to the Equity Transfer Framework Agreement in relation to the Acquisition of Minority Interest in the 12 Farming Companies

1 On 21 December 2018, the Company and Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有限公司) ("**Shengmu High-tech**"), an indirect wholly-owned subsidiary of the Company, entered into a reorganisation memorandum with 12 individual shareholders (the "**12 Individual Shareholders**") of 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**"), pursuant to which the 12 Individual Shareholders agreed to complete a reorganisation (the "**Reorganisation I**") for the purpose of implementation of the Acquisition (as defined hereunder).

Upon completion of the Reorganisation I, the 12 Individual Shareholders will directly hold 60% equity interest in Shengmu Sand and Grass and will hold 100% equity interests in 12 holding companies to be established by the 12 Individual Shareholders in the BVI respectively (the "**BVI Companies I**") which in turns hold 100% equity interests together in a holding company to be established in the BVI (the "**BVI Company II**") which will hold 100% equity interests in a holding company to be established in Hong Kong (the "**HK Company**"). The HK Company will hold the other 40% equity interests in Shengmu Sand and Grass.

On 21 December 2018, the Company and Shengmu High-tech entered into an equity transfer framework agreement (the "**Equity Transfer Framework Agreement**") with the 12 Individual Shareholders, pursuant to which (i) Shengmu High-tech agreed to acquire 60% equity interests in Shengmu Sand and Grass (which holds the minority interests in the 12 farming companies, the "**12 Farming Companies**") from the 12 Individual Shareholders upon completion of the Reorganisation by cash in the amount of RMB300.0 million (the "**Cash Consideration**"); and (ii) the Company agreed to issue a total of 688,705,234 new shares (the "**Consideration Shares**") of the Company at an issue price of HK$0.33 per share to the BVI Companies I to acquire 100% equity interest in BVI Company II which in turn indirectly hold the other 40% equity interests in Shengmu Sand and Grass upon completion of the Reorganisation I (the "**Acquisition**").

The Consideration Shares represent (i) approximately 10.84% of the existing issued share capital of the Company as at 21 December 2018 (the date when the Equity Transfer Framework Agreement was entered into) and (ii) approximately 9.78% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares.

Immediately upon completion of the Acquisition, Shengmu Sand and Grass and the 12 Farming Companies will become indirect wholly-owned subsidiaries of the Company. The financial results of Shengmu Sand and Grass and the 12 Farming Companies will be fully consolidated into the consolidated financial statements of the Group upon completion of the Acquisition.

Completion of the Equity Transfer Framework Agreement is conditional upon the fulfilment or waiver of the conditions set out in the section headed "The Equity Transfer Framework Agreement — Conditions Precedent" in the announcement of the Company dated 21 December 2018.

On 8 March 2019, the Company, Shengmu High-tech and the 12 Individual Shareholders entered into the first supplemental agreement to the Equity Transfer Framework Agreement (the "**First Supplemental Agreement**"), pursuant to which Shengmu High-tech shall pay the Cash Consideration to the 12 Individual Shareholders according to a revised payment schedule.

On 25 December 2019, the Company and Shengmu High-tech entered into the second supplemental agreement to the Equity Transfer Framework Agreement ("**Second Supplemental Agreement**") with the 12 Individual Shareholders, pursuant to which the 12 Individual Shareholders agreed to transfer the 60% equity interests in Shengmu Sand and Grass to Shengmu High-tech within 10 days from 25 December 2019 and implement the reorganisation with respect to the remaining 40% equity interests in Shengmu Sand and Grass before 10 June 2020 (the "**Reorganisation II**"), upon which the 12 Individual Shareholders will indirectly hold 40% equity interests in Shengmu Sand and Grass through the BVI Companies I and the BVI Company II. The 12 Individual Shareholders shall then transfer the 100% equity interests in BVI Company II to the Company within 5 days upon the completion of the Reorganisation II, in return for the Consideration Shares to be issued by the Company to the BVI Companies I (the "**Transfer**"). The 12 Individual Shareholders also agreed that the Company will be entrusted with the voting rights associated with the 40% equity interests in Shengmu Sand and Grass held by the 12 Individual Shareholders from the same date to the date on which the Transfer is completed or to the date on which all parties agree in writing to terminate the Second Supplemental Agreement.

Details of the Equity Transfer Framework Agreement, the First Supplemental Agreement and the Second Supplemental Agreement are set out in the announcements of the Company dated 21 December 2018, 8 March 2019 and 25 December 2019, and the circular of the Company dated 13 March 2019, respectively.

Disposal of Inner Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd.

2 On 22 January 2020, Shengmu High-tech, Inner Mongolia Mengniu and Inner Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd. (內蒙古蒙牛聖牧高科奶業有限公司) (the "**Target Company**") entered into a share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which Shengmu High-tech agreed to sell to Inner Mongolia Mengniu the remaining 49% equity interests in the Target Company (the "**Disposal**"). The consideration for the sale of the shares under the Share Purchase Agreement was RMB8,000,000 (equivalent to approximately HK$9,026,798.30), subject to an adjustment based on the difference in appraised value of the net assets of the Target Company between November and December 2019 (if applicable). As part of the Disposal, Shengmu High-tech, Inner Mongolia Mengniu and the Target Company agreed that the Target Company shall split its dairy products sales business. The Target Company has established Inner Mongolia Mengniu Shengmu High-tech Dairy Products Co., Ltd. (內蒙古蒙牛聖牧高科乳品有限公司) (the "**New Company**") and is in the process of injecting the assets and liabilities of the dairy products sales business which had been conducted by the Target Company as at 30 November 2019 into the New Company. Inner Mongolia Mengniu and Shengmu High-tech will hold 51% and 49% interests in the New Company, respectively. The dairy products manufacturing and processing business which has been conducted by the Target Company will remain in the Target Company.

Upon completion of the Disposal in January 2020, Inner Mongolia Mengniu held 100% equity interests in the Target Company. The Target Company ceased to be recognized as an investment in the consolidated financial statements of the Company and will be recognized as a wholly-owned subsidiary of Inner Mongolia Mengniu in its consolidated financial statements.

Details of the Share Purchase Agreement are set out in the announcement of the Company dated 22 January 2020.

Save as disclosed above, for the year ended 31 December 2019 and as at the date of this report, there was no material acquisition or disposal of subsidiaries or associated companies of the Company by the Group.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (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 of interest
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 (姚同山)	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 (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司) ("Shengmu Pangu")	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 31 December 2019, none of the Directors or chief executive of the Company had any interest or short position in the shares or 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in the section headed "Share Option Scheme" in this report, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at December 31, 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 of interest
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) 9,647,000 (S)	6.38% (L) 0.15% (S)
Nong You Co., Ltd.	Beneficial owner	1,301,651,000 (L)	20.48%
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000 (L)	20.48%

INTERESTS OF THE SUBSTANTIAL SHAREHOLDER 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%

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 31 December 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 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. Completion of tranche 1 of Warrants A in relation to 1,080,248,000 Warrant Shares A took place on 29 January 2019.

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 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**") 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. Completion of tranche 1 of Warrants B in relation to 127,088,000 Warrant Shares B took place on 1 February 2019.

Pursuant to the Warrant Subscription Agreement B, completion of the subscription of the second tranche of Warrants B is subject to the fulfillment or waiver of conditions set out in the Warrant Subscription Agreement B on or before 31 December 2019.

As additional time is required for the fulfillment of certain condition(s) under the Warrant Subscription Agreement B, on 25 December 2019 the parties to the Warrant Subscription Agreement B agreed in writing to extend the date for fulfillment of the conditions set out in the Warrant Subscription Agreement B to 31 July 2020 (or such other date as may be agreed between the Company and the Subscriber B in writing).

During the year ended 31 December 2019, none of the warrants under the Warrant Subscription Agreements has been exercised.

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 the 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 the 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 the 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 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 annual 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 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 annual 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.

EQUITY-LINKED AGREEMENTS

Save as disclosed in sections headed "Material Acquisition and Disposal of Subsidiaries and Associated Companies", "Issue of Unlisted Warrants under Specific Mandate" and "Share Option Scheme" of this report, during the year ended 31 December 2019, the Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering of the Company were approximately RMB801.2 million. The relevant net proceeds are intended to be or have been used in accordance with the proposed usages as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus of the Company dated 30 June 2014.

As at 31 December 2019, the net proceeds were applied as follows:

	Funds utilized as at December 31, 2019 RMB'000
Constructing six additional organic dairy farms	182,525
Acquiring dairy cows domestically and from overseas	145,644
Sales and marketing activities and expansion of distribution network	40,102
Expanding the Group's liquid milk production capacity	120,306
Repayment of loans	120,306
Additional working capital and general corporate purposes	80,204
Total	689,087

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as the related party disclosures set out in Note 36 to the financial statements and as disclosed in the section headed "Connected and Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company, an entity connected with a Director of the Company or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted for the year ended 31 December 2019.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

The Company's connected and continuing connected transactions during the year of 2019 are as follows:

1. Pursuant to the Equity Transfer Framework Agreement, the First Supplemental Agreement and the Second Supplemental Agreement set out in the section headed "Material Acquisition and Disposal of Subsidiaries and Associated Companies" in this annual report, immediately after the Reorganisation I and Reorganisation II but prior to the Acquisition, the 12 Individual Shareholders will indirectly hold 40% equity interest in Shengmu Sand and Grass. Therefore, the 12 Individual Shareholders are connected persons at the subsidiary level as defined under Rule 14A.06(9) of the Listing Rules. Accordingly, the Acquisition contemplated under the Equity Transfer Framework Agreement constitutes a connected transaction of the Company as defined under Chapter 14A of the Listing Rules. The Acquisition is in the interests of the Company and the shareholders as a whole as it aligns to the national policies encouraged by the Chinese government and the needs of consumers for food safety, and contributes to the stability of prices of unpasteurised milk.

2. On 22 November 2016, Shengmu Pangu and Shengmu High-tech entered into a framework agreement in relation to the purchase of organic raw milk by the Group (excluding Shengmu Pangu) from Shengmu Pangu (the "**Milk Supply Framework Agreement**"). As at the date of this agreement, Shengmu Pangu was a 55% indirectly owned subsidiary of the Company and the remaining 45% equity interests in Shengmu Pangu was owned by Mr. WU Jianye, the then executive Director of the Company. As a result, Shengmu Pangu is a connected person of the Company. Pursuant to the Agreement, the organic raw milk of Shengmu Pangu is subject to the Group's centralised sales. Shengmu Pangu shall sell all of its organic raw milk to the Group on a priority basis to satisfy the Group's demand. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu High-tech. The term of the Agreement is from 1 January 2017 to 31 December 2019. For each of the years ended 31 December 2017, 2018 and 2019, under the Milk Supply Framework Agreement, the total annual amount of purchases made by the Group (excluding Shengmu Pangu) from Shengmu Pangu may not exceed RMB333.1 million, RMB421.5 million and RMB454.2 million, respectively. For the year ended 31 December 2019, the total annual purchase amount of organic raw milk by the Group (excluding Shengmu Pangu) from Shengmu Pangu was RMB4.8 million. Reasons for and benefits of the transactions under the Milk Supply Framework Agreement are that the Group manages its sales of raw milk under a centralised system. As a subsidiary of the Group, Shengmu Pangu is also subject to such centralised sales system. Details of the Milk Supply Framework Agreement are set out in the announcement of the Company dated 22 November 2016 with respect to continuing connected transactions of the Company.

3. On 20 March 2018, Shengmu High-tech (for itself and on behalf of the Group) and Beijing Dabeinong Technology Group Co., Ltd (北京大北農科技集團股份有限公司) ("**Dabeinong Group**") entered into a framework agreement in relation to purchase of feed by the Group from Dabeinong Group (the "**Dabeinong Group Feed Supply Framework Agreement**"). As Mr. SHAO Genhuo, a non-executive Director of the Company, holds more than 30% equity interest in Dabeinong Group, Dabeinong Group is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the Dabeinong Group Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Dabeinong Group Feed Supply Framework Agreement is from 20 March 2018 to 31 December 2020. Pursuant to such agreement, the total annual purchase amount by the Group from Dabeinong Group under the Dabeinong Group Feed Supply Framework Agreement shall not exceed RMB60.0 million for each of the three years ending 31 December 2018, 2019 and 2020, respectively. For the year ended 31 December 2019, the total annual purchase amount of feed by the Group from Dabeinong Group was RMB12.4 million. Reasons and benefits of the transactions under the Dabeinong Group Feed Supply Framework Agreement are that as a leading feed provider in the PRC, the products of Dabeinong Group accord to very high technological and quality and safety assurance levels. Details of the Dabeinong Group Feed Supply Framework Agreement are set out in the announcement of the Company dated 20 March 2018.

4. On 23 April 2019, Inner Mongolia Shengmu Holding Co., Ltd (內蒙古聖牧控股有限公司) ("**Shengmu Holding**"), a company incorporated in the PRC and a wholly owned subsidiary of the Company (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the sale and purchase of cows between the Group (excluding Shengmu Pangu) and Shengmu Pangu (the "**Framework Agreement for Sale and Purchase of Cows**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Pursuant to the Framework Agreement for Sale and Purchase of Cows, the parties thereto will sell and purchase cows from the other, such that the calves and heifers of the parties will be raised on a centralised basis and separately from milkable cows. The term of the agreement is from 23 April 2019 to 31 December 2021. For each of the years ending 31 December 2019, 2020 and 2021, under the Framework Agreement for Sale and Purchase of Cows, (i) the total annual amount of purchases of cows made by the Company (excluding Shengmu Pangu) from Shengmu Pangu shall not exceed RMB16.0 million, RMB13.6 million and RMB14.2 million, respectively; and (ii) the total annual sales of cows made by the Group (excluding Shengmu Pangu) to Shengmu Pangu shall not exceed RMB29.4 million, RMB45.8 million and RMB35.7 million, respectively. For the year ended 31 December 2019, the total annual purchase amount of cows by the Group (excluding Shengmu Pangu) from Shengmu Pangu was RMB4.6 million and the total annual sale amount of cows by the Group to Shengmu Pangu was nil. Reasons for and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are that the Group manages the dairy farming business on a centralised basis and as a subsidiary of the Group, Shengmu Pangu is also subject to such centralised management. Details of the Framework Agreement for Sale and Purchase of Cows are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

5. On 23 April 2019, Shengmu High-tech (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the provision of financial assistance (in the form of guarantees) by the Group (excluding Shengmu Pangu) to Shengmu Pangu for the commercial loans and borrowings of Shengmu Pangu on normal commercial terms, based on the requests of Shengmu Pangu from time to time (the "**Shengmu Pangu Financial Assistance Framework Agreement**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. The term of the Shengmu Pangu Financial Assistance Framework Agreement is from 23 April 2019 to 31 December 2021. Pursuant to such agreement, the Group will provide financial assistance (in the form of guarantees) to Shengmu Pangu on normal commercial terms. The maximum daily balance of financial assistance (in the form of guarantees) to be provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu under the Shengmu Pangu Financial Assistance Framework Agreement may not exceed RMB60.0 million for each of the three years ending 31 December 2019, 2020 and 2021, respectively. For the year ended 31 December 2019, no financial assistance in the form of guarantees was provided by the Group (excluding Shengmu Pangu) to Shengmu Pangu. Reasons for and benefits of the transactions under the Shengmu Pangu Financial Assistance Framework Agreement are the fact that Shengmu Pangu, as a subsidiary of the Group, has been obtaining commercial loans and borrowings with the guarantees provided by the other more established subsidiaries of the Group, such as Shengmu Holding and Shengmu High-tech. Without such guarantees, it would incur higher financial costs to obtain such commercial loans and borrowings. As such, it is commercially beneficial to the Group to continue to provide financial assistances to Shengmu Pangu, which will also lower the overall financial costs of the Group. Details of the Shengmu Pangu Financial Assistance Framework Agreement are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

6. On 23 April 2019, Shengmu Holding (for itself and on behalf of the Group (excluding Shengmu Pangu)) and Shengmu Pangu entered into a framework agreement in relation to the purchase of feed by Shengmu Pangu from the Group (excluding Shengmu Pangu) (the "**Feed Supply Framework Agreement**"). As Shengmu Pangu is a 55% indirectly owned subsidiary of the Company and Mr. WU Jianye, the then executive Director of the Company, holds the remaining 45% equity interests in Shengmu Pangu, Shengmu Pangu is a connected person of the Company as defined under the Listing Rules. Accordingly, the transactions contemplated under the Feed Supply Framework Agreement constitute continuing connected transactions of the Company. The term of the Feed Supply Framework Agreement is from 23 April 2019 to 31 December 2021. Pursuant to such agreement, the total purchase amount by Shengmu Pangu from the Group (excluding Shengmu Pangu) under the Feed Supply Framework Agreement may not exceed RMB84.1 million, RMB93.4 million, RMB93.0 million for the three years ending 31 December 2019, 2020 and 2021, respectively. For the year ended December 31, 2019, the total annual purchase amount of feed by Shengmu Pangu from the Group was RMB73.3 million. Reasons for and benefits of the transactions under the Feed Supply Framework Agreement are to facilitate the Group in managing the production and use of feed on a centralised basis, that is, all feed is produced by Shengmu Holding and subsequently sold to the cattle farming subsidiaries of the Group (including Shengmu Pangu) at a price referred to the market price. Details of the Feed Supply Framework Agreement are set out in the announcement of the Company dated 23 April 2019 with respect to continuing connected transactions of the Company.

7. On 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Dairy Company Limited ("**China Mengniu**") and its subsidiaries (together, the "**China Mengniu Group**")) entered into a framework agreement in relation to the sale of raw fresh milk from the Group (the "**Raw Fresh Milk Supply Framework Agreement**"). Upon full exercise of its subscription rights of Warrants A attached to tranche 1 of Warrants A by Subscriber A, China Mengniu will hold approximately 18.16% equity interest in the Company through Subscriber A and thus become a connected person of the Company as defined under the Listing Rules and Inner Mongolia Mengniu will therefore be an associate of Mengniu Dairy and also a connected person of the Company. The Company intends to comply with the requirements under Chapter 14A of the Listing Rules in advance, assuming Subscriber A exercises its subscription rights of Warrants A attached to tranche 1 of Warrants A during the subscription period. The term of the Raw Fresh Milk Supply Framework Agreement is from 1 January 2020 to 31 December 2022. Pursuant to such agreement, the total annual sale amount by the Group to China Mengniu Group may not exceed RMB3,300.0 million, RMB3,700.0 million and RMB4,200.0 million for the three years ending 31 December 2020, 2021 and 2022, respectively. Reasons for and the benefits of the transactions under the Raw Fresh Milk Supply Framework Agreement include (i) the close proximity between the dairy farms of the Group and the manufacturing facilities of China Mengniu Group would help to maintain freshness and lower transportation and preservation cost in the sale of raw fresh milk to China Mengniu Group; and (ii) the sales will ensure stable revenue and cash flow for the Group. Details of the Raw Fresh Milk Supply Framework Agreement are set out in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 6 March 2020 with respect to continuing connected transactions of the Company.

8. On 30 December 2019, Shengmu High-tech (for itself and on behalf of the Group) and Inner Mongolia Mengniu (for itself and on behalf of the China Mengniu Group) entered into a framework agreement in relation to the provision of entrusted loans by the China Mengniu Group to the Group (the "**Financial Assistance Framework Agreement**"). Upon full exercise of its subscription rights of Warrants A attached to tranche 1 of Warrants A by Subscriber A, China Mengniu will hold approximately 18.16% equity interests in the Company through Subscriber A and thus become a connected person of the Company as defined under the Listing Rules and Inner Mongolia Mengniu will therefore be an associate of Mengniu Dairy and also a connected person of the Company. The Company intends to comply with the requirements under Chapter 14A of the Listing Rules in advance, assuming Subscriber A exercises its subscription rights of Warrants A attached to tranche 1 of Warrants A during the subscription

period. The term of the Financial Assistance Framework Agreement is from 1 January 2020 to 31 December 2022. Pursuant to such agreement, the maximum daily balance of entrusted loans provided by the China Mengniu Group may not exceed RMB1,600.0 million for each of the three years ending 31 December 2020, 2021 and 2022. Reasons for and the benefits of the transactions under the Financial Assistance Framework Agreement are the fact that the China Mengniu Group is an important business partner of the Group and has a strong capital base and financing capabilities. The financial assistance provided by the China Mengniu Group to the Group will lower the overall financial risk of the Group. Details of the Financial Assistance Framework Agreement are set out in the announcement of the Company dated 30 December 2019 and the circular of the Company dated 6 March 2020 with respect to continuing connected transactions of the Company.

The Directors (including the independent non-executive Directors) are of the view that the connected and continuing connected transactions referred to above are entered into during the ordinary course of the Group's business on normal or better commercial terms and under agreements of such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders of listed companies as a whole. The Company's auditor has confirmed that: (i) nothing has come to their attention that causes them to believe that the disclosed connected and continuing connected transactions have not been approved by the Company's board of Directors; (ii) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the connected and continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed connected and continuing connected transactions have exceeded the maximum annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 36 to the financial statements. During the year, the related party transactions mainly comprised: (1) sale of products to certain entities which have been accounted for as associates distributors 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 connected person under the Listing Rules; (2) purchase of forage from Shengmu Forage; (3) purchase of feed from Dabeinong Group in accordance with the Dabeinong Group Feed Supply Framework Agreement; (4) sale of raw fresh milk to Shengmu Dairy; and (5) payment of emoluments to key management of the Group.

