

CHINA SHENGMU ORGANIC MILK LIMITED 中國聖牧有機奶業有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1432



Interim Report
2020



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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. SUN Qian
Mr. ZHAO Jiejun
Mr. ZHANG Ping

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



Corporate Information

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 Sub-branch)
Bank of Communications Co., Ltd.
(Hohhot Ulan Sub-branch)
Hengfeng Bank Co., Ltd. (Xi'an Branch)
Industrial Bank Co., Ltd. (Hohhot Xilin Sub-branch)
Agricultural Bank of China Limited
(Hohhot Horinger Sub-branch)
Industrial and Commercial Bank of China Limited
(Hohhot Shidong Road Sub-branch)

Auditor

Ernst & Young

Legal Advisor

AS TO HONG KONG LAW

Linklaters

AS TO CAYMAN ISLANDS LAW

Maples and Calder

Website

<http://www.youjimilk.com>

Highlights

	For the six-month period ended 30 June		
	2020	2019	Movements
	RMB'000	RMB'000	
Revenue ⁽¹⁾	1,251,067	1,420,582	(11.9%)
Gross profit ⁽¹⁾	470,796	517,404	(9.0%)
Profit from continuing operations	165,729	32,233	414.2%
Loss from a discontinued operation	—	(52,991)	52,991
Profit/(loss) for the period	165,729	(20,758)	186,487
Profit/(loss) attributable to owners of the parent	142,925	(73,501)	216,426

(1) Data for the 2019 Interim Period includes the data from January to April prior to the disposal of the liquid milk business.



Management Discussion and Analysis

Industrial Overview

In April 2020, the Ministry of Agriculture and Rural Affairs issued the “Report on China’s Dairy Products Outlook for 2020-2029” (《2020-2029年中國奶制品展望報告》). The Report stated that the next 10 years will be a critical period for the revitalization of China’s dairy industry. Accelerating the promotion of moderate-scale breeding is the key to expand China’s dairy production and enhance the competitiveness of China’s dairy industry.

In order to promote the national strategy of revitalization of dairy industry, the Inner Mongolia Autonomous Region has set a target of reaching 3.5 million dairy stocks and 10 million tonnes of dairy production by 2025. Accordingly, the Inner Mongolia Autonomous Region government has promulgated relevant supporting policies to increase support for the combination of planting and farming, raise the subsidy standards for breeding facilities and equipment, strengthen the construction of milk source bases, promote the transformation and upgrading of small and medium-sized farms, support the processing of ethnic characteristic milk products, provide land use policy support and strengthen financial policy support. Guided by the policy to comprehensively promote economic recovery, the China Dairy Industrial Park’s milk source base project with 300,000 cows has started construction in Bayannur, Tongliao and Hohhot since 14 May. Meanwhile, 56 dairy financing projects at the promotion conference exclusively held for dairy industry were signed, thus to provide strong support for the development of the dairy industry.

Despite the difficulty that the dairy industry faces due to the impact of the novel coronavirus epidemic in 2020, 163 dairy companies, including Mengniu, Yili, Shengmu and Junlebao have actively fulfilled their social responsibilities by making donations, which demonstrated their valuable quality and noble spirit.

With the novel coronavirus epidemic being under effective control in China, the social and economic order basically returned to normal in the second quarter, and the dairy industry continued to improve. After the epidemic, the public pays more attention to nutrition and health and the nutritional concept of 300 ml milk plus one egg per day is deeply rooted in the public, which brings new vitality and development opportunities to the dairy industry. According to the “Chinese Dairy Index Survey Data Report” (《中國奶商指數調查數據報告》) released by the China Dairy Industry Association, the Chinese Dairy Index in 2020 is 62.7 points, which is significantly higher than that of 60.7 points in 2019, reflecting continuously optimistic prospects of the dairy industry.

Business Overview

The principal business of the Group is dairy farming business. The Group has 34 dairy farms with daily production of 1,715 tonnes of fresh milk, 11 of which have passed organic certification with daily production of 730 tonnes of organic fresh milk, forming the largest organic raw milk base in China. The Group has 23 non-organic farms with daily production of 985 tonnes of high quality non-organic fresh milk.

On 31 July 2020, Start Great Holdings Limited (a wholly-owned subsidiary of China Mengniu) exercised the warrants and became the largest shareholder of the Company. Looking forward, the Group will further its collaboration with China Mengniu and its subsidiaries (the “**Mengniu Group**”) to optimize the layout of premium raw milk, strengthen the synergy of supply chain management and achieve better operation benefits.