EMPLOYEES

As at 31 December 2019, the Group had a total of 2,668 employees (3,814 employees in total as at 31 December 2018). Total staff costs for 2019 (including the emoluments of Directors and senior management of the Company) amounted to RMB270.5 million (RMB293.3 million in 2018). The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The Group has also approved and adopted the Share Option Scheme. The purpose of the Share Option Scheme is to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

RETIREMENT BENEFIT PLANS

The Group has participated in a number of fixed contribution retirement plans for eligible employees within the Group in accordance with applicable laws and regulations.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

The remunerations of Directors and senior management are determined based on their working experience, industry expertise, educational background and skills as well as the Group's performance and operating results and with reference to the remuneration policies of other companies in the industry and prevailing market rates. Directors and employees also participate in performance incentive arrangements relating to the performance of the Group and individuals.

For the year of 2019, no emoluments were paid by the Group to any Director or any of the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. Except for Mr. Wang Yuehua who agreed to waive any emoluments from the Group, none of the other Directors has waived any emoluments for the year ended 31 December 2019.

For details of remuneration paid to the Directors and the five highest paid individuals which are required to be disclosed pursuant to Appendix 16 of the Listing Rules, please refer to notes 7 and 8 to the financial statements.

SUFFICIENT PUBLIC FLOAT

Based on the public information available to the Company and so far as all Directors are aware, the Company had maintained the public float as required by the Listing Rules throughout the period up to the latest practicable date prior to the publication of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For details of the Company's corporate governance practices, please refer to the section headed Report on Corporate Governance Practices in this annual report.

AUDITORS

Ernst & Young has audited the financial statements for the year ended 31 December 2019. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

All references in this part of the annual report (Report of the Directors) to other parts, sections of or notes in the annual report, form part of the Report of the Directors.

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

Hong Kong, 30 March 2020

EXECUTIVE DIRECTORS

Mr. YAO Tongshan (姚同山), aged 63, is the founder and executive Director of the Group. He is also a member of the nomination committee of the Company. Mr. YAO was appointed to the Board in February 2014. He has over 15 years of experience in the dairy industry, with extensive industry and management experiences.

Mr. YAO was the chief financial officer and executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司), a company listed on the Stock Exchange (stock code: 2319), from July 2008 to March 2010. Mr. YAO served as the chief financial officer, financial vice president and director of Inner Mongolia Mengniu, a subsidiary of China Mengniu Dairy Company Limited and which is principally engaged in the manufacturing of liquid milk, ice cream and other dairy products, between October 2001 and January 2010.

Mr. YAO graduated from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) with a bachelor's degree in power engineering in August 1982 and Tianjin University (天津大學) with a master's degree in engineering in June 1988. Mr. YAO was awarded as a senior economist (高級經濟師) by the People's Construction Bank of China (formerly known as China People's Construction Bank) in December 1995.

Save as disclosed above, Mr. YAO did not hold any directorship in any public listed companies in the last three years.

Mr. ZHANG Jiawang (張家旺), aged 41, is the chief executive officer and an executive Director of the Company. He was appointed to the Board on 25 January 2019.

Mr. ZHANG Jiawang was a vice president and manager of strategy and development of Dabeinong Group, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 2385) before he was appointed as the chief executive officer of the Company. Mr. ZHANG joined Dabeinong Group in August 2001 and has held various positions, including outreach director, development and investment manager and president's assistant since then.

Mr. ZHANG received a bachelor's degree in horticulture from Inner Mongolia Agricultural University (內蒙古農業大學) in July 2001 and an EMBA degree from Renmin University of China (中國人民大學) in January 2010.

Save as disclosed above, Mr. ZHANG did not hold any directorship in any public listed companies in the last three years.

NON-EXECUTIVE DIRECTORS

Mr. SHAO Genhuo (邵根夥), aged 54, is the chairman of the Board and non-executive director of the Company. He is also a member of the nomination committee of the Company. He was appointed to the Board on 26 September 2016.

Mr. SHAO Genhuo is currently the chairman of the board of directors of Dabeinong Group, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 2385). Mr. SHAO is primarily responsible for the strategic planning and overall management of Dabeinong Group. Mr. SHAO founded Dabeinong Group in October 1994 and has served as its chairman and general manager since then.

Mr. SHAO received his bachelor's degree from Zhejiang University (浙江大學) (formerly known as Zhejiang Agricultural University (浙江農業大學)) in 1986. Mr. SHAO received his master's and doctoral degree from China Agricultural University (中國農業大學) (formerly known as Beijing Agricultural University (北京農業大學)) in 1988 and 1991, respectively.

Save as disclosed above, Mr. SHAO did not hold any directorship in any public listed companies in the last three years.

Mr. SUN Qian (孫謙), aged 46, is a non-executive Director of the Company. He was appointed to the Board on March 26, 2014 and he is a member of the remuneration committee. Mr. SUN currently is a partner of Sequoia Capital China.

Mr. SUN received a bachelor's degree in applied mathematics from Harvard University in the United States in June 1997, and a master's degree in business administration from Harvard University and a juris doctor's degree from Harvard Law School in the United States both in June 2003.

Mr. SUN was a director of Bona Film Group Limited (principally engaged in film distribution business), a company listed on NASDAQ, from 2007 to 2011 and a director of 500.com Limited (principally engaged in online sports lottery services) since October 2013. Mr. SUN was a director of COOTEK (NASDAQ: CTK), a company with input method being its core business, in September 2018.

Save as disclosed above, Mr. SUN did not hold any directorship in any public listed companies in the last three years.

Mr. ZHAO Jiejun (趙傑軍), aged 43, is a non-executive director of the Company. He was appointed to the Board on 30 March 2020. Mr. ZHAO is currently a vice president and the general manager of milk sources and group supply chain 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, 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). Mr. ZHAO is also currently a non-executive Director and a member of the strategy and development committee of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117) and the chairman of the board of directors of Inner Mongolia Ai Yangniu Technology Co., Ltd. (內蒙古愛養牛科技有限公司).

Mr. ZHAO joined Mengniu in December 2000 and has held various positions, including general manager of supply chain center of normal temperature products business, assistant vice president and general manager of milk source business of Mengniu. Mr. ZHAO has been the associate director of the International Committee of China Dairy Association and the executive vice president of Inner Mongolia Dairy Association since January 2019.

Mr. ZHAO received his bachelor's degree majoring in business administration from China University of Geosciences, Wuhan (中國地質大學(武漢)) in 2009 and his master's degree in software engineering from Beihang University (北京航空航天大學) in 2013.

Save as disclosed above, Mr. ZHAO did not hold any directorship in any public listed companies in the last three years.

Mr. LU Boxiang (魯柏祥), aged 55, is a non-executive director of the Company. He was appointed to the Board on 30 March 2020. Mr. LU is currently the lecturer of the Department of Agricultural and Forest Economics of the Faculty of Public Administration of Zhejiang University (浙江大學), the associate dean of the Faculty of Entrepreneurs of Zhejiang University and the vice-president of the Research Institute of Global Zhejiang Entrepreneurs of Zhejiang University.

Mr. LU joined Zhejiang University in July 1986 and has held various positions, including the instructor of Department of Animal Husbandry and Veterinarian, General Manager of Zhengda Chicken Development Centre, the instructor of the Faculty of Management and the instructor of the Faculty of Public Administration. Mr. LU has also been an independent director of Anhui Win All High-tech Seed Co., Ltd (安徽荃銀高科種業股份有限公司), a company incorporated in the PRC with limited liability whose shares are listed on the Shenzhen Stock Exchange (stock code: 300087.SZ), since January 2019.

Mr. LU received his bachelor's degree majoring in animal husbandry from Zhejiang Agricultural University (浙江農業大學, which became part of Zhejiang University in 1998) in 1986, the postgraduate certificate in rural economy and development from Zhejiang Agricultural University in 1998 and PhD in agricultural economic management from Zhejiang Agricultural University in 2007.

Save as disclosed above, Mr. LU did not hold any directorship in any public listed companies in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FU Wenge (付文革), aged 53, is an independent non-executive Director of the Company. He was appointed to the Board on September 26, 2016. He is the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee.

Mr. FU Wenge is currently a professor and doctoral supervisor at the Economic Management School of China Agricultural University (中國農業大學) (formerly known as Beijing Agricultural University (北京農業大學)). Mr. FU has been working in China Agricultural University since July 1997 and held various positions including associate professor and the director of MBA education center.

Mr. FU worked in Kaifeng Education College (開封師範高等專科學校), now known as Henan University (河南大學), as a lecturer from July 1986 to September 1994. Mr. FU received an associate degree in English from Kaifeng Education College in June 1986 and master's degree in economics from Henan University in June 1997. Mr. FU received his doctor's degree in economics in Renmin University of China in June 2004.

Save as disclosed above, Mr. FU did not hold any directorship in any public listed companies in the last three years.

Mr. WANG Liyan (王立彥), aged 62, is an independent non-executive director of the Company, and member of the audit committee and nomination committee. He is currently a professor of the Department of Accounting, a doctoral advisor, and a director of Center for Responsibility and Social Value, of Guanghua School of Management in Peking University and a certified public accountant in the PRC. He obtained his doctor's degree from Peking University, and is a visiting scholar at University of Hertfordshire in England and Hong Kong University of Science and Technology, a visiting professor at Menlo College in California, US. and a visiting scholar at the World Resources Institute. His major research area lies in accounting information and corporate value, overseas listing, dual financial report and corporate governance system. He also serves as the chief editor of China Accounting Review and China Management Accounting. Mr. WANG has been an independent director of Huaxin Cement Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600801), since 23 April 2015 and an independent director of Unigroup Guoxin Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002049), since 23 March 2017. Mr. WANG has been an independent director of the Gettop Acoustic Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002655), since 12 April 2018. Mr. WANG has been appointed as an independent non-executive director of Jinshang Bank Co., Ltd., a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 2558), since 5 November 2019.

Save as disclosed above, Mr. WANG did not hold any directorship in any public listed companies in the last three years.

Mr. LI Xuan (李軒), aged 51, is an independent non-executive director of the Company and the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee. He obtained a doctor of laws degree from China University of Political Science and Law and currently serves as a university teacher. He is the Head of the LL.M Education Centre of Central University of Finance and Economics, the General Secretary of Case Study Committee of China Law Society (中國案例法學研究會) and a lawyer of ZiLue Law Offices (北京市資略律師事務所). He has been an independent director of the BOE Technology Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: A: 000725; B: 200725), since 19 August 2016 and an independent supervisor of China National Building Material Company Limited (中國建材股份有限公司), a company listed on the Stock Exchange of Hong Kong Limited (stock code: 3323), since 27 May 2016.

Save as disclosed above, Mr. LI did not hold any directorship in any public listed companies in the last three years.

SENIOR MANAGEMENT

Mr. SHAO Genhuo (邵根夥), aged 54, is chairman and non-executive Director of the Company. His biographical details are set out under the section "Non-Executive Directors" above.

Mr. ZHANG Jiawang (張家旺), aged 41, is the chief executive officer and executive Director of the Company. His biographical details are set out under the section "Executive Directors" above.

Mr. AU Wai Keung (區偉強), aged 48, is Secretary of the Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 18 years of experience in the area of accounting. Currently, Mr. AU is a director of Arion & Associated Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He is now also the company secretary of Honworld Group Limited (老恒和釀造有限公司) (stock code: 2226), Xin Point Holdings Limited (stock code: 1571), China Digital Video Holdings Limited (stock code: 8280), and SDM Group Holdings Limited (stock code: 8363). Mr. AU obtained a bachelor's degree in social sciences from the Chinese University of Hong Kong in December 1993 and a master's degree in business administration from the City University of Hong Kong in November 1999. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales.

For details of Directors' interests (as defined in Part XV of the Securities and Futures Ordinance) in shares of the Company, please refer to the section headed "Report of the Directors – Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company" in this annual report.

Save as disclosed above, no further information of our Directors or senior management is required to be disclosed pursuant to Rules 13.51(2) (h) to (v) under the Listing Rules.

OVERVIEW

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

We have adopted, applied and complied with the code provisions contained in the Code on Corporate Governance and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) for the year ended 31 December 2019.

Pursuant to provision A2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the beginning of the year of 2019, Mr. SHAO Genhuo performed these two roles (chairman and acting chief executive officer). The Company has been reviewing this practice continuously and considering to split the roles of chairman of the Board and chief executive officer of the Company. Mr. Zhang Jiawang has been appointed as the chief executive officer of the Company with effect from 16 January 2019 and Mr. SHAO Genhuo has ceased to act as the acting chief executive officer of the Company since 16 January 2019.

BOARD OF DIRECTORS

The Board is the decision-making body of the Company, and is responsible for formulating overall strategies and policies of the Group and approving its implementation plans to ensure that the Group achieves its goal swiftly. For the year ended 31 December 2019, the responsibilities performed by the Board include: formulation of strategies of the Company; formulation of development goals, guidelines and policies and implementation plans of the Company; control of and assessment on the fulfillment of the Company's financial and operating goals; review and approval of annual financial budgets, final accounts plans, profit distribution plans and compensation plans of the Company; establishment of effective internal control systems for risks assessment; and review and approval of the Company's material contracts and transactions, information disclosure, connected transactions and other matters required to be handled by the Board.

Moreover, the functions of corporate governance of the Board include: formulation and review of corporate governance policies and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and senior management; review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements; formulation, review and monitoring of the code of conducts for staff and the Directors; and review of the Company's compliance with other provisions contained in the Listing Rules from time to time and disclosure in the Corporate Governance Report.

Delegation by the Board

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to several committees under the Board (including the Audit Committee, Remuneration Committee and Nomination Committee) and senior management. All Board committees perform respective functions and duties within their terms of reference (which are available for inspection by the public on the websites of the Company and the Stock Exchange).

With the leadership of the chief executive officer, the senior management is delegated by the Board with authorities and duties on the daily operation and management of the Group. The delegated functions and work progress will be reviewed regularly. Approval from the Board shall be obtained by the Company before entering into of any material transactions.

Composition of the Board

As at the date of this report, the Board was comprised of nine Directors, including two executive Directors (Mr. YAO Tongshan and Mr. ZHANG Jiawang); four non-executive Directors (Mr. SHAO Genhuo, Mr. ZHAO Jiejun, Mr. LU Boxiang and Mr. SUN Qian); and three independent non-executive Directors (Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan). The Chairman of the Board of the Company is Mr. SHAO Genhuo. Mr. ZHANG Jiawang was appointed as an executive Director of the Company on 25 January 2019. Mr. ZHAO Jiejun and Mr. LU Boxiang were appointed as non-executive Directors of the Company on 30 March 2020. Mr. WU Jianye, an executive Director, and Mr. WEN Yongping, a non-executive Director resigned with effect from 30 March 2020 due to their other business commitments.

There was no financial, business, family or other material relationship between the Directors of the Company and in particular, between the Chairman of the Board of the Company and the chief executive officer.

Biographical details of the existing Directors are set out in the section headed "Directors and Senior Management" in this annual report.

Appointment, Re-election and Dismissal of Directors

Each of the Directors (including independent non-executive Directors) has signed a service agreement or an appointment letter with the Company for a term of three years. The Directors shall be subject to retirement from office by rotation or re-election at the forthcoming annual general meeting of the Company pursuant to Article 16 of the Articles of Association of the Company.

Pursuant to Article 16.2 of the Articles, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for the re-election. Pursuant to Article 16.3 of the Articles, any Director appointed by ordinary resolution to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

According to Article 16.18 of the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Diversity Policy

The Board implements a policy of diversified composition of the Board. For the purpose of sustained and balanced development, the Company recognises that the Board diversity is critical for facilitating its strategic goals and maintaining its sustainable development. All appointments to the Board are made in accordance with the principle of talents priority, together with the benefits of the diversified Board composition being taken into account. The selection of Board members is initially based on multiple factors from the point of the Board diversity, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and terms of service. Then, we will make decisions according to our specific requirements for talents at different stages of business development and strategic planning.

Independent Non-executive Directors

During the reporting period, the Company complied with Rule 3.10(1) and 3.10(2) of the Listing Rules which requires the Company to maintain at least three independent non-executive Directors and have an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. Mr. WANG Liyan, one of the independent non-executive Directors of the Company is a certified public accountant in the PRC.

The Company has received the letter of confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent.

Board Meeting

The Board convenes a meeting on a regular basis and at least four meetings each year. In 2019, the Board held five meetings at which the operating results, investment issues, etc. of the Company were considered and discussed.

Attendance record is below:

Members	Meetings attended/ meetings held since respective appointment date	Attendance
Executive Directors		
Mr. YAO Tongshan	5/5	100%
Mr. WU Jianye	5/5	100%
Mr. ZHANG Jiawang (Note 1)	4/4	100%
Non-executive Directors		
Mr. SHAO Genhuo *(Chairman)*	2/5	40%
Mr. WEN Yongping	0/5	0%
Mr. SUN Qian	5/5	100%
Independent non-executive Directors		
Mr. FU Wenge	4/5	80%
Mr. WANG Liyan	3/5	60%
Mr. LI Xuan	3/5	60%

Note:

(1) Mr. ZHANG Jiawang was appointed as an executive Director with effect from 25 January 2019. He was entitled to attend the relevant Board meetings convened after his appointment.

DIRECTOR TRAINING

The Company provides an introduction and related documents necessary for all new Directors upon joining the Board to ensure a broad understanding of the Company's business and operation model as well as the laws, regulations and various rules pertaining to the Company.

The Company encourages and supports all the Directors (i.e. Mr. YAO Tongshan, Mr. ZHANG Jiawang, Mr. SHAO Genhuo, Mr. ZHAO Jiejun and Mr. LU Boxiang, Mr. SUN Qian, Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan) to receive training and encourages their continuous professional development, so as to develop and keep abreast of their knowledge and skills better and serve the Company more efficiently. The Company offers training opportunities for all the Directors from time to time. During the year, the legal advisors of the Company have provided training on, among others, directors' duties, inside information provisions, market misconduct and continuing duties under the Companies Ordinance and the Listing Rules for all Directors.

BOARD COMMITTEES

The Company has three Board committees, namely the Remuneration Committee, the Nomination Committee and the Audit Committee. Each committee performs its work in accordance with the terms of reference approved by the Board.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee was established with written terms of reference in compliance with the Corporate Governance Code. 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. As at December 31, 2019, the Remuneration Committee comprised two independent non-executive Directors (Mr. FU Wenge and Mr. LI Xuan) and one non-executive Director (Mr. SUN Qian) and was chaired by Mr. LI Xuan.

According to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee convenes at least one meeting in each year. In 2019, the Remuneration Committee convened one meeting, whereby the overall remuneration policy and structure for the Company's Directors and senior management members and proposals on the establishment of standard and transparent procedures for the formulation of remuneration policies were reviewed.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. As at December 31, 2019, the Nomination Committee comprised three independent non-executive Directors (Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan), one executive Director (Mr. YAO Tongshan) and one non-executive Director (Mr. SHAO Genhuo) and was chaired by Mr. FU Wenge.

The Nomination Committee recommends potential candidates to appointments on the Board based on merits of such candidates, having regard for the benefits of diversity of the members of the Board and the necessity of ensuring a balanced composition of expertise appropriate for the businesses of the Group. The selection of potential candidates is based on a range of diverse factors, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge, and leadership qualities, and ultimately, the contribution that such candidates will be able to bring to the Board, to complement the abilities of existing Directors.

According to the terms of reference of the Nomination Committee of the Company, the Nomination Committee convenes at least one meeting in each year. In 2019, the Nomination Committee convened one meeting, whereby the members discussed the structure and composition of the Board of the Company, performed qualification review on preliminary candidates recommended by the management of the Company and identified suitable candidates, advised on the proposed changes to the Board for the purpose of the Company's corporate strategies and assessed the independence of independent non-executive Directors. Prior to election of a new Director, the chairman of the Nomination Committee submitted recommendations and relevant materials of the directorial candidates to the Board of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 18 June 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on 1 January 2016. As at 31 December 2019, the Audit Committee comprised three independent non-executive Directors (Mr. FU Wenge, Mr. WANG Liyan and Mr. LI Xuan) and was chaired by Mr. WANG Liyan.

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 annual results and interim results for 2019.

According to the terms of reference of the Audit Committee of the Company, the Audit Committee convenes at least two meetings in each year. In 2019, the Audit Committee convened a total of two meetings, whereby the members discussed various matters, including the 2018 annual results and 2019 interim results of the Company and its subsidiaries.

The attendance record of Directors at meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee is as follows:

	Number of attendances/meetings		
Directors	Remuneration Committee	Nomination Committee	Audit Committee
SHAO Genhuo	NA	1/1	NA
YAO Tongshan	NA	1/1	NA
WANG Liyan	NA	1/1	2/2
SUN Qian	1/1	NA	NA
LI Xuan	1/1	1/1	1/2
FU Wenge	1/1	1/1	2/2

GENERAL MEETINGS

For the year ended 31 December 2019, the attendance record of each Director at General Meetings is as follows:

Directors	Number of attendances/ meetings Annual General Meeting and Extraordinary General Meetings
YAO Tongshan	0/3
WU Jianye	3/3
ZHANG Jiawang (Note 1)	2/2
SHAO Genhuo	0/3
WEN Yongping	0/3
SUN Qian	0/3
FU Wenge	0/3
WANG Liyan	0/3
LI Xuan	0/3

Note:

(1) Mr. ZHANG Jiawang was appointed as an executive Director with effect from 25 January 2019, which was after the date of the extraordinary general meeting held on 24 January 2019.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the year ended 31 December 2019.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's accounts and other financial disclosures required under the Listing Rules, meanwhile, the senior management should provide relevant and sufficient information and explanation to the Board to enable it to make informed assessment of the financial and other decisions.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2019 is set out in the "Independent Auditor's Report" contained in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Group has complied and implemented relevant necessary risk management and internal control in accordance with the Corporate Governance Code during the year.

The Board acknowledges its responsibility to maintain sound and effective risk management and internal control systems of the Company, which are designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate risks of failure to achieve business objectives.

The Board is also responsible for monitoring our risk management and internal control systems of the Group and reviewing the effectiveness of such systems. The Board also ensures the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board conducts review of the risk management and internal control systems of the Group once every year. The Board conducted a review of the effectiveness of the Group's risk management and internal control systems, including all material controls, including financial, operational and compliance controls in 2019 and the Company considers them effective and adequate.

The internal control management center of the Group is established to act as the management institution of risk management and internal control, responsible for the evaluation of the establishment, optimization and implementation of internal control system throughout the industrial chain of the Group as to whether the internal control system of the Group is reasonably designed, free from risk and implemented effectively, as well as providing management support for the improvement and refinement of such defects and risks identified, if any, in the progress of evaluation. Meanwhile, the internal control management center is also responsible for diagnosing material risk control matters in each segment throughout the industrial chain of the Group, analysing, assessing and selecting risk management object for review so as to provide solutions to risk control and related requirements, and tracking the progress and result of risk control for acceptance for the purpose of effective risk management and control.

During the year, each operating and management department of the Group continued to work in system improvement and process optimization to realise the management goal in a more effective and consistent way.

The Group conducts risk management and internal control in different aspects in line with different level of corporate governance, and aims to provide necessary adjustment, restriction, assessment and control measures for the economics, efficiency and effectiveness of the implementation of the Group's operational goals, to keep the assets of the Group safe and intact and to ensure the correctness and reasonableness of accounting data, the compliance with relevant laws, regulations and rules, and such that all operational procedures are free from fraud or error, as it is reasonably able to. All employees are committed to continually enhancing the risk management and internal control systems of the Company, linking such systems to our corporate strategies as well as integrating such systems into our day-to-day operation.

With respect to the dissemination of inside information, the Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Listing Rules and the overriding principle (that inside information should be announced as soon as possible when it is the subject of a decision). The Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website. Unauthorised use of confidential or inside information is strictly prohibited by the internal policies of the Group, and the Group has also established and implemented procedures for responding to external enquiries about the Group's affairs.

The Group maintains an internal audit function. Internal audit reports are presented to and reviewed by the Audit Committee, who reports the findings to the Board. Based on the assessment by the Audit Committee, senior management members and the internal audit department, we did not identify any material internal control flaw or deficit, nor was any major issue raised for improvement, as at 31 December 2019.

JOINT COMPANY SECRETARIES

Mr. WU Jianye (武建鄴) ("**Mr. WU**"), one of our joint company secretaries, is a full-time employee of the Company. Mr. WU does not possess the qualification as stipulated in Rule 3.28 of the Listing Rules. We have appointed and engaged Mr. AU Wai Keung (區偉強) ("**Mr. AU**"), who possesses the qualification required under Rule 3.28, to act as another joint company secretary. Mr. WU, the executive Director of the Company, is the usual contact person to liaise with Mr. AU.

Mr. AU and Mr. WU cooperate with each other to jointly discharge the duties and responsibilities of company secretaries. Meanwhile, Mr. WU joins relevant training and familiarises himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

In 2019, Mr. WU and Mr. AU, who are the Company's joint company secretaries, confirmed that they had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules by taking at least 15 hours of relevant professional training.

Mr. WU resigned as the Company's joint company secretary on 30 March 2020 due to his other business commitments.

EXTERNAL AUDITOR AND ITS EMOLUMENTS

The Group's external auditor is Ernst & Young. For the year ended 31 December 2019, the emoluments paid or payable for the audit and non-audit services provided by Ernst & Young was as follows:

	Amount (RMB)
Audit Services	3,060,000
Non-audit Services	250,000
Total	3,310,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

We adopt active policies to welcome shareholders and investors to put forward valuable advice and suggestions. We assign dedicated staff members to maintain investor relations and regularly or occasionally communicate or coordinate with institutional investors, with an aim to enhance communication and mutual understanding in a timely manner. We will also update the investor relations website in a timely manner, so as to ensure that the shareholders and investors can have timely access to and understand the Company's latest data, information and reports.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or senior management by email at zgsm@smorganic.cn or by mail to the principal place of business of the Company in Hong Kong at Unit 1303, 13/F, Hua Fu Commercial Building, 111 Queen's Road West, Hong Kong Special Administrative Region.

PROCEDURES FOR THE CONVENING OF EXTRAORDINARY GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to the provisions set out in the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2019, there was no change in or amendment to the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

As an H-share listed company, China Shengmu operates in strict accordance with relevant regulations of the Hong Kong Stock Exchange and performs corporate information disclosure, investor relations management and service work in a proper manner according to law. This report complies with the Environmental, Social and Governance Reporting Guide (hereinafter referred to as the "ESG Reporting Guide") on appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Stock Exchange").

This report was prepared in accordance with the reporting principles in the "ESG Reporting Guide" of the Stock Exchange:

Materiality: A materiality matrix is disclosed elaborating on the process and results of materiality analysis and enumerating important stakeholders and targeted communication measures. For details, see "Stakeholder Engagement" and "Materiality Analysis" sections in the "Sustainable Development Management" chapter.

Quantitative: Reference standards, calculation methods and parameters are indicated for the environmental data disclosed.

Consistency: Since the Group had disposed of 51% equity interest of Shengmu Dairy to Inner Mongolia Mengniu which had completed before 30 April 2019, Shengmu Dairy related content and data are no longer within the scope of disclosure herein as in previous years.

1. SUSTAINABLE DEVELOPMENT MANAGEMENT

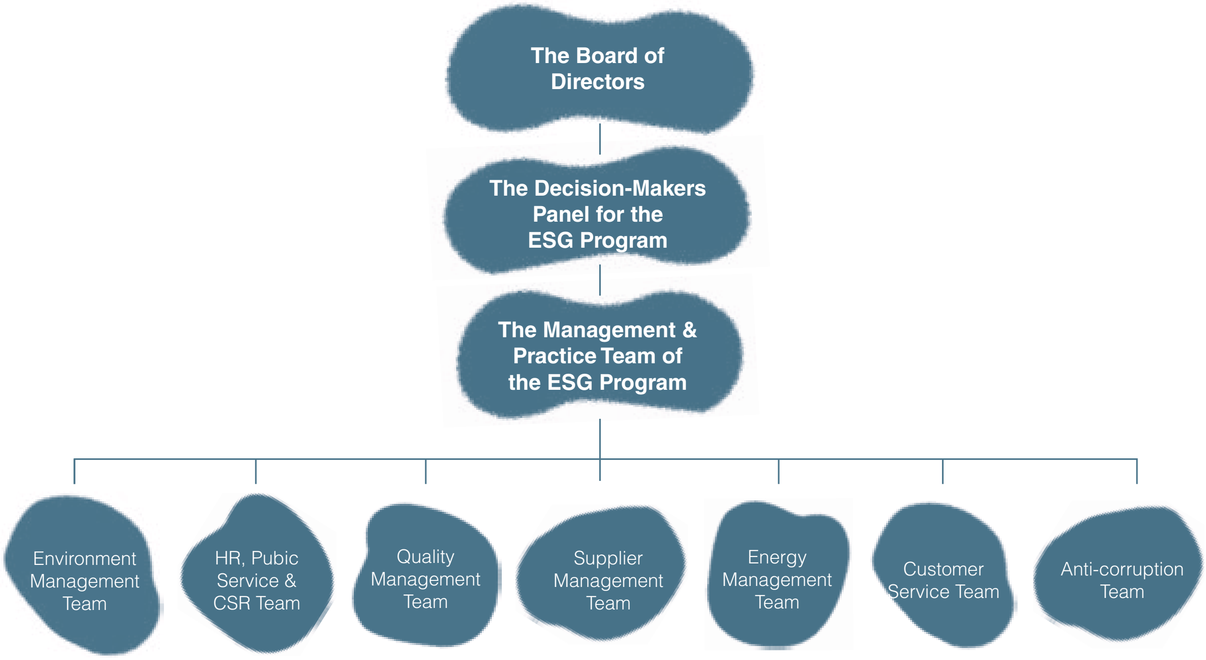
The year 2019 marks the tenth anniversary of the establishment of the Group. Over the past ten years, the Group has built a complete industrial eco-system of organic sand control in the desert hinterland for organic desert-based grass planting, organic milk farming, and organic milk processing, forming a closed-loop organic ecosystem and an epoch-making desert-based grass-to-grass organic industrial chain. Adhering to the mission of "enabling all Chinese nationals to enjoy dairy products of the highest quality worldwide" we produce high-quality, nutritious and healthy organic raw milk, leading the Chinese dairy industry to develop in a more sustainable fashion. In 2019, the Group once again graced the "Inner Mongolia Top 100 Brand List" with a brand value of RMB15.712 billion.

- More than 200 thousands mu of desert have been transformed into fine grassland, more than 200 square kilometers of desert into oasis. 11 reservoirs have been built in Ulan Buh Desert;
- 1 bio-organic fertilizer processing plant and 9 organic manure fermentation plants have been built;
- A total of 34 dairy farms have been built, including 11 organic and 23 non-organic farm;
- A total of 193.3 kilometers of roads have been built and 277.9 kilometers of power transmission lines built in the desert.

1.1 Sustainability Management Structure

The Group continuously optimizes the ESG governance structure where the board of directors has the ultimate responsibility for ESG matters, such as formulating the Group's sustainable development management policies, strategies and goals and regularly monitoring the implementation of ESG work; ESG project decision-making group and ESG project management executive group are responsible for launching and implementing ESG work and reporting to the board of directors on a regular basis.

ESG MANAGEMENT STRUCTURE OF CHINA SHENGMU



1.2 Stakeholder Engagement

The Group pays consistent attention to the expectations and demands of stakeholders, maintains regular and effective communication with stakeholders, and integrates the opinions of stakeholders into its strategic decision-making and management optimizing processes in a timely manner. In 2019, the Group continued to optimize the ways of engagement with various stakeholders and improve the management mechanism of stakeholders in order to improve its operating performance.

STAKEHOLDER CONCERNED ISSUES AND COMMUNICATION CHANNELS

Key stakeholders	Issues of Concern	Communication Channel	Main Responses
Shareholders	• Consistent and stable return on investment • Timely disclosure of information • Compliance operations	• Shareholders' meeting • Annual Report and corporate announcements	• Improving business operation and consolidating the Group's leading position in the Industry • Regular disclosure of information • Improving internal compliance systems
Employees	• Creating space for personal career development • Adequate compensation and benefits • Improving health security and safety protection	• Intranet • Wechat subscription • General manager Mailbox • Transparent communication meetings	• Improving internal management schemes such as employee recruitment and promotion • Enriching employee life • Providing diverse job and life securities
Suppliers	• Fair and open procurement process • Fulfilling contracts and agreements on time • Mriving business growth and achieving win-win results	• Public notices on procurement and bidding • Regular communication on quality requirements • Supplier conference	• Ensuring the transparency of the procurement process • Guarantee of timely payment • Promoting communication with suppliers • Supporting supplier growth
Customers and Partners	• High-quality products and services • Grasping customer needs • Promoting industrial common development	• Customer communication • Communication in the industry	• Strengthening product quality controls • Enhancing innovation • Promoting experience exchange in the industry

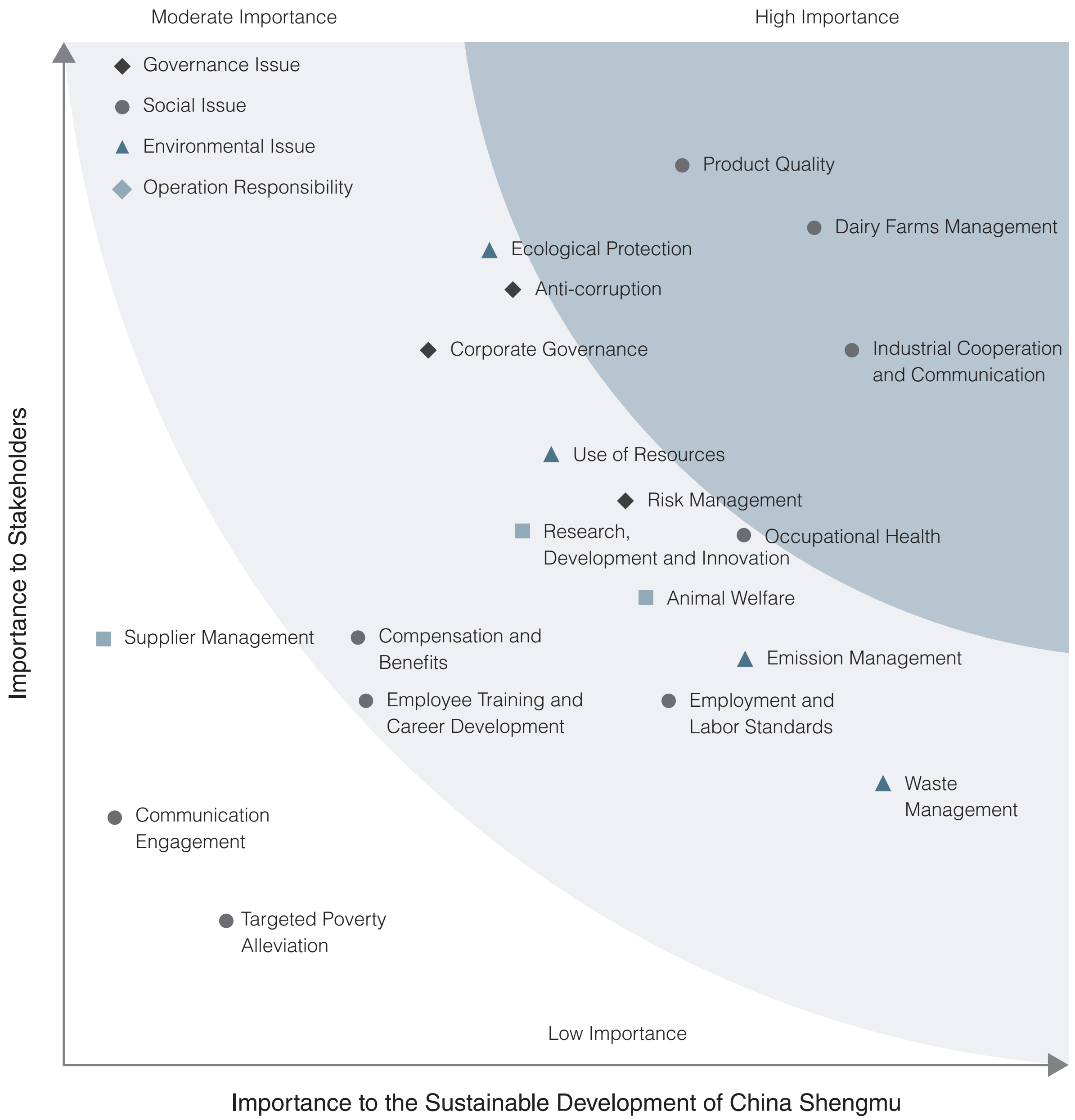
Key stakeholders	Issues of Concern	Communication Channel	Main Responses
Government	• Mriving the development of local and peripheral industries • Compliant operations • Paying taxes according to law	• Government meetings • Regular visits • Supervision and inspection by government officials	• Providing jobs, contributing to tax revenue • Cooperating with government supervision, improving internal compliance monitoring systems • Complying with laws and regulations
Community	• Supporting community development • Participating in public service	• Dialogue with community representatives • Public service and Volunteer activities	• Maintaining close communication • Charitable donation and assistance

1.3 *Materiality Analysis*

In 2019, we prepared in accordance with the "ESG Reporting Guide" of the Stock Exchange and made different forms of interaction and communication with various stakeholders, a benchmarking analysis of the issues disclosed in the sustainability report of peers, and a keyword analysis of press coverage of the Group's dynamics in 2019. Based on two dimensions—"importance to stakeholders" and "importance to the sustainable development of China Shengmu", we identified 19 sustainable development issues in four aspects of governance, operation, environment and society. These served as important basis and guidelines of Group's sustainable development management in the future.

2. SUSTAINABLE OPERATIONS

MATRIX OF ESG MATERIAL ISSUES IN 2019



We adhere to the model of sustainable operation, the vision of "shaping the world's first organic milk brand", and the responsibility of "providing the desert-based organic milk of the highest quality worldwide" to build a highly competitive dairy farming industry. We continuously ramp up the construction of high-quality milk sources and exert stringent quality control throughout the process from raw materials to products to foster an industrial sand control model and ecological civilization demonstration zone, building up the organic industry chain.

2.1 High-quality Raw Milk Guarantee

Based on local conditions, we take advantage of the natural and non-polluting environmental advantages of Ulan Buh Desert to establish a desert-based organic industrial chain integrating organic environment, organic planting, organic breeding, organic products. In order to implement the *Opinions of the General Office of the State Council on Promoting the Revitalization of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Products*, the Group adheres to the strictest standards in the production activities, adopting the state-of-the-art technologies and the most standardized management to realize "fine dairy cattle breeding, high-quality forage grass, and standardized production" and promoting lower-cost, higher-quality and more efficient farming to consolidate the foundation for the development of the dairy industry.

As of 31 December 2019, the Group had constructed 34 dairy farms (22 in the desert) - including 11 organic dairy farms - farming more than 44,800 organic cows and producing about 700 tons of organic raw milk per day, thereby providing high-quality raw materials for downstream enterprises in the industrial chain.

- *Organic planting*

The Group strictly follows the scientific technology management process to ensure the quality and safety of feed and to "raise fine grass". We carefully select forage species and high-quality forage seeds to achieve scientific organic cultivation. For some of the purchased organic forages, we strengthen the source control and during the storage of feeds control strictly the storage conditions to prevent feed spoilage.

The main forage of the Group comes from more than 200 thousands mu of organic grassland located in Ulan Buh Desert. Relying on the local advantageous natural environment featuring sufficient sunshine, strong ultraviolet rays and dry climate required by organic grassland, we plant high-quality natural forages such as alfalfa and silage corn. During planting, we earnestly follow the organic standards for planting forages, such as taking strict control of forage seeds and seed quality to exclude genetically modified varieties that cause GMO contamination, using physical methods to prevent pests and diseases instead of spraying chemical insecticide, and applying organic fertilizers instead of pesticides. We also combine grass and dairy farming by returning animal manure to the field and altering the soil structure to increase fertility, thereby forming a natural circular ecosystem.

In order to ensure the quality of organic fertilizers, the Group has built an organic fertilizer processing plant and nine organic manure fermentation plants. Taking the advice of organic fertilizer experts from China Agricultural University and Chinese Academy of Agricultural Sciences we have formed a unique organic fertilizer system, realizing the self-sufficiency of organic fertilizers and truly guaranteeing the quality and safety of organic feed from the source.

For a better quality of organic forage grass, the Group has established an integrated scientific management system integrating soil, irrigation water quality monitoring, organic fertilizer production, fine seed selection, scientific sowing, refined field management, environmental and meteorological monitoring, and large-scale mechanized planting.

- *Organic Breeding*

We firmly believe that only "fine cows" produce "quality milk". The Group attaches great importance to the management of dairy farms. Through a sound dairy farm management system, we ensure scientific feeding to create a healthy and comfortable living environment for cows.

Advanced breeding concept	• Selecting the world's leading dairy breeding companies and reaching a 3 to 5 years medium-/long-term strategic cooperation agreement with three of them; • Dividing herds for each dairy farm based on such information as pedigree, parity, mating times, disease records, pregnancy test results, and milk yield and focusing on core herds breeding; • Strengthening the management of calves by setting up a separate calf department in the dairy farm, improving the calf management system, and adding facilities such as calf sunshade and colostrum pasteurization equipment; • Increasing communication with and guidance from world-renowned experts and applying the latest breeding concepts to improve breeding effects.
Fully-equipped feed management system	• Formulating the *Compilation of Management Systems for Feeding Nutrition Centers* to regulate the operation procedures in terms of feeding, forage grass, barn, total mixed ration (TMR), manure clearing, and grass leveling; • Developing proprietary scientific feed formulas and adopting different feeding schemes for different herds to ensure that each cow ingests balanced and sufficient nutrition; • Adopting the TMR technology in combination of the information of target herds such as milk yield, milk fat, gestational age and weather conditions at different stages of production, and together with the TMR monitoring system feeding accurately; • Dividing herds in a strict manner, paying attention to the feeding of reserve cows and first-born cows, and increasing the control of heat stress.