In the 2020 Interim Period, the Group recorded revenue of RMB1,251.1 million, achieved a net profit of RMB165.7 million, and net profit attributable to owners of the parent company was RMB142.9 million. The quantity of dairy cows was 107,887 heads, including 47,205 organic dairy cows.

Management Discussion and Analysis

Operation Review of Farming Business

FOCUS ON LEAN OPERATION AND CONSOLIDATE BUSINESS FOUNDATION

In 2020, the Group was committed to the development of the dairy farming business, and took various measures to reduce costs and increase efficiency, including lean operation and precise management, which allowed the Company's overall business to maintain a healthy growth trend. In the first half of 2020, the output per milkable cow and the operation performance continued to increase as compared to the same period of last year, together with sufficient reserve of replacement heifers and more reasonable structure of herds. The tendency of structure of herds is more reasonable.

OPTIMIZE OPERATION MECHANISM AND ENHANCE OPERATION CAPACITY

From the perspective of management system, the Group separated procurement and supply and formed a working mechanism with division and coordination of procurement and supply to improve efficiency. From the perspective of internal operation of the farms, hoof trimming, manure clearing, grass rolling and fly-killing operations have been outsourced to realize asset-light operation and effectively enhance operational efficiency.

INNOVATION DRIVES DEVELOPMENT AND ENHANCES PROFITABILITY

In order to meet market demand for high-end organic milk, the Group plans to apply for transformation of three ordinary farms to organic farms throughout the year to enhance the Group's profitability. In addition, the Group maintains steady production of functional raw milk with native DHA with an annual capacity of approximately 15,000 tonnes.

PRACTICE GREEN AND ENVIRONMENTAL PROTECTION TO ACHIEVE CIRCULAR ECOLOGICAL DEVELOPMENT

In the first half of 2020, the Group proactively carried out energy saving and consumption reduction and environmental protection related work. Through the coal-to-electricity project of heating boilers, the original heating coal-fired boilers of 14 dairy farms were dismantled and replaced by air-source energy heat pumps as the heat source for heating, so as to reduce carbon dioxide emissions. Transformation of the heat source continuously reduces the annual coal consumption and the carbon dioxide emissions. The manure treatment is linked with silage corn suppliers, and cow manure is supplied to the Group's own organic fertilizer farms and silage corn suppliers. Multiple cooperation models coexist to form a benign sustainable agricultural production system in which the Group uses cow manure to fertilize land and feeds forages to cows.



Management Discussion and Analysis

Outlook

CONSOLIDATE GLOBAL RESOURCES AND FOCUS ON CORE BUSINESS

Continuing to enhance the core competitiveness of Ulan Buh Desert organic dairy farms and gain insight into the market demand for organic milk, the Group plans to transform three organic farms in the second half of the year. The transformation of two of these farms has been completed by July 2020. Looking forward, the Group strives to transform more organic farms to establish its absolute leading position in the organic field. At the same time, the Group applies for the demonstration base of organic agricultural technology R&D center in Asia based on the China-Denmark Organic Demonstration Farm, so as to continue to enhance the excellent operation capacity of organic farms, improve operational efficiency and enhance the influence of Shengmu brand. In addition, the Group will proactively explore overseas organic forage cooperation and certification business, gather high quality global resources, consolidate its organic management and control capabilities and create an image of high quality products.

BUILD SMART FARMS AND UPGRADE PRODUCTION EFFICIENCY

The Group is committed to building a group-based precision breeding management platform in the future to develop a model for the relationship between cow breeding indicators and economic benefits and establish an all-around smart dairy breeding system for the animal husbandry industry chain. Through digital information technologies such as joint source sharing and construction, connectivity and ecological farming, the Group is expected to realize standardized, digitalized, networked and intelligent dairy farming and production process management.

CONSOLIDATE CULTURAL FOUNDATION AND RESERVE KEY TALENTS

The Group continues to promote the construction of corporate culture, and further strengthen the guidance and education of the values of integrity, excellence, pragmatism and passion. The Group focuses on cultivating outstanding talents through actual work practices to provide solid talent guarantee for fulfilling its corporate vision and strategic objectives. In the second half of the year, the Group expects to promote the reserve of talents for key positions to ensure dynamic development of the talent pool.