Comfortable breeding environment	• Adopting low-density and low-pressure feeding methods, such as allowing each cow's active area to cover an average of 60-80 square meters; • Installing all-weather automatic constant temperature drinking water dispensers to ensure the quality and safety of drinking water for cows; • Arranging special personnel to clean up barns daily to ensure the clean environment for cows; • Establishing a regular work-and-rest timetable to effectively prevent such diseases as mastitis.
Complete anti-epidemic system	• Releasing the *Herd Epidemic Prevention and Occupational Disease Prevention Management System* to regulate the operation processes of disinfection, immunization, quarantine, and harmless treatment of dead cows due to illness; • Disinfecting the cows' activity ranges, barns, maternity wards, and farm roads every day; • Regularly vaccinating cows every year with foot-and-mouth disease vaccine, brucellosis vaccine, IBR vaccine and BVDV vaccine, and regularly quarantining for high-risk diseases such as tuberculosis; • Handing dead cows due to illness over to the local harmless treatment company for standardized treatment.
High-caliber quality management	• Following ten international and domestic standards, such as AQ, Arlagarden, ISO9000, ISO22000, ISO22002, and 52 laws, regulations and standards related to animal husbandry, we took into account 100% of the pasture management and critical components and formulated the standards of *Quality and Safety Management System for Shengmu Dairy Farms*. The standards encompass 93 key control points in four categories: source quality management of raw and auxiliary materials, dairy cow health and welfare, milk quality assurance, and operation support. We established a Total Quality Management model that is customer-centred, fully participated, and continuously improved;

- Taking advantage of the unique animal grazing environment in Ulanbuh Desert, the high-end facilities, equipment, and advanced management on large farms, we established 4Q (QP, QA, QC, and QS) quality management standards to strengthen raw milk quality control. Following the Hygienic Standard for Feeds GB13078, we maintained a high standard of quality assurance of raw and auxiliary materials. As a measure of controlling feed quality at the source, we required that each batch of raw and auxiliary materials must be examined before entering our farm. All those that fail the examinations must be rejected. We held dear the construction and improvement of the central inspection station for sound internal risk identification and control plans.

- We impose strict requirements over the quality of raw milk. We are striving to lead the world and surpass the EU and industry standards. We set up a series of internal raw milk quality improvement targets: S-grade qualified rate should be equal to or higher than 90% (TBC ≤ 30,000, SCC ≤ 200,000). We achieved an average TBC of 10,700, and an average SCC of 158,100 in 2019, an annual pass rate of 95%, far higher than that of the current international and domestic standards.

Comprehensive grass-to-grass traceability system

- Establishing a comprehensive product traceability program to achieve comprehensive, timely and informative information traceability throughout the industry chain.

- In the grass planting stage, we record all kinds of farming activities to ensure the traceability of the forage material. In the dairy breeding stage, we create an exclusive file for each cow to record its physical condition, feeding situation and milk production in real-time. In the milk processing and production process, the origin and organic certification of products are clearly recorded.

"CHINA-DENMARK ORGANIC MODEL DAIRY FARM" LAUNCHED IN SHENGMU

On 31 May 2019, "China-Denmark Organic Model Dairy Farm" officially settled in No. 27 Dairy Farm of the Group. Its establishment aims to introduce Danish advanced management concepts and production technologies for organic farms into China's organic farms and improve the operation level and organic management system of China's organic dairy industry. In the future, the farm will promote the upgrading of organic standards and enhance the Group's core competitiveness in the organic dairy industry.

2.2 Strengthening Communications in the Industry

With an accurate grasp of consumer needs and integrating itself into the tide of consumption upgrade, the Group builds high-quality milk sources to provide more competitive raw milk for the global market, while upgrading and expanding strategic partnerships, committing itself to China's high-quality dairy industry building and quality upgrading.

- *Strategic Partners*

  Against the background of the surging dairy industry and the fierce competition in the dairy market, we have seized the opportunity to reach a strategic partnership with Mengniu. In 2019, the Group furthered its collaboration with Mengniu, taking advantage of Mengniu's strong management team and solid and huge distribution network with stable raw milk demand to ensure sales revenue, thereby further developing its own liquid milk products. At the same time, we further aligned ourselves with Mengniu's demand and enhanced the synergy between the supply and demand sides. On the one hand, we ensured the stability of raw milk sales and prices, and on the other hand, focused on our main business by going all out to refine dairy farming and ensuring that we "plant fine grass, raise quality cows, and produce superior milk".

- *Industrial Communications*

  The Group gives full play to its exemplary role of a brand leader with a renowned brand by actively participating in various communication and exchange meetings with peers in the dairy industry and upstream and downstream industries to promote coordinated development and common progress. In 2019, we attended the "China Dairy (D20) Summit" and delivered an important speech based on "Shengmu experience", and organized the "10th Anniversary Commemorative Meeting of Entrepreneurship" where we extensively invited partners and suppliers to participate and exchange experience. In addition, we received industry experts, government organizations, peer companies, and international friends at our dairy farms for field visits and research, improving their understanding of the Group. By the same token, we sent employees on a learning delegation to Mengniu factories for in-depth exchange and learning.

ORGANIC MUTUAL LEARNING FOR COMMON PROGRESS

In July 2019, the Group and Qishi Group jointly launched an "organic mutual learning" activity to build a partnership of joint source construction, sharing and win-win development, conducive to the comprehensive development of the organic raw milk industry. This activity was carried out in the form of on-site observation, key points explanation, exchange and sharing, including a number of links such as the organic operation theme report, on-site visit and study on dairy farm production, on-site observation on planting, exchange and sharing meetings, etc., which helped participants gain a deep insight in the organic dairy industry chain and laid a solid foundation for the further development of the organic business.

THE GROUP RECEIVED INDUSTRY EXPERTS FOR VISIT AND EXCHANGE

In August 2019, the "Mengniu Shengmu Hi-tech Organic Travels Seminar" hosted by the Inner Mongolia Dairy Association was held in Ulan Buh Desert, Bayan Nur City. As the leading organic raw milk company in China, the Group attended this meeting with enthusiasm and opened its organic milk factories, organic eco-parks, organic grasslands and other production bases to industry experts for visit and exchange. Suggestions were offered for revitalizing the dairy industry, driving the dairy industry to develop throughout the industrial chain and to realize a shared outcome with the ecological environment.

2.3 Bolstering Supply Chain Management

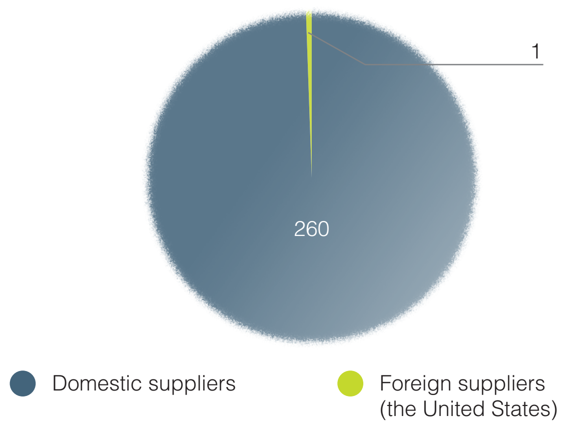
The Group has strict management requirements for suppliers to constantly improve and optimize the supplier management system, control product quality from the source, and reduce quality risks brought by suppliers. While ensuring the development of own products, we have not forgotten to promote the development of the whole industry chain by exerting technological advantages and industry experience to help suppliers improve their technical capabilities and obtain relevant qualification certification.

In 2019, we revised the *Supplier Management System* to regulate elaborately supplier access, evaluation and assessment processes and improve the supplier management workflow.

- Access: We give priority to qualified suppliers for cooperation, requiring them to have three-in-one certificate and business license, production license, pollutant emissions permit, quality management system certification, fire acceptance certificate, national and EU organic standard certificates, etc. We also investigate supplier compliance, cleanliness, and environment, safety, etc.
- Review: We have formulated strict supplier inspection and evaluation standards, implementing on-site evaluations for suppliers and business reviews for dealers and traders.
- Assessment: For suppliers that have been admitted, we carry out cooperation assessments and on-site inspections on a regular basis and adjust the suppliers based on the results. For suppliers who have been approved and started to supply, the Procurement Department conducts a monthly evaluation of cooperation with the suppliers. In addition, we assess the supplier conduct throughout the supply process to ensure supply quality.

The Group insists on sharing the experience of dairy farming, forage grass planting and combining breeding and planting with supplier partners across the industry chain to help them build professional capacities, assist suppliers to obtain organic certification, and grow together with suppliers. The Group has 17 organic suppliers.

NUMBER OF SUPPLIERS IN 2019



2.4 Compliance Operations

The Group insists on operating in compliance with laws and regulations to prohibit corruption while actively creating a clean and honest office atmosphere. We strictly abide by the provisions of the *Company Law of the People's Republic of China*, the Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange, *Corporate Governance Code* and the *Basic Internal Control Norms for Enterprises* and their supporting guidelines, and have formulated internal inspection and supervision systems such as *Discipline Inspection and Supervision Management System, Implementation Measures for Investigation and Handling of Violations and Disciplinary Breaches*, and *Non-Competition and Related Party Transaction Reporting System*. We have set up the Discipline Inspection and Supervision Department at the Audit and Supervision Center to be responsible for violations investigation and handling, violation clues collection and channel development, duty performance supervision, discipline enforcement supervision and effectiveness evaluation, whistle-blowing management, systems construction, integrity education and cultural construction, etc.

The Group attaches importance to working with suppliers to uphold integrity and fight corruption. In such cooperation with suppliers, we require all partners to sign an anti-bribery contract to jointly build a fair and transparent partnership.

In order to protect the rights of whistleblowers and accusers, the Group has introduced the *Whistle-blowing Management and Whistle-blower Rewarding System*, established open internal whistle-blowing channels, and implemented strict measures for handling violations.

INTERNAL WHISTLE-BLOWING CHANNELS

1. Online reporting channels on official website, OA platform, WeChat account and email
2. Disciplinary violation report bulletin board in production and office areas of all units

VIOLATION CLUES COLLECTION

1. From daily work inspections and special work inspections
2. In the process of participating in the work and meetings of functional departments
3. In the management process of monitoring and positioning systems
4. From the analysis of big data
5. From exposures, reports or problems reflected and disclosed by customers and employees
6. From the general public, media coverage, and customer interviews
7. From cases independently handled by all units

3. ENVIRONMENTAL RESPONSIBILITY

The Group fully recognizes that production operations and environmental protection are interdependent and inseparable. We integrate eco-friendly and green development into the industry, transforming green ecology into own development advantages and competitiveness to form a sustainable industrial model.

3.1 Desertification Control through Industrial Development

In the past ten years of development, the Group has gradually formed a mature industrial sand control model which adopts the concept of "planting grass or trees where suitable" for desert transformation and the approach of combining xeric trees, desert shrubs, perennial forage grass and annual forage grass. Specifically, the annual forage grass helps wind resistance and sand fixation; artificial grassland with perennial forage grass expands in combination with grassland with short shrubs to eliminate large-scale dust storm sources; windbreak forest belts are built based on low-lying shrubs such as holly, rose willow, caragana, Haloxylon ammodendron, and Hedysarum scoparium and supplemented by fast-growing trees such as Populus alba, Populus euphratica, Elaeagnus angustifolia, elm, and locust tree, forming a barrier to protect the artificial grassland and eventually a three-dimensional ecosystem combining trees, shrubs and grass. As of 31 December 2019, the Group had more than 200 thousands mu of organic grassland. While protecting the planting environment, we have improved regional microclimate and achieved significant ecological benefits.

3.2 Resourceful Utilization of Manure

Centered on "combining farming and breeding", the Group feeds organic forages to cows and uses cow manure to fertilize land. Farming and breeding are combined to improve circular economy-oriented eco-farming and promote the coordinated development of production and ecology. Through scientific management and treatment, we have realized the resourceful utilization of manure not only to protect and improve the environment, but also to ensure better development of dairy farms.

For liquid fertilizers, we use tank trucks or pipelines to transport them to the oxidation pond for oxidation and after oxidative fermentation return them to the field harmlessly by irrigation in arable land planted with silage or alfalfa. For solid waste, we look for companies with organic fertilizer production qualifications and reach an agreement with them to treat cow dung in dairy farms, thereby realizing the reuse of biological resources.

In order to achieve more scientific and efficient use of oxidization pond's liquid fertilizer, in 2019, we cooperated with third-party technology companies to complete the experimental work of the laboratory for returning oxidization pond's liquid fertilizer to the field, and proposed a preliminary liquid fertilizer treatment plan to further improve the environmental and economic benefits of manure utilization.

OXIDATION POND AND COMPOST YARD RENOVATION PROJECT

In 2019, we renovated compost yards and oxidation ponds on multiple dairy farms. The original compost yard had low usable value because of small area and weak infrastructure. The transformed compost yard is designed with an I-shaped steel structure covered by a transparent panel, which can prevent rain, let in light, and thus meet the drying needs of the dairy farm. The oxidation pond cleaning and PE film replacing work was also carried out at each farm to better return the liquid fertilizer to the field.

Oxidation Pond Transformation Site

Solid-Liquid Separation System of Compost Yard

3.3 *Reducing Emissions*

The Group regulates the management of pollutant emissions in strict accordance with the *Environmental Protection Law of the People's Republic of China* and the *Regulations on the Prevention and Control of Pollution Caused by Intensive Livestock and Poultry Farming*. We summarized various environmental management policies of the Group in 2019 to standardize and clarify the work of dairy farms in an institutional way, thus to effectively protect the environment and minimize the environmental impact caused by the production process.

According to the Group's *Environmental Protection Management System*, the Department of Safety and Environmental Protection is fully responsible for the guidance and implementation of environmental protection work by leading system preparation, plan setting, environmental inspection, and so on. Dairy farms are the main body to implement environmental protection work, ensuring environmental protection standards to be effectively implemented at the production and operation level. The Equipment Department, Engineering Center, and Finance Department carry out the inspection of engineering projects and environmental protection facilities. By clarifying the responsibilities of various departments, we provide adequate institutional guarantee for environmental protection work. At the same time, the Group has formulated the *Administrative System for Environmental Protection Facilities and Equipment* and *Environmental Protection Education and Training System* to normalize environmental protection work and integrate it into daily management. We also popularize the awareness of environmental protection among employees, so that every employee takes due responsibility for environmental protection.

- *Exhaust Gas and Wastewater*

  We strictly abide by the *Law of the People's Republic of China on Air Pollution Prevention and Control, Law of the People's Republic of China on Water Pollution Prevention and Control* and *Regulations on the Prevention and Control of Pollution Caused by Intensive Livestock and Poultry Farming* by formulating an internal *Sewage Treatment Management System*, regularly organizing special environmental inspections and monitoring pollution sources to ensure that all types of exhaust gas and wastewater are discharged in compliance. In 2019, we actively responded to the national call for reducing agricultural non-point source pollution and reducing the use of chemical fertilizers by aerobic processing of the wastewater of dairy farms, turning it to biogas fertilizer by aerobic fermentation in an oxidation pond for 180 days. Furthermore, according to agricultural technology guidance documents, we applied fertilizers in the silage growth stage, reduced the use of chemical fertilizers and increased the use of organic fertilizers during silage planting, thereby reducing the environmental pollution caused by chemical fertilizers on the surrounding soil and water sources.

In 2019, we renovated some of the farm boilers, switched to non-polluting electric boilers for milk hall heating, and these efforts effectively reduced the emissions of SO2, NOx and other exhaust gases. Due to no involvement in the dairy sector in 2019, our data on various types of exhaust emissions dropped significantly compared to previous years.

	2019	2018	2017
Exhaust pollutants emissions (m^3)	50,138,880.00	143,431,271.04	219,016,251.28
SO2 emissions (tons)	2.61	20.78	30.64
NOx emissions (tons)	2.13	28.84	40.19
Smoke and dust emissions (tons)	1.32	6.94	12.71

- *Other Waste*

Other waste we produce in the production process includes medical waste, waste engine oil, dead cows due to illness, etc.. We follow relevant regulations such as the *Law of the People's Republic of China on Solid Waste Pollution Prevention and Control* and internal classification and temporary storage standards to strictly regulate the storage and transfer of the waste, and sign treatment agreements with qualified treatment companies to ensure that the waste is handled in a compliant and effective manner. The general waste generated during operation includes slag, fly ash, and domestic garbage. In accordance with the requirements of environmental impact assessment and higher-level environmental management authorities, we have formulated garbage disposal plans and require farms to implement the same. Valuable paper, black/white silage film and other garbage are separately recycled and disposed of to improve resource utilization.

	2019	2018	2017
Hazardous waste (tons)	3,046.71 (Medical waste and dead cows)	/	50,137.2 (Medical waste)
General waste (tons)	637.31	/	/
Waste in total (tons)	3,684.02	7,527.41	/
Waste generation per RMB10,000 of output value (tons/RMB10,000)	0.01	/	/

- *Greenhouse gases*

The Group's greenhouse gas emissions are mainly derived from indirect energy emissions from the use of electricity and direct emissions from the use of coal and diesel.

CO_2 Emissions (Unit: tons)

		2019	2018	2017
Indirect energy emissions	Use of electricity in production and offices	62,373.81	71,452.59	53,678.02
Direct energy emissions	Coal consumption	19,443.66	41,060.97	43,630.01
	Diesel consumption	12,372.47	14,118.61	17,479.56
Total		94,189.94	126,632.18	114,787.59
CO_2 emissions per RMB10,000 of output value (tons/RMB10,000)		0.34	0.44	2.36

Note: Electricity consumption per megawatt-hour in North China is converted into 0.9680 tons of CO_2 emissions according to *Emission Factors of China Regional Power Grid Baseline in Emission Reduction Project of 2017*. CO_2 emissions from fossil fuels are calculated according to *2006 IPCC Guidelines for National Greenhouse Gas Inventories*.

3.4 *Saving Resources*

Over years of development, the Group has been a practitioner of eco-agriculture. We continuously promote energy-saving and water-saving management concepts in dairy farms, committed to making the best use of natural resources in agricultural production to effectively achieve the shared growth of ecological, economic, and social benefits. Due to business changes, the Group did not involve the use of packaging materials in 2019.

- *Energy Management*

The Group has formulated the *Energy Management System* and a complete energy management and control system. We set energy consumption targets for each department every year, track the completion of the targets on a monthly basis, and encourage the departments to carry out energy-saving improvement and energy-saving work in production and operation.

Energy type	2019	2018	2017
Electricity (KWh)	64,435,754.73	73,814,661.94	70,647,564.09
Coal (tons)	7,376.28	15,644.6	16,551.78
Diesel (tons)	3,901.91	4,467.19	5,512.53
Energy use per RMB10,000 of output value (tons of standard coal/RMB10,000)	0.07	0.093	0.105

Note: According to the *General Principles for Calculation of Comprehensive Energy Consumption* (GBT2589-2008), the calculations were made with the conversion factor for electricity at 0.1229 kg standard coal/kWh, diesel at 1.4571 kg standard coal/kg, and coal at 0.7143 kg standard coal/kg.

- *Water Resource Management*

Located in Ulan Buh Desert of Inner Mongolia, the Group sees water as the most precious resource. We cherish every drop of water, make constant water-saving improvements in operation, and implement water-saving irrigation method and water recycling schemes, such as using recycled water from pipeline flushing to clean floors and reclaimed water for greening. In 2019, we installed water-saving cleaning nozzles in the milking hall to reduce the use and waste of water resources and retrofitted our process to recycle of equipment cooling water, improving the efficiency of reuse.

	2019	2018	2017
Water Consumption (tons)	907,765.00	2,036,411.80	632,214
Water Consumption per RMB10,000 of output value (tons/RMB10,000)	3.29	/	/

4. CARING FOR EMPLOYEES

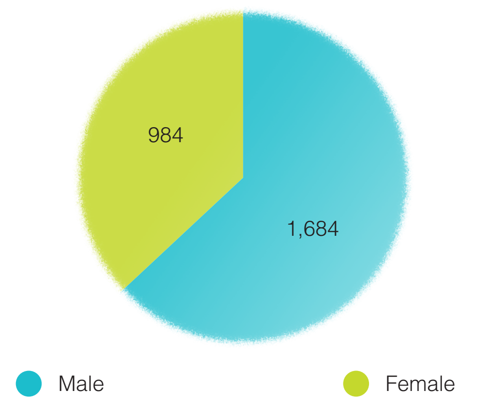
Adhering to the people-oriented concept the Group fully protects the rights and interests of employees through a variety of measures, including attaching importance to their safety and health, offering incentives and training to foster talent development, and helping employees realize self-worth.

4.1 Protecting Rights and Interests of Employees

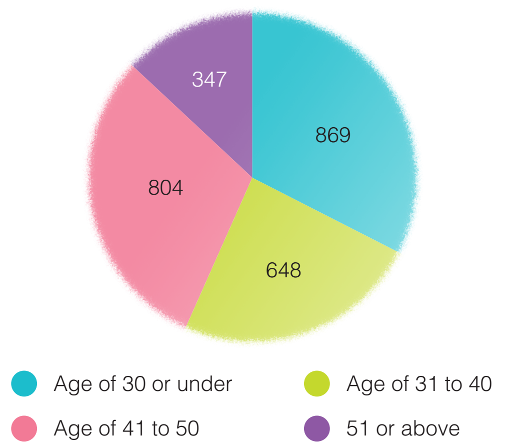
The Group adheres to the principle of equal employment, places emphasis on labor protection of employees, respects the value and dedication of employees, and safeguards their legitimate rights and interests.

The Group strictly abides by the *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China* and other relevant laws and regulations. We have formulated the *Administrative System for Recruitment and Employment* to prohibit and resist any form of child labor, forced labor and other labor disputes. Adhering to the equality of men and women, equal pay for equal work, and non-discriminatory employment practice, we have created an equal and diverse working environment with respect for the customs of ethnic minorities and fair treatment of employees of different nationalities, races, genders, ages, religions, and cultural backgrounds. We insist on the employment principles of "open recruitment, equal competition, comprehensive assessment, and merit-based recruitment" to ensure that all employees enjoy fair, impartial and open job opportunities. As of December 31, 2019, we had a total of 2,668 employees.

NUMBER OF EMPLOYEES BY GENDER



NUMBER OF EMPLOYEES BY AGE



The Group divides positions into five categories: managers, functional personnel, marketing personnel, technical personnel and operators. Based on the principles of fairness, stability, incentives and economical efficiency, the *Wide-range Remuneration Management System* has been formulated to widen the range of salary fluctuation, covering different remuneration standards corresponding to position value and work performance, thereby opening the salary raise channel. It also clearly defines salary grading and criteria for adjustment of salary to fully mobilize the enthusiasm of employees.

4.2 Training and Development

We value the career development of employees by building a broad development platform for employees and working to build a promotion and training management system that covers all employees in order to unleash the vitality and capabilities of employees and lay a solid foundation for the Group's sustainable development.

The Group has formulated the *Administrative System for Promotion of Managers*, which clearly stipulates the principle, conditions, procedures and channel settings for promotion, unblocking the career development channels, creating a fair and transparent internal promotion environment, and providing channels for promotion to management and career development platforms, so that employees give their best shot at exerting their talents.

The Group has formulated the *Training Management System* to continuously improve the vocational skills training system that covers all stages and all aspects of employee development and help employees improve their work skills, professional quality and work efficiency. The system makes clear requirements for the management personnel, requiring senior management to give open class at least twice annually within the Group, the middle-level management to give open class at least once a year within the Group and four times a year within the department. Personnel responsible for key procedures must be trained by employees with rich work experience and only after they pass the assessment can they be allowed to get on jobs. In 2019, the average training hours for each employee were 40 hours.

Pre-Job training

Pre-job training for new employees: corporate culture, corporate rules and regulations, employees' code of conduct and safety education; necessary knowledge for job position

Pre-job training for transferred employees: duties, key points, procedures and safety education of the new position

On-job training: knowledge of the industry, products and technology; job qualification knowledge; necessary management knowledge; other professional knowledge

THE GROUP CARRIED OUT PRE-JOB TRAINING FOR INTERNS IN 2019

In July 2019, the Group's Operation Center organized pre-job training for 2019 interns, including militarized outreaches and introduction to corporate culture, duties and responsibilities of various departments, systems, and knowledge of brucella prevention, to familiarize them with their work and lay the foundation for future on-job performance.

THE AUDIT AND SUPERVISION CENTER ORGANIZED SPECIAL BUSINESS TRAINING ON FINANCIAL AUDIT

On 12 October 2019, the Audit and Supervision Center organized special business training for internal financial auditors, where expertise such as monetary fund audits, inventory audits, and prepayment audits were taught to facilitate the communication and exchange on work experience and common problems and improve the practical operations and professional skills of internal auditors.

4.3 Occupational Health

We always attach great importance to the construction of occupational health and safety (OHS) management system. We have firmly established the OHS awareness among employees and improved the employee production safety and occupational disease management system to ensure the occupational health and safety of employees. In 2019, the Group had no deaths due to work-related injuries.

The Group strictly abides by the *Production Safety Law of PRC, Law of PRC on Prevention and Control of Occupational Diseases, Production Safety Regulations of Inner Mongolia Autonomous Region, Temporary Provision Rules for Health Supervision and Management in Workplace, Measures for Declaration and Administration of Occupational Hazard in Workplace* and *Supervision and Administration Regulations on Labor Protection Articles* and other relevant laws and regulations. In 2019, the Group formulated the *Production Safety Administration System* to make standardized and systematic regulations on production safety management and supervision institutions, education and training, labor protection supplies management, production safety accident handling, etc., and implemented the new “three preventions” initiative of safety management.

Hazard Source Identification and Prevention:

- Improving the list of hazard sources in the dairy farm and assessing the hazard level of the current status of the dairy farm work according to the risk matrix;
- On-job risk analysis to identify existing risk factors and take effective countermeasures.

Safety Inspection for Prevention and Control:

- Daily on-job inspection: to address hidden risks around employees;
- Weekly screening and evaluation: to investigate hidden risks in the business range of dairy farms;
- Inspection by the Safety and Quality Center: to support dairy farms in addressing problems;
- External inspection: to join professional agencies in tackling safety challenges.

Emergency Management:

- Establishing an emergency system for dairy farms;
- Revising the emergency plan for dairy farms;
- Setting up emergency rescue equipment;
- Carrying out emergency rescue training and drills.

We have achieved auditing and certification of OHSAS 18001:2007 System and Environment Administration System's ISO 14001:2004 System in 2017. The Group in 2019 further improved the occupational health management system by promulgating the *Occupational Disease Management System*. The management of protective articles was reinforced and equipment with major hidden dangers retrofitted. A total of 34 measures for occupational disease prevention and control were formulated for 10 areas of the dairy farm such as organizing physical checkups for occupational disease and improving the six-facet occupational health file to reduce the incidence rate. In terms of safety training, education and safety culture construction, the Safety and Quality Center refined the Company's safety accident case database, organized all dairy farms to propagandize the safety culture, increased employee training and education, formulated safety training standards at all levels, and introduced the "Ten-Point Ban" and other measures to foster employees' safe production concept and safe working habits.

THE GROUP ORGANIZED A HEALTH KNOWLEDGE WORKSHOP WITH THE THEME OF "STICKING TO ORIGINAL INTENTION, SOLVING PROBLEMS, AND PREVENTING AND CONTROLLING CHRONIC DISEASES"

On 29 September 2019, the Human Resources Department of the Operation Center of the Group invited experts to give a lecture to employees on hypertension-related health knowledge, which explained the symptoms, causes, harm and daily control measures of hypertension, suggested precautions in terms of daily diet and life habits, and conducted one-to-one consultation and Q&A concerning the health issues that employees are concerned about.

The health knowledge workshop played a positive and effective role in guiding employees to relieve pressure from work and life, shape their own physical fitness, enhance the self-care awareness, and enrich health management knowledge to effectively prevent various diseases.

4.4 Employee Care

The Group devotes itself to the creation of a harmonious working environment and the construction of a family culture with Shengmu characteristics for employees. We have carried out a series of activities to care for employees' lives, improve their physical and mental quality, and promote the construction and development of corporate spiritual civilization.

In 2019, the Group focused on the launch of online and offline themed activities centering on employee birthday parties and major festivals throughout the year. We held a collective birthday party for employees that were born in the same month every month, so that they feel the warmth from the Shengmu family. Aiming at the care for female employees, on the 2019 International Women's Day, the Group organized female employees to take part in flower arrangements, baking and other holiday activities that expand the quality of female employees in all aspects.

In order to elevate employees' spirit and further deepen corporate culture construction, the Group has organized a "Shengmu Divine Cow Cultural Festival", with Shengmu culture as the core including a wide range of fun activities such as sports games, desert hiking, and desert fishing to enrich employees' life beyond work. Internal competitions such as singing contests, recitation contests, and skill competitions are organized to fully unleash the talents of employees. In 2019, the Group launched the "Gold Placard Nomination Reward Scheme for Employees' Children" and the "Summer Camp for Employee Family" activity to make prize payment to employees' children who had passed the college entrance exam this year, showing care for the next generation of employees and enhancing the cohesion and solidarity of employees.

International Women's Day Activities

"To Be First" Team Building Activities

Fun sports games

In 2019, the Group doubled down on corporate culture construction by expanding corporate brand communication and revising the "Mission, Vision, Core Values, and Ten Basic Codes" and *China Shengmu's Culture Handbook 2.0* to enhance the Group's cohesion and solidarity. We established a publicity matrix based on own platforms such as official website, official WeChat public account, Weibo, OA news column, etc. to actively speak out and promote the in-depth integration of brand image and brand value.

THE GROUP'S 10TH ANNIVERSARY MICRO FILM SERIES WITH THE THEME OF "GROWING TOGETHER WITH SHENGMU"

In 2019, the tenth anniversary of the founding of the Group, we shot a four-episode micro-film with the theme of "Growing together with Shengmu" in which we interviewed 100 executives and employees at all levels in the administrative, operational and financial systems to effectively enhance the sense of belonging and participation among employees, serving as an enticing prelude to the tenth anniversary event.

5. PUBLIC SERVICE IN COMMUNITY

The Group keenly fulfills its corporate social responsibilities, devoting itself to charitable causes, ecological construction, green development, and targeted poverty alleviation by leveraging own advantages to support community development. In 2019, the Group invested a total amount of RMB160,000 in charity and organized 180 person-times of volunteer activities for a total of 540 hours.

5.1 "Organic" Travels to Witness Ten-Year Ecological Construction

Taking ecological construction as our responsibility, we adhere to the concept of "green, circular, consolidated and shared development" to create a sustainable desert-based grass-to-grass organic milk industry chain which closely integrates enterprise development and desertification control to achieve a shared growth in economic, ecological and social benefits. Over the past ten years, the Group's industrial sand control model has gradually matured, which while developing grassland has transformed the desert by "planting grass or trees where suitable", combining planting and breeding to achieve an organic cycle.

In 2019, the Group continued the "Shengmu Organic Travels" brand campaign as in previous years. We invited industry experts, business partners, media, etc. to Ulan Buh Desert to experience at first hand the effectiveness of desert greening and the innovative business model on organic industry chain, so that all sectors of society have a better understanding of the flexibility in desert-based economic development and the Group's efforts in ecological construction and have a greater trust in pollution-free additive-free organic food.

2019 "Shengmu Organic Travels"

2019 "Shengmu Organic Travels"

5.2 Serving Community with Targeted Poverty Alleviation

We share development results with the community such as providing a large number of jobs for Bayan Nur City and surrounding areas, spurring local farmers to increase income, and improving the regional climate to create ecological and economic benefits. As of 31 December 2019, the Group had accumulatively contributed tax revenue of RMB222.6 million to the country.

The Group has formulated the *Administration System of Philanthropic Activities* to form regulations on the process of affirming the target of philanthropic sponsorship, implementing correlated plan and assessing its results. To further regulate community service and volunteer service, the Group has drawn up *China Shengmu Headquarters' Volunteer Activity Program* to facilitate the standardization and normalization of and spread the concept of volunteer service. In 2019, we launched a series of voluntary activities such as cleaning up the environment of surrounding communities and donating organic milk to elderly apartments and special education schools to care for the health of young people and the elderly.

"HUNDRED ENTERPRISES PAIRING WITH HUNDRED VILLAGES" TARGETED POVERTY ALLEVIATION PROGRAM

In the "Hundred Enterprises Pairing with Hundred Villages" targeted poverty alleviation program, the Group was paired with Majiayao Village of Dahongcheng Township, Helin County to offer the latter targeted assistance. Leveraging its own industrial advantages, the Group mainly assists the village collective in developing beef cow industry and farmers in getting rid of poverty.

In 2019, the Group donated 20 beef calves to the Majiayao Village Cooperative in different batches, and set up a special support group to provide professional technical guidance during the breeding process to ensure the safe growth of and continuous reproduction of calves. At the same time, Shengmu dairy farms could absorb labor force and address the employment difficulty of some villagers, thereby increasing farmers' income.

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of China Shengmu Organic Milk Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 175, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of dairy cows	
Biological assets of the Group, which represent dairy cows and beef cattle were measured at fair value less costs to sell, and amounted to RMB2,544,987,000 as of 31 December 2019. Dairy cows of the Group included milkable cows, heifers and calves, which were raised for the purpose of producing raw milk. Beef cattle were raised to three to six months old and then for sale. The fair value of biological assets as assessed by management was significant to the Company's consolidated financial statements since (i) the carrying values of such biological assets accounted for approximately 38.6% of the total assets of the Group; and (ii) significant estimates were involved in management's fair value assessment. Management engaged an external valuation expert to assist in the valuation of the biological assets as at 31 December 2019. The accounting policies and disclosures for biological assets are included in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates and note 17 biological assets to the consolidated financial statements.	We assessed the objectivity, independence and competence of the external valuation expert employed by the Company and also evaluated the accuracy of the data provided by management to the external valuation expert, which were used as inputs for the valuation. We evaluated the reasonableness of the underlying basis and assumptions used by management. In particular, we assessed the assumptions applied to which the outcome of the valuation is most sensitive, including the estimated local market selling price of the relevant dairy cows, feed costs per kilogram of raw milk production, daily milk yield at each lactation cycle and local future market prices for raw milk. We checked the computation of the fair value of biological assets and also reviewed the adequacy and appropriateness of the accounting policy and the disclosures relating to the fair value measurement of biological assets.
Financial guarantee contracts	
The financial guarantee contracts should be fair-valued on the initial date of transaction and determination of fair value and expected credit losses arising from the Group's financial guarantee contracts was judgemental and involved significant estimates. Based on the valuation reports issued by an independent qualified professional valuer engaged by management, the Group had liabilities of RMB2,635,000 and RMB43,203,000 as at 31 December 2019 and 2018, respectively, in relation to the financial guarantee contracts executed, and their impact on the profits and losses for the years ended 31 December 2019 and 2018 amounted to RMB3,498,000 and RMB124,236,000, respectively. The details of financial guarantee contracts are disclosed in note 2.4 summary of significant accounting policies, note 3 significant accounting judgements and estimates and note 26 other payables and accruals to the consolidated financial statements.	We performed audit procedures on understanding and testing the Group's internal control process related to the assessment of the completeness and the measurement of the Group's financial guarantees. We conducted interviews with banks and other parties who were granted guarantees, reviewed bank confirmations, credit reports and other external audit evidence provided by banks and other parties as well as investigated evidence provided by management to evaluate the completeness of the financial guarantee contracts executed by the Group. We reviewed the key assumptions used and computation performed in the valuation reports issued by the independent qualified professional valuer to assess the reasonableness of the fair value of the Group's financial guarantee contracts executed and the expected credit losses arising from the guarantees executed. We also reviewed the adequacy and appropriateness of the disclosures related to the financial guarantee contracts.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. TONG KA YAN, AUGUSTINE.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CONTINUING OPERATIONS			
REVENUE	4	2,539,567	2,164,449
Cost of sales		(1,602,418)	(1,468,427)
Gross profit		937,149	696,022
Loss arising from changes in fair value less costs to sell of biological assets	17	(284,896)	(1,321,554)
Other income and gains	4	2,999	12,576
Selling and distribution expenses		(30,704)	(63,723)
Administrative expenses		(131,257)	(119,262)
Impairment losses on financial and contract assets, net		(13,622)	(91,345)
Other expenses		(163)	(36)
Finance costs	6	(225,239)	(144,995)
Share of losses of associates		(64,953)	(15,180)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	5	189,314	(1,047,497)
Income tax (expense)/credit	9	(410)	280
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		188,904	(1,047,217)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	10	(53,208)	(1,264,000)
PROFIT/(LOSS) FOR THE YEAR		135,696	(2,311,217)
Profit/(loss) attributable to:			
Owners of the parent		27,742	(2,225,200)
Non-controlling interests		107,954	(86,017)
		135,696	(2,311,217)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
– For profit/(loss) for the year		RMB 0.004	(RMB 0.350)
– For profit/(loss) from continuing operations		RMB 0.013	(RMB 0.151)
Diluted			
– For profit/(loss) for the year		RMB 0.004	(RMB 0.350)
– For profit/(loss) from continuing operations		RMB 0.013	(RMB 0.151)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT/(LOSS) FOR THE YEAR	135,696	(2,311,217)
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	(2,598)	(2,360)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(2,598)	(2,360)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(2,598)	(2,360)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	133,098	(2,313,577)
Attributable to:		
Owners of the parent	25,144	(2,227,560)
Non-controlling interests	107,954	(86,017)
	133,098	(2,313,577)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,043,525	2,087,045
Right-of-use assets	14(b)	54,272	—
Prepaid land lease payments	14(a)	—	18,845
Other intangible assets	15	11,254	11,463
Investments in associates	16	150,413	90,328
Biological assets	17	2,531,188	2,667,427
Prepayments for property, plant and equipment and biological assets	19	—	1,014
Long term receivables	20	14,505	11,516
Deferred tax assets	18	—	410
Other non-current assets	21	11,843	9,930
Total non-current assets		4,817,000	4,897,978
CURRENT ASSETS			
Inventories	22	678,054	604,060
Biological assets	17	13,799	7,492
Trade and bills receivables	23	167,118	246,715
Prepayments, other receivables and other assets	19	614,130	599,092
Pledged deposits	24	177,516	150,617
Cash and bank balances	24	132,636	74,052
		1,783,253	1,682,028
Assets of a disposal group classified as held for sale	10	—	978,355
Total current assets		1,783,253	2,660,383
CURRENT LIABILITIES			
Trade and bills payables	25	1,365,884	997,085
Other payables and accruals	26	574,772	486,235
Derivative financial instruments	27	3,267	81,238
Interest-bearing bank and other borrowings	28	2,144,832	2,218,864
Lease liabilities	28	32,287	—
		4,121,042	3,783,422
Liabilities directly associated with the assets classified as held for sale	10	—	790,006
Total current liabilities		4,121,042	4,573,428
NET CURRENT LIABILITIES		(2,337,789)	(1,913,045)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,479,211	2,984,933

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	39,443	49,518
Long term payables	29	28,940	56,528
Total non-current liabilities		68,383	106,046
Net assets		2,410,828	2,878,887
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	50	50
Reserves	31	2,186,371	2,017,863
		2,186,421	2,017,913
Non-controlling interests		224,407	860,974
Total equity		2,410,828	2,878,887

Zhang Jiawang
Director

Yao Tongshan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 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 2018	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 year	–	–	–	–	–	–	(2,225,200)	(2,225,200)	(86,017)	(2,311,217)
Exchange differences related to foreign operations	–	–	–	–	–	(2,360)	–	(2,360)	–	(2,360)
Total comprehensive loss for the year	–	–	–	–	–	(2,360)	(2,225,200)	(2,227,560)	(86,017)	(2,313,577)
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(112,460)	(112,460)
Transfer from retained profits	–	–	–	–	1,431	–	(1,431)	–	–	–
At 31 December 2018	50	1,757,767	423,317	95,558	464,561	17,551	(740,891)	2,017,913	860,974	2,878,887
At 1 January 2019	50	1,757,767	423,317	95,558	464,561	17,551	(740,891)	2,017,913	860,974	2,878,887
Profit for the year	–	–	–	–	–	–	27,742	27,742	107,954	135,696
Exchange differences related to foreign operations	–	–	–	–	–	(2,598)	–	(2,598)	–	(2,598)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(2,598)	27,742	25,144	107,954	133,098
Acquisition of non-controlling interests (note 26(b))	–	–	67,760	–	–	–	–	67,760	(572,618)	(504,858)
Distribution of dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(171,903)	(171,903)
Equity-settled warrant arrangements (note 27)	–	–	75,604	–	–	–	–	75,604	–	75,604
Transfer from retained profits	–	–	–	–	18,853	–	(18,853)	–	–	–
At 31 December 2019	50	1,757,767#	566,681#	95,558#	483,414#	14,953#	(732,002)#	2,186,421	224,407	2,410,828

These reserve accounts comprise the consolidated reserves of RMB2,186,371 (2018: RMB2,017,863) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		136,323	(2,283,308)
From continuing operations		189,314	(1,047,497)
From a discontinued operation		(52,991)	(1,235,811)
Adjustments for:			
Change in fair value of biological assets	17	284,896	1,321,554
Interest income		(6,157)	(7,140)
Finance costs	6,10	229,184	155,755
Share of losses of associates		65,161	15,649
Fair value gains/(losses), net:			
Equity investments at fair value through profit or loss		—	1,310
Derivative financial instruments	4	(849)	6,539
Depreciation of property, plant and equipment		133,450	211,598
Depreciation of right-of-use assets/recognition of prepaid land lease payments		1,057	—
Amortisation of prepaid land lease payments	14	—	1,626
Amortisation of other intangible assets	15	1,430	1,689
Gain on disposal of a subsidiary	10	(85,751)	—
Loss on disposal of items of property, plant and equipment		22,415	1,114
Foreign exchange differences, net		1,952	(9,501)
		783,111	(583,115)
(Increase)/decrease in inventories		(66,298)	258,731
(Increase)/decrease in trade and bills receivables		(55,300)	714,374
(Increase)/decrease in deposits and other receivables		(256,474)	211,170
Decrease/(increase) in pledged deposits		40,585	(57,554)
Decrease in other non-current assets		1,915	29,282
Increase in trade and bills payables		545,752	267,341
(Decrease)/increase in receipts in advance		(114,833)	167,494
Decrease in other payables and accruals		(8,630)	(43,891)
Cash generated from operations		869,828	963,832
Interest received		5,384	6,464
Income taxes paid		—	2,207
Net cash flows from operating activities		875,212	972,503

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(135,631)	(40,019)
Additions to prepaid land lease payments		—	(1,891)
Additions to other intangible assets		(4)	(1,437)
Purchases of biological assets		(815)	(3,891)
Reversal of prepayment for biological assets		1,014	5,143
Payments for breeding calves and heifers		(502,379)	(438,573)
Proceeds from disposal of biological assets		401,188	310,463
Proceeds from disposal of items of property, plant and equipment		22,549	3,607
Purchases of time deposits with original maturity of more than three months		—	(110,817)
Proceeds from disposal of time deposits with original maturity of more than three months		—	284,611
Acquisition of a subsidiary	33	1	—
Disposal of a subsidiary		104,966	—
Deemed disposal of associates		—	320
Net cash flows from/(used in) investing activities		(109,111)	7,516
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to non-controlling interests		(171,903)	(112,460)
New bank loans and other borrowings	34	1,443,650	1,722,106
Derivative financial instruments		5,427	67,093
Repayment of short-term notes	34	—	(398,800)
Repayment of corporate bonds	34	(600,000)	(1,000,000)
Repayment of bank loans	34	(950,831)	(1,331,264)
Acquisition of non-controlling interests		(305,000)	—
Interest paid		(131,310)	(154,425)
Net cash flows used in financing activities		(709,967)	(1,207,750)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		56,134	(227,731)
Cash and cash equivalents at beginning of year		77,083	297,672
Effect of foreign exchange rate changes, net		(781)	7,142
CASH AND CASH EQUIVALENTS AT END OF YEAR		132,436	77,083
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	132,636	74,052
Time deposits with original maturity of more than three months	24	(200)	(200)
Cash and short term deposits attributable to a discontinued operation	10	—	3,231
CASH AND CASH EQUIVALENTS AT END OF YEAR		(132,436)	77,083

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration andbusiness	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("**Shengmu High-tech**")# (note (i))	PRC/ Mainland China	RMB 888,700,000	-	100	Production and distributionof raw milk
內蒙古聖牧控股有限公司 Inner Mongolia Shengmu Holding Co., Ltd. ("**Shengmu Holding**")# (note (i))	PRC/ Mainland China	RMB 280,000,000	-	100	Production and distribution of raw milk
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu PanguFarming Co., Ltd. ("**Shengmu Pangu**")# (note (i))	PRC/ Mainland China	RMB 80,000,000	-	55	Production and distributionof raw milk

The English names of these companies represent the best effort made by the management of the Company to directly translate their Chinese names as these companies did not register any official English names.

Note:

(i) The entity was registered as a foreign investment enterprise under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain biological assets, agricultural produce, derivative financial liabilities and financial assets at fair value through profit or loss which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

The Group had net current liabilities of RMB2,337,789,000 and capital commitment of RMB81,086,000 as at 31 December 2019 (2018: net current liabilities of RMB1,913,045,000 and capital commitment of RMB418,257,000). In view of the net current liabilities position, the board of directors has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB700,000,000 as at the date of this report, the entrusted loan facility of RMB1,600,000,000 with the maturity date extended to 31 December 2022 and cash flow projections for the year ending 31 December 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 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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 to IFRS 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRS 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRS standards 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

    The Group has 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 has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

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.

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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

Financial impacts at 1 January 2019

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

	Increase/ (decrease) RMB'000
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)
	—

(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 continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(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 impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non- current*[3]

1 Effective for annual periods beginning on or after 1 January 2020

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

3 Effective for annual periods beginning on or after 1 January 2022

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

The amendments to IAS 1 clarify the meaning of a right to defer settlement and that a right to defer must exist at the end of the reporting period. The amendments also clarify that the classification is unaffected by the likelihood that an entity will exercise its deferral right and only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022 and must be applied retrospectively. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments, biological assets and agricultural produce at fair value less costs to sell at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/ a disposal group classified as held for sale), the assets' recoverable amount is estimated. An assets' recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Useful lives	Residual values
Buildings	20 years	5%
Machinery and equipment	5-10 years	5%
Office and other equipment	5 years	5%
Motor vehicles	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowings costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Biological assets

Biological assets comprise dairy cows and beef cattle. Dairy cows include milkable cows, heifers and calves which are raised by the Group for the purposes of producing raw milk. Beef cattle are raised by the Group for sale.

Biological assets are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation costs and excluding finance costs and income taxes. The fair value of biological assets is determined based on its present location and condition and is determined independently by professional valuers.

The feeding costs and other related costs including the depreciation charge, utility costs and consumables incurred for the raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Agricultural produce represents raw milk. Upon harvest, agricultural produce is recognised at its fair value less costs to sell, which is determined based on market prices in the local area. The costs to sell are the incremental costs directly attributable to the sales of the agricultural produce, mainly transportation costs, excluding finance costs and income tax.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Technical know-how

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over their estimated useful life of 10 to 20 years.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

	Useful lives
Leasehold land	8 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) 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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through the statement of profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provision for product warranties granted by the group on certain products are recognized. Based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants (continued)

Other grants

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in Renminbi ("RMB"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group includes the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., 3 to 5 years) and there will be a significant negative effect on production if a replacement is not readily available.

In addition, the renewal options for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

Withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgements on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiary. As at 31 December 2019, the deferred tax liabilities arising thereon amounted to nil (2018: nil).

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. The fair value of biological assets is determined based on either the market-determined prices as at each year end adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristics and/or stages of growth of biological assets; or the present value of expected net cash flows from the biological assets discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the biological assets significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of biological assets. Further details are given in note 17 to the financial statements.

Fair value of financial guarantee contracts

The financial guarantee contracts are valued at fair value on the initial date of transaction and are revalued at fair value as at the end of each reporting period. The fair value of a financial guarantee contract is determined based on either the credit rating of the warrantee and the risk-free interest rate. The determination of each warrantee and the risk-free interest rate of each guarantee contract involves significant estimate. Any changes in the estimates may affect the fair value of the financial guarantee contracts significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of financial guarantee contracts. Further details are given in note 26 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains from continuing operations is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	2,539,567	2,164,449

Disaggregated revenue information for revenue from contracts with customers

	2019 RMB'000	2018 RMB'000
Type of goods		
Sales of products	2,539,567	2,164,449
Geographical market		
Mainland China	2,539,567	2,164,449
Timing of revenue recognition		
At a point in time	2,539,567	2,164,449

Information about a major customer

Revenue from continuing operations of approximately RMB2,350,989,000 (2018: RMB1,233,912,000) was derived from sales of raw milk to a single customer, including sales to a group of entities which are known to be under common control of that customer.

	2019 RMB'000	2018 RMB'000
Other income and gains		
Government grants*	17,678	11,382
Bank interest income	5,735	6,855
Foreign exchange differences, net	(1,952)	4,502
Loss on disposal of items of property, plant and equipment from continuing operations	(7,561)	(1,074)
Impairment loss of investment in an associate	(5,111)	—
Fair value gains/(losses), net:		
Derivative financial instruments	849	(6,539)
Others	(6,639)	(2,550)
	2,999	12,576

* The government grants have been received for the Group's contribution to the development of the local farming industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. PROFIT/(LOSS) BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	1,602,418	1,468,427
Loss arising from changes in fair value less costs to sell of biological assets	284,896	1,321,554
Depreciation of property, plant and equipment	111,464	151,168
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	1,265	1,431
Amortisation of other intangible assets	931	1,274
Research and development costs	4,791	5,156
Minimum lease payments under operating leases	—	1,200
Lease payments not included in the lease	7,370	—
Auditor's remuneration	3,060	4,283
Impairment losses on financial and contract assets	13,622	91,345
Write-down of inventories to net realisable value	2,849	—
Employee benefit expense (including directors' and chief executive's remuneration (note 7):		
Wages, salaries, bonuses and allowances	227,918	211,395
Other social insurances and benefits	13,327	11,955
Pension scheme contributions	9,565	11,318
	250,810	234,668

6. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans and other loans	209,933	59,836
Interest on short-term notes	—	6,133
Interest on corporate bonds	12,665	77,234
Interest on long term payables	2,641	3,868
Less: interest capitalised	—	(2,076)
	225,239	144,995

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2019 ranged between 1.55% and 12.97% (2018: between 1.55% and 12.97%).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	340	480
Other emoluments:		
Salaries, allowances and benefits in kind	1,467	1,329
Pension scheme contributions	12	36
	1,479	1,365
	1,819	1,845

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. LI Changqing	—	50
Ms.GE Xiaoping	—	50
Mr. WANG Liyan	100	100
Mr. LI Xuan	100	100
Mr. FU Wenge	100	100
	300	400

There were no other emoluments payable to the independent non-executive directors during the year (2018: nil).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019				
Executive directors:				
Mr. YAO Tongshan^	20	320	—	340
Mr. WU Jianye	20	346	12	378
Mr. WANG Yuehua#	—	—	—	—
Mr. ZHANG Jiawang##	—	800	—	800
	40	1,466	12	1,518
Non-executive directors:				
Mr. WEN Yongping	—	—	—	—
Mr. SUN Qian	—	—	—	—
Mr. SHAO Genhuo	—	—	—	—
	40	1,466	12	1,518
2018				
Executive directors:				
Mr. YAO Tongshan^	20	320	—	340
Mr. WU Jianye	20	346	12	378
Ms. GAO Lingfeng*	20	346	12	378
Mr. CUI Ruicheng**	20	317	12	349
Mr. WANG Yuehua#	—	—	—	—
	80	1,329	36	1,445
Non-executive directors:				
Mr. WEN Yongping	—	—	—	—
Mr. FAN Xiang	—	—	—	—
Mr. CUI Guiyong	—	—	—	—
Mr. SUN Qian	—	—	—	—
Mr. SHAO Genhuo	—	—	—	—
Mr. ZHANG Jiawang	—	—	—	—
	80	1,329	36	1,445

^ As Mr. YAO Tongshan has already reached the statutory retirement age in January 2018, he did not make pension scheme contributions during the year ended 31 December 2019 (2018: nil).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive (continued)

Mr. Wang Yuehua was appointed as an executive director of the Group on 29 June 2018. As Mr. Wang Yuehua has been remunerated by Beijing Dabeinong Technology Group Co., Ltd, one of the Group's shareholders, Mr. Wang Yuehua agreed to waive any remuneration in the Group. Since 25 January 2019, Mr. Wang Yuehua has ceased to be an executive director of the Group.

Mr. Zhang Jiawang was appointed as an executive director of the Group on 25 January 2019. As the pension scheme contributions of Mr. Zhang Jiawang has been borne by Beijing Dabeinong Technology Group Co., Ltd, one of the Group's shareholders, Mr. Zhang Jiawang agreed to waive pension scheme contributions in the Group.

* Since 29 June 2018, Ms. GAO Lingfeng has ceased to be an executive director of the Group. Although she was not an executive director as at 31 December 2018, Ms. GAO Lingfeng has been an executive vice-president of the Group. Therefore, remuneration paid to Ms. GAO Lingfeng after 29 June 2018 was included in directors' remuneration for the year ended 31 December 2018.

** Since 29 June 2018, Mr. CUI Ruicheng has ceased to be an executive director of the Group.

Save as disclosed above, there was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one directors (2018: two), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining four (2018: three) highest paid employees, who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Pension scheme contributions	71	46
Salaries, allowances and benefits in kind	2,556	1,132
	2,627	1,178

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
Nil to HKD1,000,000	4	3

9. INCOME TAX

	2019 RMB'000	2018 RMB'000
Current – PRC	—	130
Deferred (note 18)	410	(410)
Total tax charge/(credit) for the year from continuing operations	410	(280)
Current – PRC	—	(3,791)
Deferred (note 18)	217	31,980
Total tax charge for the year from a discontinued operation (note 10)	217	28,189
	627	27,909

A reconciliation of the tax (expense)/credit applicable to profit/(loss) before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Profit/(loss) before tax from continuing operations	189,314	(1,047,497)
Loss before tax from a discontinued operation	(52,991)	(1,235,811)
	136,323	(2,283,308)
Tax at the statutory tax rate (note (i))	34,081	(570,827)
Lower tax rate for specific provinces or enacted by local authority (note (iii))	1,836	25,413
Prior year adjustment	—	3,667
(Income)/loss not subject to tax (note (ii))	(63,559)	268,288
Expenses not deductible for tax (note (iv))	28,189	291,572
Tax losses not recognised	80	9,796
Tax charge at the Group's effective rate	627	27,909
Tax charge/(credit) from continuing operations at the effective rate	410	(280)
Tax charge from a discontinued operation at the effective rate	217	28,189

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Hong Kong profits tax has not been provided as there were no assessable profits arising in Hong Kong during the year. Entities in the PRC were generally subject to the PRC enterprise income tax rate of 25% for the year ended 31 December 2019 (2018: 25%).

(ii) According to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the Group's income arising from agricultural activities, such as dairy farming and the processing of raw agricultural products, is exempt from income tax.

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (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》), the Group's taxable income arising from the processing of non-raw agricultural products is subject to a preferential tax rate of 15% from 2013 to 2020.

(iv) Non-deductible expenses are mainly ECLs/impairment losses on trade receivables and other receivables, share of losses of associates and staff welfares exceeding the tax limit.

10. 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 Dairy Limited ("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 liquid milk business, being classified as a discontinued operation, presenting information by operating segment information 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 year are presented below:

	2019 RMB'000	2018 RMB'000
Revenue	219,802	722,718
Cost of sales	(146,983)	(479,159)
Gross profit from the discontinued operation	72,819	243,559
Other income and (losses)/gains	(19,402)	14,692
Selling and distribution expenses	(100,364)	(277,361)
Administrative expenses	(10,038)	(32,395)
Finance costs	(3,945)	(10,760)
Other expenses	—	(60,822)
Share of losses of associates	(208)	(469)
Impairment losses on financial and contract assets	(77,604)	(1,112,255)
Loss from the discontinued operation	(138,742)	(1,235,811)
Gain on disposal of a subsidiary	85,751	—
Loss before tax from the discontinued operation	(52,991)	(1,235,811)
Income tax expense (note 9)	(217)	(28,189)
Loss for the year from the discontinued operation	(53,208)	(1,264,000)

10. DISCONTINUED OPERATION (CONTINUED)

The major classes of assets and liabilities of Shengmu Dairy and Hohhot Dairy classified as held for sale as at 31 December are as follows:

	2019 RMB'000	2018 RMB'000
Assets		
Property, plant and equipment (note 13)	—	588,815
Prepaid land lease payments (note 14)	—	17,965
Other intangible assets (note 15)	—	4,975
Investments in associates	—	184
Deferred tax assets (note 18)	—	217
Inventories	—	32,888
Trade and bills receivables	—	97,434
Prepayments, other receivables and other assets	—	86,208
Pledged deposits	—	146,438
Cash and bank balances	—	3,231
Assets classified as held for sale	—	978,355
Liabilities		
Trade payables and bills payables	—	459,221
Other payables and accruals	—	228,945
Interest-bearing bank and other borrowings	—	101,840
Liabilities directly associated with the assets classified as held for sale	—	790,006
Net assets directly associated with the disposal group	—	188,349

At 31 December 2019, the disposal was completed and no machinery and equipment of the discontinued operation (2018: RMB30,000,000) were pledged to secure other borrowings granted to the discontinued operation.

10. DISCONTINUED OPERATION (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Operating activities	(53,979)	25,721
Investing activities	(34,158)	(126,713)
Financing activities	85,427	81,564
Net cash outflows	(2,710)	(19,428)
Loss per share:		
Basic, from the discontinued operation	(RMB0.009)	(RMB0.199)
Diluted, from the discontinued operation	(RMB0.009)	(RMB0.199)

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

	2019 RMB	2018 RMB
Loss attributable to ordinary equity holders of the parent from the discontinued operation	52,991,000	1,264,000,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 12)	6,354,400,000	6,354,400,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 12)	6,354,400,000	6,354,400,000

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

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

The basic earnings/(loss) per share amounts are calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 6,354,400,000 (2018: 6,354,400,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB27,742,000 (2018: loss for the year of RMB2,225,200,000). 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 earnings/(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 of warrants and dilutive potential ordinary shares.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the year ended 31 December 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 earnings/(loss) per share amounts presented.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2019 (2018: Nil).

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	6,354,400,000	6,354,400,000
Weighted average number of ordinary shares in issue during the year used in the diluted earnings/(loss) per share calculation	6,354,400,000	6,354,400,000

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019						
Cost	1,939,985	503,744	37,271	8,459	147,848	2,637,307
Accumulated depreciation	(314,803)	(207,181)	(22,522)	(5,756)	—	(550,262)
Net carrying amount	1,625,182	296,563	14,749	2,703	147,848	2,087,045
Net carrying amount included in a discontinued operation (note 10)	203,746	362,796	7,351	534	14,388	588,815
	1,828,928	659,359	22,100	3,237	162,236	2,675,860
At 1 January 2019, net of accumulated depreciation	1,828,928	659,359	22,100	3,237	162,236	2,675,860
Additions	—	31,774	2,801	827	83,851	119,253
Acquisition of a subsidiary (note 33)	—	383	11	—	26,352	26,746
Reclassification	(581)	71	510	—	—	—
Transfers	101,297	2,175	483	—	(103,955)	—
Disposals	(10,006)	(22,101)	(1,313)	(1,652)	—	(35,072)
Disposal of a subsidiary (note 10)	(200,094)	(346,027)	(6,829)	(473)	(14,488)	(567,911)
Depreciation provided during the year	(100,744)	(67,809)	(6,015)	(783)	—	(175,351)
At 31 December 2019, net of accumulated depreciation	1,618,800	257,825	11,748	1,156	153,996	2,043,525
At 31 December 2019						
Cost	2,027,768	480,596	37,607	4,178	153,996	2,704,145
Accumulated depreciation	(408,968)	(222,771)	(25,859)	(3,022)	—	(660,620)
Net carrying amount	1,618,800	257,825	11,748	1,156	153,996	2,043,525

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 1 January 2018						
Cost	2,068,256	976,304	50,571	9,908	225,635	3,330,674
Accumulated depreciation	(244,723)	(260,826)	(21,289)	(5,508)	—	(532,346)
Net carrying amount	1,823,533	715,478	29,282	4,400	225,635	2,798,328
At 1 January 2018, net of accumulated depreciation	1,823,533	715,478	29,282	4,400	225,635	2,798,328
Additions	9,912	10,282	1,128	348	68,980	90,650
Reclassification	48	—	(48)	—	—	—
Transfers	94,802	36,769	808	—	(132,379)	—
Disposals	—	(560)	(824)	(136)	—	(1,520)
Assets included in a discontinued operation (note 10)	(203,746)	(362,796)	(7,351)	(534)	(14,388)	(588,815)
Depreciation provided during the year	(99,367)	(102,610)	(8,246)	(1,375)	—	(211,598)
At 31 December 2018, net of accumulated depreciation	1,625,182	296,563	14,749	2,703	147,848	2,087,045
At 31 December 2018						
Cost	1,939,985	503,744	37,271	8,459	147,848	2,637,307
Accumulated depreciation	(314,803)	(207,181)	(22,522)	(5,756)	—	(550,262)
Net carrying amount	1,625,182	296,563	14,749	2,703	147,848	2,087,045

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 8 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery, motor vehicles and other equipment generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	38,058
Additions	1,891
Prepaid land lease payments included in a discontinued operation (note 10)	(17,965)
Current portion included in prepayments, other receivables and other assets included in a discontinued operation	(195)
Recognised in profit or loss during the year	(1,626)
Carrying amount at 31 December 2018	20,163
Current portion included in prepayments, other receivables and other assets	(1,318)
Non-current portion	18,845

(b) Right-of-use assets

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

	Prepaid land lease payments RMB'000
Carrying amount at 1 January 2019	20,163
Carrying amount at 1 January 2019 included in a discontinued operation (note 10)	17,965
	38,128
Additions	33,086
Additions as a result of acquisition of a subsidiary (note 33)	2,960
Right-of-use assets included in the disposal of a subsidiary (note 10)	(18,080)
Depreciation charge	(1,822)
As at 31 December 2019	54,272

14. LEASES (CONTINUED)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	—
New leases	32,287
Payments	—
Carrying amount at 31 December	32,287
Analysed into:	
Current portion	32,287
Non-current portion	—

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Depreciation charge of right-of-use assets	1,822
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	6,226
Expense relating to leases of low-value assets (included in administrative expenses)	1,144
Total amount recognised in profit or loss	9,192

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 34 to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	9,379	2,084	11,463
Cost at 1 January 2019, net of accumulated amortisation from a discontinued operation	—	4,975	4,975
	9,379	7,059	16,438
Additions	—	1,055	1,055
Disposal of a subsidiary (note 10)	—	(4,643)	(4,643)
Amortisation provided during the year	(750)	(846)	(1,596)
At 31 December 2019	8,629	2,625	11,254
At 31 December 2019			
Cost	15,004	4,947	19,951
Accumulated amortisation	(6,375)	(2,322)	(8,697)
Net carrying amount	8,629	2,625	11,254
At 31 December 2018			
Cost	15,004	3,885	18,889
Accumulated amortisation	(5,625)	(1,801)	(7,426)
Net carrying amount	9,379	2,084	11,463

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	10,129	3,482	13,611
Additions	—	4,516	4,516
Assets included in a discontinued operation (note 10)	—	(4,975)	(4,975)
Amortisation provided during the year	(750)	(939)	(1,689)
At 31 December 2018	9,379	2,084	11,463
At 31 December 2018			
Cost	15,004	3,885	18,889
Accumulated amortisation	(5,625)	(1,801)	(7,426)
Net carrying amount	9,379	2,084	11,463
At 31 December 2017			
Cost	15,004	5,945	20,949
Accumulated amortisation	(4,875)	(2,463)	(7,338)
Net carrying amount	10,129	3,482	13,611

16. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	150,413	90,328

The Group's trade receivable and payable balances with the associates are disclosed in note 36 to the financial statements.

Particulars of the material associates are as follows:

Name	Registered capital	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal activities
Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (note (a))	RMB273,180,000	PRC/ Mainland China	9.12%	Grass planting
Food Union Shengmu Dairy Co., Ltd.	USD 93,000,000	PRC/ Mainland China	12.42%	Dairy processing
Inner-Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd.	RMB 2,490,000,000	PRC/ Mainland China	49%	Dairy processing

Note:

(a) Although the Group only held a 9.12% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at 31 December 2019, Shengmu Forage has been accounted for as an associate of the Group as the Group has had more than 20% of effective voting power in Shengmu Forage. Shengmu Forage, which is considered a material associate of the Group, is a strategic partner of the Group and is engaged in grass planting.

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of Shengmu Forage, Food Union Shengmu Dairy Co., Ltd. (" Food Union Shengmu") and Inner-Mongolia Mengniu Shengmu High-tech Dairy Co., Ltd. ("Shengmu Dairy") adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

Shengmu Forage	2019 RMB'000	2018 RMB'000
Current assets	699,297	716,071
Non-current assets	625,322	677,779
Current liabilities	(844,702)	(945,897)
Net assets	479,917	447,953
Net assets attributable to owners of the parent	479,265	442,449
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	9.12%	9.12%
Group's share of net assets of the associate, excluding goodwill	43,709	40,351
Goodwill included in the investment	947	947
Adjustments	(1,019)	(1,019)
Carrying amount of the investment	43,637	40,279
Revenue	277,517	318,944
Profit for the year	36,828	25,319
Total comprehensive income for the year	36,828	25,319
Dividend received	—	—

Food Union Shengmu	2019 RMB'000	2018 RMB'000
Current assets	176,104	181,134
Non-current assets	693,515	754,352
Current liabilities	(97,923)	(104,779)
Non-current liabilities	(519,490)	(570,143)
Net assets	252,206	260,564
Reconciliation to the Group's interest in the associate:		
Unpaid capital contribution of other shareholders	28,952	72,430
Proportion of the Group's ownership	12.42%	15.03%
Group's share of net assets of the associate, excluding goodwill	34,920	50,049
Carrying amount of the investment	34,920	50,049
Revenue	26,281	13,109
Loss for the year	(156,659)	(128,906)
Total comprehensive loss for the year	(156,659)	(128,906)
Dividend received	—	—

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Shengmu Dairy	2019 RMB'000	2018 RMB'000
Current assets	187,659	—
Non-current assets	850,075	—
Current liabilities	(858,017)	—
Non-current liabilities	(22,641)	—
Net assets	157,076	—
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49%	—
Group's share of net assets of the associate, excluding goodwill	76,967	—
Impairment loss	(5,111)	—
Carrying amount of the investment	71,856	—
Revenue	634,036	—
Loss for the year	(247,865)	—
Total comprehensive loss for the year	(247,865)	—
Dividend received	—	—

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' loss for the year	—	(93)
Share of the associates' total comprehensive loss	—	(93)

The Group's shareholdings in the associates comprise all the equity shares held by the subsidiaries of the Company.

All the above associates have been accounted for using the equity method in these financial statements. The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associates exceeded the Group's interests in the associates. The amounts of the Group's total unrecognised share of losses of these associates for the current year and cumulatively were RMB884,000 (2018: RMB87,713,000) and RMB2,271,000 (2018: RMB457,748,000), respectively. The amounts of the Group's unrecognised share of losses of these associates from continuing operations for the current year and cumulatively were RMB884,000 (2018: RMB1,387,000) and RMB2,271,000 (2018: RMB1,387,000), respectively.

17. BIOLOGICAL ASSETS

(A) Nature of activities

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

The quantity of biological assets owned by the Group as at 31 December 2019 and 31 December 2018 is shown below. 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.

	2019 Head	2018 Head
Milkable cows	59,425	72,773
Heifers, calves and beef cattle	46,649	39,832
Total	106,074	112,605

In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately 9 months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before a dry period of approximately 60 days. The male calves which are newly born will be sold while the female calves will be bred for six months and then transferred to the unrealized internal profits group of heifers. Beef cattle will be bred for three to six months and then sold for profits. The sale of biological assets is not one of the Group's principal activities and the proceeds are not included as revenue.

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risks disclosed in note 39, the Group is exposed to the following operational risks:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding. The Group has established environmental policies and procedures which aimed at complying with local environmental and other laws. Management performs regular reviews to identify environmental risks to ensure that the systems in place are adequate to manage these risks.

(ii) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place which aimed at monitoring and mitigating those risks, including regular inspections, disease control, surveys and insurance.

The Group is exposed to fair value risks arising from changes in the price of the dairy products. The directors of the Company are of the view that there are no available derivatives or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

17. BIOLOGICAL ASSETS (CONTINUED)

(B) Value of biological assets

The values of the Group's biological assets at the year end were as follows:

	Milkable cows RMB'000	Heifers, Calves and beef cattle RMB'000	Total RMB'000
31 December 2019			
At 1 January 2019	2,025,336	649,583	2,674,919
Purchase	—	748	748
Increase due to raising (feeding costs and others)	—	650,333	650,333
Transfer	331,286	(331,286)	—
Decrease due to sales	(351,960)	(144,157)	(496,117)
Loss arising from changes in fair value less costs to sell	(243,362)	(41,534)	(284,896)
At 31 December 2019	1,761,300	783,687	2,544,987

	Milkable cows RMB'000	Heifers, Calves and beef cattle RMB'000	Total RMB'000
31 December 2018			
At 1 January 2018	2,720,866	1,180,034	3,900,900
Purchase	—	1,358	1,358
Increase due to raising (feeding costs and others)	—	601,635	601,635
Transfer	731,034	(731,034)	—
Decrease due to sales	(287,288)	(220,132)	(507,420)
Loss arising from changes in fair value less costs to sell	(1,139,276)	(182,278)	(1,321,554)
At 31 December 2018	2,025,336	649,583	2,674,919

At 31 December 2019, certain biological assets of the Group with fair value of approximately RMB945,666,000 (2018: RMB1,069,794,000) were pledged to the entrusted loans of the Group amounting to RMB1,370,000,000 (2018: RMB1,300,000,000) (note 28).

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

17. BIOLOGICAL ASSETS (CONTINUED)

(C) *Fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019	—	—	2,544,987	2,544,987
As at 31 December 2018	—	—	2,674,919	2,674,919

(D) *Description of valuation techniques used and key inputs to valuation on biological assets*

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of the heifers purchased within 6 months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest of the heifers, the fair value of 14-month-old heifers is determined by referring to the market price of the actively traded market.	Average market price of the heifers of 14 months of age: RMB19,000 to RMB19,500 for the year ended 31 December 2019 (2018: RMB18,500 to RMB19,000).	The estimated fair value increases when the market price increases.

17. BIOLOGICAL ASSETS (CONTINUED)

(D) Description of valuation techniques used and key inputs to valuation on biological assets (continued)

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The fair values of the heifers over 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers under 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the heifers or calves from the respective specific ages to 14 months old and the margins that would be required by a raiser.		
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year end will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or completion of all lactation periods, the estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.

17. BIOLOGICAL ASSETS (CONTINUED)

(D) Description of valuation techniques used and key inputs to valuation on biological assets (continued)

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
	The calving interval (including the dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days). This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for the lactation period ranged from 9.5 tonnes to 11.3 tonnes for the year ended 31 December 2019 (2018: 9.7 tonnes to 11.5 tonnes) depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated feed costs per kilogram of raw milk for the year ended 31 December 2019 ranged from RMB1.95 to RMB2.60 (2018: RMB1.92 to RMB2.60).	The estimated fair value decreases when the estimated feed costs per kilogram of raw milk increase.
		The estimated future local market prices for raw milk per tonne for the year ended 31 December 2019 ranged from RMB3,691 to RMB4,624 per tonne (2018: RMB3,750 to RMB4,850 per tonne).	The estimated fair value increases when the estimated future local market price for raw milk increases.
		The discount rate was 14.00% for the year ended 31 December 2019 (2018: 14.00%), calculated by using the capital asset pricing model.	The estimated fair value decreases when the discount rate increases.

(E) Quantity of the agricultural produce produced by the Group's biological assets

	2019 Tonne	2018 Tonne
Raw milk	642,166	673,238

17. BIOLOGICAL ASSETS (CONTINUED)

(F) Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

	2019 RMB'000	2018 RMB'000
Raw milk	2,582,250	2,358,610

18. DEFERRED TAX

The movements in the deferred tax assets during the year are as follows:

Deferred tax assets:

	Unrealised internal profits RMB'000
At 1 January 2019	627
Deferred tax charged to profit or loss during the year (note 9)	(627)
Gross deferred tax assets at 31 December 2019	—
Deferred tax assets included in the discontinued operation (note 10)	—
Deferred tax assets in respect of continuing operations	—

Deferred tax assets:

	Accrued expenses RMB'000	Unused tax credits RMB'000	Unrealised internal profits RMB'000	Total
At 1 January 2018	1,594	12,887	17,716	32,197
Deferred tax charged to profit or loss during the year (note 9)	(1,594)	(12,887)	(17,089)	(31,570)
Gross deferred tax assets at 31 December 2018	—	—	627	627
Deferred tax assets included in the discontinued operation (note 10)				217
Deferred tax assets in respect of continuing operations				410

18. DEFERRED TAX (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, no (2018: nil) deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,071,679,000 at 31 December 2019 (2018: RMB897,171,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group also has tax losses arising in Mainland China of RMB8,808,000 (2018: RMB210,953,000) that will expire in one to five years for offsetting against future taxable profits.

The carrying value of deferred tax assets relating to recognised unused tax credits at 31 December 2019 was nil (2018: nil).

Deferred tax assets have not been recognised in respect of the losses of RMB8,808,000 (2018: RMB125,041,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2019 RMB'000	2018 RMB'000
Prepayments		543,885	557,301
Deposits and other receivables		60,582	30,140
Prepaid expenses		9,663	12,665
		614,130	600,106
Non-current prepayments		—	(1,014)
Current portion		614,130	599,092

Deposits and other receivables mainly represent receivables from sales of biological assets, employee loans and financial support to distributors. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. After applying IFRS 9, an impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. ECLs are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

20. LONG TERM RECEIVABLES

	Contract amounts of long term receivables		Present value of long term receivables	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Within 1 year	4,640	3,200	3,850	2,519
1 to 2 years	4,640	3,200	3,980	2,643
2 to 5 years	10,720	9,600	9,696	8,873
Over 5 years	946	—	829	—
	20,946	16,000	18,355	14,035
Less: Unearned finance income	(2,591)	(1,965)	—	—
Present value of long term receivables	18,355	14,035	18,355	14,035
Portion classified as current assets under other receivables	(3,850)	(2,519)	(3,850)	(2,519)
Non-current portion	14,505	11,516	14,505	11,516

21. OTHER NON-CURRENT ASSETS

Other non-current assets mainly include deductible value-added tax expected to be deducted after one year.

22. INVENTORIES

	2019 RMB'000	2018 RMB'000
Consumables	34,012	34,495
Finished goods	—	423
Raw materials	644,042	569,142
	678,054	604,060

23. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Bills receivable	450	1,433
Trade receivables	167,840	245,282
	168,290	246,715
Impairment	(1,172)	—
	167,118	246,715

The Group's trading terms with its customers are mainly on credit. In 2019, the credit period is generally one month, extending up to three months for major customers. However, the Group normally allows a credit limit or offer to its customers credit terms which are adjustable in certain circumstances and closely monitors overdue balances.

The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade and bills receivables are non-interest-bearing.

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:

	2019 RMB'000	2018 RMB'000
Within 3 months	164,346	239,821
4 to 6 months	185	3,446
7 months to 1 year	1,718	2,424
Over 1 year	869	1,024
	167,118	246,715

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. For special cases, management will consider the corresponding expected credit losses separately. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

23. TRADE AND BILLS RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Past Due						
	Within 3 months	4 to 6 months	7 to 12 months	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0%	0%	5%	10%	50%	100%	0%
Gross carrying amount without special cases (RMB'000)	164,346	185	—	—	—	—	164,531
Expected credit losses (RMB'000)	—	—	—	—	—	—	—

As at 31 December 2018

	Past Due						
	Within 3 months	4 to 6 months	7 to 12 months	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	0%	0%	5%	10%	50%	100%	0%
Gross carrying amount without special cases (RMB'000)	239,721	2,113	—	—	—	—	241,834
Expected credit losses (RMB'000)	—	—	—	—	—	—	—

24. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	132,436	73,852
Time deposits with original maturity of more than three months	200	200
Pledged deposits	177,516	150,617
	310,152	224,669
Less: Pledged deposits	(177,516)	(150,617)
Cash and bank balances	132,636	74,052

As at 31 December 2019, no deposits (2018: RMB80,000,000) were pledged to secure bank loans (2018: RMB75,710,000) of the Group (note 28 (v)).

As at 31 December 2019, no deposits (2018: RMB30,617,000) were pledged to provide guarantees for the bank loans of Shengmu Forage (2018: RMB15,000,000).

The Group's above balances were denominated in the following currencies as follows:

	2019 RMB'000	2018 RMB'000
Euro	1,287	327
United States dollars	552	567
Hong Kong dollars	3	6,656
RMB	130,794	66,502
	132,636	74,052

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks utilised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. Time deposits are made for varying periods depending on the cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE AND BILLS PAYABLES

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

	2019 RMB'000	2018 RMB'000
1 to 3 months	1,008,135	789,020
4 to 6 months	294,595	109,151
7 to 12 months	49,967	65,068
1 to 2 years	5,961	27,110
2 to 3 years	2,409	6,449
Over 3 years	4,817	287
	1,365,884	997,085

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

During the year, the Group assisted certain external forage and transportation suppliers in entering into bank loan agreements. Under the agreements, the banks issue loans to these suppliers provided that the Group grant guarantees to the corresponding banks that any outstanding loans due for repayment can be settled by using the cash payment made by the Group to these suppliers into an escrow bank account for the purchase of products and services from these suppliers. As at 31 December 2019, the trade payables in association with the executed guarantee arrangement amounted to RMB75,166,000 (2018: nil).

26. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Payables for purchases of dairy cows	(a)	873	940
Payables for taxes other than corporate income tax	(a)	7,908	770
Payables for third parties' deposits	(a)	22,732	26,642
Long term payables due within one year		27,588	26,301
Salary and welfare payables	(a)	49,733	61,489
Payables for purchases of transportation services	(a)	24,512	27,105
Payables for acquisition of items of property, plant and equipment	(a)	144,081	139,631
Payables for acquisition of non-controlling interests	(b)	200,000	—
Payables for acquisition of Bayannur Shengmu High-tech Ecological Food Co., Ltd ("Ecological Food Shengmu")	(c)	24,020	—
Contract liabilities	(d)	50,256	119,680
Financial guarantee contracts	(e)	2,635	43,203
Others	(a)	20,434	40,474
		574,772	486,235

26. OTHER PAYABLES AND ACCRUALS (CONTINUED)

(a) These payables are non-interest-bearing and have an average term of 90 days.

(b) On 21 December 2018, the Company and Shengmu High-tech entered into an equity transfer framework agreement with twelve individual shareholders of Shengmu Sand and Grass (the "**Individual Shareholders**") to acquire the equity interests held by the Individual Shareholders in Shengmu Sand and Grass at a cash consideration of RMB300,000,000 by instalments from March 2019 to November 2019 and a non-cash consideration of RMB200,000,000 by issuance of shares of the Company. On 30 November 2019, the Group completed the acquisition of the equity interests held by the Individual Shareholders and a consideration of RMB300,000,000 has been settled in cash as at 31 December 2019.

The acquisitions of non-controlling interests resulted in the reduction of non-controlling interests by RMB567,964,000 and the addition of contributed surplus by RMB67,964,000 during the year.

(c) Details of payables for acquisition of Ecological Food Shengmu as at 31 December 2019 are included in note 33 to the financial statements.

(d) Details of contract liabilities as at 31 December 2019 and 31 December 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Short-term advances received from customers		
Sale of goods	50,256	119,680

Contract liabilities include short-term advances received in relation to the supply of raw milk in the following year. The balances bear interest at 4.8% per annum (2018: 4.8%).

(e) The financial guarantee contracts represent guarantees given to banks in connection with facilities granted to associates and external distributors. As at 31 December 2019, the associates and external distributors' banking facilities granted by the banks were RMB571,000,000 (2018: RMB499,000,000), out of which RMB343,410,000 (2018: RMB300,480,000) was utilised by the associates and external distributors.

The Group does not provide financial guarantees except for limited circumstances. All guarantees are approved by the chief executive.

The financial guarantee contracts are measured at the higher of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised. The ECL allowance is measured by estimating the cash shortfalls, which are based on the expected payments to reimburse the holders (i.e., the banks) for a credit loss that it incurs less any amounts that the Group expects to receive from the debtor (i.e., the associates and external distributors).

The credit exposure of the financial guarantee contracts is classified as stage 1. During the year, there were no transfers between stages (2018: nil).

During the year, no ECL allowance (2018: RMB121,703,000) was reversed as the loans on which the guarantees were executed by the Group were defaulted and the defaulted amounts have already been paid by the Group for the purpose of fulfilling the guarantees.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Subscription right of warrants	3,267	81,238

On 23 December 2018, the Company entered into agreements with Start Great Holdings Limited, a wholly-owned subsidiary of China Mengniu, and Greenbelt Global Limited, two independent investors, for the issuance of warrants. In accordance with the agreements, the two investors would be entitled to subscribe the warrants after certain precedent conditions were met.

On 24 January 2019, the first batch 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' meeting of the Group. 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. Upon issue of the warrants, a maximum of 1,207,336,000 new shares will fall to be issued, which represent approximately 15.97% of the total number of shares in issue as at that date. Accordingly, RMB75,604,000 was transferred from derivative financial liabilities to capital surplus. As at 31 December 2019, the warrants issued were not exercised.

As at 31 December 2019, the second batch of 117,080,000 and 13,774,000 warrants to Start Great Holdings Limited and Greenbelt Global Limited, respectively, has not been issued given the fact that certain precedent conditions have not been met.

Changes in the fair value of the subscription rights of warrants amounting to RMB2,368,000 were charged to profit or loss during the year (2018: RMB6,251,000).

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 14)	—	2020	32,287	—	—	—
Bank loans – unsecured	4.35-6.26	2020	763,650	4.79-6.97	2019	200,000
Bank loans – secured	5.66-6.09	2020	1,370,000	5.66-12.97	2019	1,390,266
Domestic corporate bonds - unsecured	—	—	—	5.01	2019	599,209
Current portion of long term bank and other borrowings –unsecured	1.55	2020	11,182	1.55-5.23	2019	29,389
			2,177,119			2,218,864
Non-current						
Bank loans – unsecured	1.55	2021-2024	39,443	1.55	2020-2024	49,518
			2,216,562			2,268,382

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	2,144,832	1,619,655
In the second year	—	—
In the third to fifth years, inclusive	39,443	—
Beyond five years	—	49,518
	2,184,275	1,669,173
Other borrowings repayable:		
Within one year	32,287	599,209
	2,216,562	2,268,382

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(i) As at 31 December 2019, substantially all of the Group's bank and other borrowings were denominated in RMB except for the interest-bearing bank loans of RMB50,625,000 (2018: RMB60,907,000) which were denominated in Euro.

(ii) The domestic corporate bonds with an aggregate nominal amount of RMB600,000,000 were issued by the issuer to qualified investors on 30 May 2016 as approved by the China Securities Regulatory Commission. The domestic corporate bonds bear interest at an annual interest rate of 4.75 % and have a term of 3 years with extension options granted to the bond holders for two more years at the end of the third year. As at 31 December 2019, the domestic corporate bonds have been fully repaid.

(iii) As at 31 December 2019, two directors of the Company provided guarantees for the bank loans of the Group amounting to nil (2018: RMB80,000,000).

(iv) On 10 December 2018 and 23 December 2018, the Company and Inner Mongolia Mengniu, a subsidiary of China Mengniu, entered into two entrusted loan agreements, where a half-year term loan of RMB300,000,000 and a one-year term loan of RMB1,000,000,000 were granted by Inner Mongolia Mengniu to the Group, respectively. Included in the loan facilities were the subscription rights of warrants fair-valued at RMB67,093,000 on 23 December 2018, which were classified to derivative financial instruments, as disclosed in note 27 to the financial statements.

As at 31 December 2019, the loan facility of RMB370,000,000 (2018: RMB300,000,000) was secured by the pledged biological assets of Shengmu High-tech and Shengmu Holding with fair value of approximately RMB603,327,000 (2018: RMB729,757,000) in total and a corporate guarantee provided by the Company. The loan facility of RMB1,000,000,000 (2018: RMB1,000,000,000) was secured by the pledged biological assets of Shengmu High-tech and Shengmu Holding with fair value of approximately RMB342,339,000 (2018: RMB340,037,000) in total and partial interests in fifteen subsidiaries of the Group with net assets amounting to RMB2,393,939,000 (2018: fourteen subsidiaries with net assets amounting to RMB2,311,889,000) in total.

On 30 December 2019, Shengmu Hi-tech and Inner Mongolia Mengniu (on behalf of China Mengniu) entered into a financial assistance framework agreement under which China Mengniu has provided the Group with an entrusted loan with a daily cap balance of RMB1,600,000,000 for three years ending 31 December 2022.

(v) At 31 December 2019, no bank loans of the Group(2018: RMB75,710,000) were secured by the pledged deposits (2018: RMB80,000,000).

29. LONG TERM PAYABLES

	Contract amounts of long term payments		Present value of long term payments	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	28,940	28,940	27,588	26,301
1 to 2 years	28,940	28,940	28,940	27,588
2 to 5 years	—	28,940	—	28,940
	57,880	86,820	56,528	82,829
Future finance charges	(1,352)	(3,991)	—	—
Present value of long term payables	56,528	82,829	56,528	82,829
Portion classified as current liabilities included in other payables	(27,588)	(26,301)	(27,588)	(26,301)
Non-current portion	28,940	56,528	28,940	56,528

30. SHARE CAPITAL

Shares

	2019	2018
	RMB'000	RMB'000
Authorised:		
30,000,000,000 ordinary shares of HKD0.00001 each (2018: 30,000,000,000 ordinary shares HKD0.00001 each)	236	236
Issued and fully paid:		
6,354,400,000 (2018: 6,354,400,000) ordinary shares	50	50

31. RESERVES

(i) Movements in components of equity

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

(ii) Contributed surplus

The Group's contributed surplus represents the excess of the net asset value of the subsidiaries acquired by the Company over the nominal amount of the shares issued by the Company as consideration pursuant to the Reorganisation.

31. RESERVES (CONTINUED)

(iii) Reserve fund

In accordance with the relevant PRC laws and the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The PRC statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

32. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

Shengmu Pangu	2019	2018
Percentage of equity interest held by non-controlling interests	45%	45%
Profit for the year allocated to non-controlling interests	39,018	5,528
Dividends paid to non-controlling interests	(81,000)	—
Accumulated balances of non-controlling interests at the end of the reporting period	199,316	241,298

The following tables illustrate the summarised financial information of Shengmu Pangu. The amounts disclosed are before any inter-company eliminations:

	2019 RMB'000	2018 RMB'000
Revenue	249,586	221,261
Profit/(loss) for the year	86,303	(2,284)
Total comprehensive income/(loss) for the year	86,303	(2,284)
Current assets	130,358	233,456
Biological assets	236,034	247,235
Other non-current assets	124,183	121,919
Current liabilities	(46,188)	(64,521)
Net cash flows from operating activities	81,281	102,640
Net cash flows used in investing activities	(21,561)	(4,546)
Net cash flows used in financing activities	(57,414)	(92,223)
Net increase in cash and cash equivalents	2,306	5,871

33. BUSINESS COMBINATION

On 31 July 2019, the Group acquired a 100% interest in Ecological Food Shengmu from Shengmu Forage at a cash consideration of RMB24,020,000. Ecological Food Shengmu is engaged in the manufacture of feed. The acquisition was made as part of the Group's strategy to further expand organic feed manufacturing and processing.

The fair values of the identifiable assets and liabilities of Ecological Food Shengmu as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	26,746
Right-of-use assets	14	2,960
Cash and bank balances		1
Trade receivables		296
Inventories		98
Prepayments, other receivables and other assets		2,150
Trade payables		(601)
Accruals and other payables		(7,630)
Total identifiable net assets at fair value		24,020
Satisfied by cash		24,020

The Group incurred no transaction costs for this acquisition.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(24,020)
Cash and bank balances acquired	1
Net outflow of cash and cash equivalents included in cash flows from investing activities	(24,019)
Transaction costs of the acquisition included in cash flows from operating activities	—
	(24,019)

Since the acquisition, Ecological Food Shengmu has been under construction and contributed nil and RMB161,000 to the Group's revenue and the consolidated loss, respectively, for the year ended 31 December 2019.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) *Major non-cash transactions*

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB32,287,000 and RMB32,287,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) *Changes in liabilities arising from financing activities:*

	Bank and other loans RMB'000	Lease liabilities RMB'000	Domestic corporate bonds RMB'000	Super short-term notes RMB'000	Derivative financial instruments RMB'000
At 1 January 2019	1,771,013	—	599,209	—	81,238
Changes from financing cash flows	492,819	—	(600,000)	—	—
Foreign exchange movement	—	—	—	—	(1,518)
Fair value gain	—	—	—	—	(849)
Disposal of a subsidiary	(145,000)	—	—	—	—
New lease	—	32,287	—	—	—
Issue of warrants	—	—	—	—	(75,604)
Interest expense	—	—	791	—	—
Finance charges	65,443	—	—	—	—
At 31 December 2019	2,184,275	32,287	—	—	3,267

	Bank and other loans RMB'000	Lease liabilities RMB'000	Domestic corporate bonds RMB'000	Super short-term notes RMB'000	Derivative financial instruments RMB'000
At 1 January 2018	1,380,171	—	1,595,276	398,800	—
Changes from financing cash flows	390,842	—	(1,000,000)	(398,800)	67,093
Foreign exchange movement	—	—	—	—	(287)
Fair value loss	—	—	—	—	6,539
Consideration receivable	—	—	—	—	7,893
Interest expense	—	—	3,933	—	—
At 31 December 2018	1,771,013	—	599,209	—	81,238

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	(7,370)

35. COMMITMENTS

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

	Note	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:			
Plant and machinery		54,411	57,821
Buildings		26,675	49,436
Capital contribution payable to Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. ("Shengmu Sand and Grass") and associates	(i)	—	311,000
		81,086	418,257

Note:

(i) On 21 December 2018, the Group made a capital contribution of RMB300,000,000 to acquire the non-controlling interests of Shengmu Sand and Grass. As at 31 December 2019, capital injection has been completed by the Group.

As at 31 December 2018, the Group has made a capital contribution of RMB11,000,000 into certain associates of Shengmu Dairy but has not made capital injection. As these associates of Shengmu Dairy had net liabilities and accumulated losses at the year end, the maximum amount of the Group's unrecognised share of accumulated losses of these associates would be RMB11,000,000 based on the investment commitment (the "**Investment Commitment**") of these associates. On 30 April 2019, the Group disposed of Shengmu Dairy and the Investment Commitment has been released from the Group.

35. COMMITMENTS (CONTINUED)

(b) *Operating lease commitments as at 31 December 2018*

The Group leased certain of its plant and machinery, motor vehicles and other equipment under operating lease arrangements. These leases were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	1,200

(c) The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are RMB1,200,000 due within one year.

36. RELATED PARTY DISCLOSURES

(a) *The Group had the following significant transactions with related parties:*

	Note	2019 RMB'000	2018 RMB'000
Associates:			
Sales of products	(i)	30,815	166,692
Purchases of raw materials	(i)	276,727	330,006
Sales of raw materials	(i)	185,770	30,663
Purchases of property, plant and equipment	(i)	2,022	—
Purchases of right-of-use assets	(i)	32,287	—
Affiliates of a substantial shareholder:			
Purchases of raw materials	(i)	12,423	45,630

Note:

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

(b) *Other transactions with related parties:*

During the year, 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.

36. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Other transactions with related parties: (continued)

During the year ended and as of 31 December 2019, the Group provided guarantees to banks in respect of the bank loans of the following related parties:

	During the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Shengmu Forage	—	140,000
Food Union Shengmu	—	20,539
Shengmu Dairy	493,000	—

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Shengmu Forage	80,000	155,000
Food Union Shengmu	65,410	123,419
Shengmu Dairy	198,000	—
Associate distributors	—	20,820

During the year ended 31 December 2019, the Group has paid RMB20,814,000 (2018: RMB35,526,000) and nil (2018: RMB78,330,000) for the purpose of fulfilling the guarantees for the associate distributors and Shengmu Forage, respectively. Details of the guarantees granted were disclosed in note 26 to the financial statements.

During the year ended and as at 31 December 2019, two directors of the Company provided guarantees for the bank loans of the Group amounting to nil (2018: RMB80,000,000).

As at 31 December 2019, no deposits (2018: RMB30,617,000) were pledged to provide guarantees for the bank loans of Shengmu Forage (2018: RMB15,000,000).

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

	2019	2018
	RMB'000	RMB'000
Short term employee benefits	4,749	1,810
Pension scheme contributions	90	35
	4,839	1,845

Further details of directors' and the chief executive's emoluments are included in note 7 to the financial statements.

36. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Outstanding balances with related parties

	2019 RMB'000	2018 RMB'000
Amounts owed by/(owed to) associates included in:		
Trade and bills receivables	49,414	22,847
Trade and bills payables	(51,441)	(38,796)
Prepayments, deposits and other receivables	528,515	507,444
Contract liabilities	(21,901)	(190)
Lease liabilities	(32,287)	—
Other payables and accruals	(22,085)	(1,472)

As at 31 December 2019, included in the Group's prepayments, deposits and other receivables were the prepayment to Shengmu Forage for the purchase of raw materials of RMB515,622,000 (2018: RMB507,444,000), which were secured by right-of-use assets (prepaid land lease payments) owned by Shengmu Forage with fair value of RMB521,428,000 as at 31 December 2019, and there was no amount due from the Group's associates (2018: RMB242,216,000) for the working capital financing provided to these associates.

Except that ECLs arising from the working capital financing provided to associate distributors have been fully provided as at 31 December 2018, there was no recent history of default and past due amounts for the outstanding balances with associates and the loan allowance was assessed to be minimal as at 31 December 2019 and 2018.

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

During the year, the Group acquired a subsidiary, Ecological Food Shengmu, from Shengmu Forage, an associate, at a consideration of RMB24,020,000. Details of the transaction are disclosed in note 33 to the financial statements.

During the year, the Group acquired right-of-use assets (prepaid land lease payments) from Shengmu Forage at a consideration of RMB32,287,000. The corresponding land, on which certain farms have been built and operated by the Group, was rented for free by Shengmu Forage to the Group in prior years.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	Financial assets at amortised cost RMB'000
Long term receivables	14,505
Financial assets included in prepayments, other receivables and other assets	64,432
Pledged deposits	177,516
Cash and bank balances	132,636
Trade and bills receivables	167,118
	556,207

Financial liabilities

	Financial liabilities at fair value through profit and loss — Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Long term payables	—	28,940	28,940
Financial liabilities included in other payables and accruals	—	464,240	464,240
Trade and bills payables	—	1,365,884	1,365,884
Interest-bearing bank and other borrowings	—	2,184,275	2,184,275
Lease liabilities	—	32,287	32,287
Financial guarantee contracts	2,635	—	2,635
Derivative financial instruments	3,267	—	3,267
	5,902	4,075,626	4,081,528

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018

Financial assets

	Financial assets at amortised cost
	RMB'000
Long term receivables	11,516
Financial assets included in prepayments, other receivables and other assets	30,140
Pledged deposits	150,617
Cash and bank balances	74,052
Trade and bills receivables	246,715
	513,040

Financial liabilities

	Financial liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
	Designated as such upon initial recognition		
	RMB'000	RMB'000	RMB'000
Long term payables	—	56,528	56,528
Financial liabilities included in other payables and accruals	—	261,093	261,093
Trade and bills payables	—	997,085	997,085
Interest-bearing bank and other borrowings	—	2,268,382	2,268,382
Financial guarantee contracts	43,203	—	43,203
Derivative financial instruments	81,238	—	81,238
	124,441	3,583,088	3,707,529

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts As at 31 December		Fair values As at 31 December	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial assets				
Long term receivables	14,505	11,516	14,042	10,976
Financial liabilities				
Derivative financial instruments	3,267	81,238	3,267	81,238
Financial guarantee contracts	2,635	43,203	2,635	43,203
Long term payables	28,940	56,528	27,149	51,186
Interest-bearing bank and other borrowings (other than lease liabilities)	2,184,275	2,268,382	2,199,527	2,256,035

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, financial liabilities included in other payables and accruals and guarantees given to banks in connection with facilities granted to an associate 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 fair value of derivative financial instruments with two counterparties, as disclosed in note 27 to the financial statements. Derivative financial instruments are measured using the binomial option pricing model. The carrying amounts of derivative financial instruments are the same as their fair values.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	2019	2018
	RMB'000	RMB'000
Derivative financial instruments	3,267	81,238
Financial guarantee contracts	2,635	43,203
	5,902	124,441

Asset and liabilities for which fair values are disclosed:

	Fair value measurement using significant observable inputs (Level 2)	
	2019	2018
	RMB'000	RMB'000
Long term receivables	14,042	10,976
Long term payables	27,149	51,186
Interest-bearing bank and other borrowings (other than lease liabilities)	2,199,527	2,256,035
	2,240,718	2,318,197

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, pledged deposits and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's fair value interest rate risk relates primarily to variable-rate bank and other borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile is set out in note 28.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's (loss)/profit before tax through the impact on floating-rate borrowings and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/ (loss) before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2019			
RMB	50	(966)	(966)
RMB	(50)	966	966
2018			
RMB	50	(796)	(796)
RMB	(50)	796	796

* Excluding retained profits

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at 31 December 2019, cash and bank balances of approximately RMB1,287,000 (2018: RMB327,000), RMB552,000 (2018: RMB567,000) and RMB4,000 (2018: RMB6,656,000) were denominated in Euro ("EUR"), United States dollars ("USD") and Hong Kong dollars ("HKD"), respectively, and the interest-bearing bank and other borrowings of approximately RMB50,625,000 (2018: RMB60,907,000) were denominated in EUR. The fluctuations of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate (2018: EUR exchange rate) with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit/(loss) before tax RMB'000
2019	5	53,884
	(5)	(53,884)
2018	5	39,029
	(5)	(39,029)

Credit risk

The Group trades only with recognised 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. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019	12-month ECLs	Lifetime ECLs			Total
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables*	—	—	—	167,118	167,118
Long term receivables**					
– Normal**	14,505	—	—	—	14,505
– Doubtful**	—	—	—	—	—
Financial assets included in prepayments, other receivables and other assets*					
– Normal*	—	—	—	64,432	64,432
– Doubtful*	—	—	—	—	—
Pledged deposits					
– Not yet past due	177,516	—	—	—	177,516
Cash and cash equivalents					
– Not yet past due	132,636	—	—	—	132,636
Guarantees given to banks in connection with facilities granted to associates and external distributors	—	—	—	—	—
– Not yet past due	343,410	—	—	—	343,410
	668,067	—	—	231,550	899,617

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

As at 31 December 2018	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables*	—	—	—	246,715	246,715
Long term receivables**					
– Normal**	11,516	—	—	—	11,516
– Doubtful**	—	—	—	—	—
Financial assets included in prepayments, other receivables and other assets*					
– Normal*	—	—	—	30,140	30,140
– Doubtful*	—	—	—	—	—
Pledged deposits					
– Not yet past due	150,617	—	—	—	150,617
Cash and cash equivalents					
– Not yet past due	74,052	—	—	—	74,052
Guarantees given to banks in connection with facilities granted to associates and external distributors	—	—	—	—	—
– Not yet past due	263,421	—	—	—	263,421
– Less than 1 month past due	—	—	—	—	—
– 1 to 3 months past due	22,070	—	—	—	22,070
– More than 3 months past due	14,989	—	—	—	14,989
	536,665	—	—	276,855	813,520

* For trade and bills receivables, prepayments, deposits and other receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 23 to the financial statements.

** The credit quality of long term receivables and the financial assets included in prepayments, other receivables and other assets are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 23 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings and projected cash flows from operations.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments.

	On demand	Less than 1 year	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2019				
Long term payables	—	—	28,940	28,940
Financial liabilities included in other payables and accruals	435,300	28,940	—	464,240
Trade and bills payables	1,365,884	—	—	1,365,884
Interest-bearing bank and other borrowings	—	2,229,303	42,350	2,271,653
Derivative financial instruments	3,267	—	—	3,267
Guarantees given to banks in connection with facilities granted to associates and external distribution	—	278,000	65,410	343,410
	1,804,451	2,536,243	136,700	4,477,394
2018				
Long term payables	—	—	57,880	57,880
Financial liabilities included in other payables and accruals	232,153	28,940	—	261,093
Trade and bills payables	997,085	—	—	997,085
Interest-bearing bank and other borrowings	—	2,288,188	66,381	2,354,569
	81,238	—	—	81,238
Guarantees given to banks in connection with facilities granted to an associate	37,059	263,421	—	300,480
	1,347,535	2,580,549	124,261	4,052,345

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing bank and other borrowings. Total capital is the equity as shown in the consolidated statement of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios at the end of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings	2,216,562	2,268,382
Total equity	2,410,828	2,878,887
Gearing ratio	91.9%	78.8%

40. EVENTS AFTER THE REPORTING PERIOD

(a) On 1 January 2020, Shengmu Dairy, an associate in which the Group held a 49% equity interest as at 31 December 2019, completed the spin-off of its dairy product sales business into a newly established entity named Inner Mongolia Mengniu Shengmu Hi-tech Dairy Co., Ltd., which mirrored the same shareholder structure of Shengmu Dairy. On 22 January 2020, the Group entered into a share purchase agreement with Inner Mongolia Mengniu to dispose of the 49% equity interest held in Shengmu Dairy, which solely retained its dairy product manufacturing and processing business subsequent to the spin-off, at a cash consideration of RMB8,000,000. The disposal was completed on 22 January 2020.

(b) On 28 February 2020, the Group entered into a share sale and purchase agreement with Food Union (Dairy) Hong Kong Limited to dispose of the 5.38% equity interest held in Food Union Shengmu, an associate in which the Group held a 12.42% equity interest as at 31 December 2019, at a cash consideration of USD5,000,000. In addition, the Group agrees to dispose of an additional 4.84% equity interest held in Food Union Shengmu at an aggregate consideration up to USD4,500,000 by 31 December 2021.

40. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(c) The outbreak of novel coronavirus ("COVID-19") in January 2020 continues to spread throughout China and to countries across the world. The COVID-19 has certain impact on the business operations of the Group, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. The Group will monitor the developments of COVID-19 closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of this report, the assessment is still in progress. Given the dynamic nature of these circumstances, the related impacts on the Group's consolidated results of operations, cash flows and financial position could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

41. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	522,907	294,563
Due from subsidiaries	3,157,437	3,088,522
Total non-current assets	3,680,344	3,383,085
CURRENT ASSETS		
Prepayments, other receivables and other assets	847	6,928
Cash and cash equivalents	1,242	1,128
Due from subsidiaries	28,935	74,375
Total current assets	31,024	82,431
CURRENT LIABILITIES		
Interest-bearing bank borrowings	11,182	11,389
Derivative financial instruments	3,267	81,238
Other payables and accruals	203,903	8,545
Total current liabilities	218,352	101,172
NET CURRENT ASSETS	(187,328)	(18,741)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,493,016	3,364,344
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	39,444	49,518
Total non-current liabilities	39,444	49,518
Net assets	3,453,572	3,314,826
EQUITY		
Share capital	50	50
Reserves (note 31)	3,453,522	3,314,776
Total equity	3,453,572	3,314,826

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account	Share option reserve	Accumulated losses	Exchange fluctuation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	3,024,937	57,265	(69,257)	167,219	3,180,164
Loss for the year	—	—	(14,843)	—	(14,843)
Other comprehensive income	—	—	—	149,455	149,455
Total comprehensive income for the year	—	—	(14,843)	149,455	134,612
At 31 December 2018	3,024,937	57,265	(84,100)	316,674	3,314,776
Loss for the year	—	—	(12,600)	—	(12,600)
Other comprehensive income	—	—	—	75,742	75,742
Total comprehensive income for the year	—	—	(12,600)	75,742	63,142
Equity-settled warrant arrangements	75,604	—	—	—	75,604
At 31 December 2019	3,100,541	57,265	(96,700)	392,416	3,453,522

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

FINANCIAL SUMMARY

Below is the summary of audited financial statement of the Group for the relevant years:

Unit: RMB in thousand	For the year ended December 31,				
	2019	2018	2017	2016	2015
Revenue	2,759,369	2,887,167	2,706,842	3,466,544	3,100,711
(Loss)/profit for the year	135,696	(2,311,217)	(853,790)	956,808	1,083,222
Of which: (loss)/profits attributable to the owners of the parent	27,742	(2,225,200)	(1,015,266)	680,615	800,652
(Loss)/earnings per share attributable to ordinary equity holders of the parent:					
Basic	RMB0.004	(RMB0.350)	(RMB0.160)	RMB0.107	RMB0.126
Diluted	RMB0.004	(RMB0.350)	(RMB0.160)	RMB0.106	RMB0.124

	As at December 31,				
	2019	2018	2017	2016	2015
Total assets	6,600,253	7,558,361	10,519,695	10,499,295	9,459,793
Total liabilities	4,189,425	4,679,474	5,144,582	4,163,360	4,092,568
Net assets	2,410,828	2,878,887	5,375,113	6,335,935	5,367,225
Of which: equity attributable to the owner of the parent:	2,186,421	2,017,913	4,315,662	5,327,847	4,551,655