GRASP MARKET OPPORTUNITIES AND EXPLORE COORDINATED BUSINESS

Under innovation and consumption upgrading trends, the Group, with its own resource advantages, grasps market opportunities to explore applicable dairy and meat linkage projects with a focus on dairy products.

Management Discussion and Analysis

Financial Review

In the 2020 Interim Period, the Group's revenue amounted to RMB1,251.1 million and gross profit margin increased by 1.2% from 36.4% in the 2019 Interim Period to 37.6% in the 2020 Interim Period. (Loss)/profit for the period increased by RMB186.5 million from loss of RMB20.8 million in the 2019 Interim Period to profit of RMB165.7 million in the 2020 Interim Period. Among which, (loss)/profit attributable to owners of the parent company increased by RMB216.4 million from loss of RMB73.5 million in the 2019 Interim Period to profit of RMB142.9 million in the 2020 Interim Period.

Analysis on Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

REVENUE

Unit: RMB in thousands, except percentages

For the six-month period ended 30 June	Dairy farming business				Liquid milk business ⁽²⁾				Total revenue
	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	
2020 (Unaudited)	1,251,067	—	1,251,067	100.0%	—	—	—	—	1,251,067
2019 (Unaudited)	1,270,550	111,577	1,158,973	81.6%	261,609	—	261,609	18.4%	1,420,582

(1) Liquid milk business from January to April is included in the 2019 Interim Period in this table and tables below. Such presentation can reflect and analyze the operating condition and changes of the Group for the 2019 Interim Period more reasonably;

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

Despite the rising competition in the dairy products market and sudden outbreak of the epidemic, the Group was able to ensure the development of upstream raw milk business by leveraging Mengniu Group as a stable strategic partner, which is one of the leading dairy product manufacturers in China. In the 2020 Interim Period, the strategic raw fresh milk supply and sale relationship with Mengniu Group assured the stable sales; meanwhile, the raw milk price in the farming industry showed a steadily-growing trend. Both of the above generated stable revenue and cash flows for the Company, creating value for its shareholders sustainably. External sales of the Group's raw milk increased from RMB1,159.0 million in the 2019 Interim Period to RMB1,251.1 million in the 2020 Interim Period, representing an increase of 7.9% as compared to the same period of last year, of which, external sales from the sale of organic raw milk increased by 21.4% as compared to the same period of last year.

Management Discussion and Analysis

DAIRY FARMING BUSINESS

	For the six-month period ended 30 June							
	2020 (Unaudited)				2019 (Unaudited)			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	629,292	126,056	4,992	50.3%	518,326	110,581	4,687	40.8%
Inter-segment sales ⁽¹⁾	—	—	—	—	98,291	19,024	5,167	7.7%
Subtotal	629,292	126,056	4,992	50.3%	616,617	129,605	4,758	48.5%
Premium non-organic raw milk								
External sales	621,775	171,619	3,623	49.7%	640,647	180,758	3,544	50.5%
Inter-segment sales ⁽²⁾	—	—	—	—	13,286	3,585	3,706	1.0%
Subtotal	621,775	171,619	3,623	49.7%	653,933	184,343	3,547	51.5%
Dairy farming segment								
External sales	1,251,067	297,675	4,203	100.0%	1,158,973	291,339	3,978	91.3%
Inter-segment sales	—	—	—	—	111,577	22,609	4,935	8.7%
Total	1,251,067	297,675	4,203	100.0%	1,270,550	313,948	4,047	100.0%

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

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

In the 2020 Interim Period, sales volume of raw milk decreased by 5.2% from 313,948 tonnes in the 2019 Interim Period to 297,675 tonnes in the 2020 Interim Period, mainly due to the decrease in the number of cows as a result of disposal of low efficiency cows during the 2020 Interim Period as compared to the same period of last year. The sales volume of organic milk accounted for 42.3% of sales volume of raw milk in the 2020 Interim Period, compared with 41.3% in the 2019 Interim Period.

Management Discussion and Analysis

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Unit: RMB in thousands, except percentages

	For the six-month period ended 30 June					
	2020 (Unaudited)			2019 (Unaudited)		
	Cost of sales Amount	Gross profit Amount	Gross profit margin	Cost of sales Amount	Gross profit Amount	Gross profit margin
Dairy farming business						
Organic raw milk						
Before elimination	330,315	298,977	47.5%	357,572	259,045	42.0%
After elimination ⁽¹⁾	330,315	298,977	47.5%	304,092	214,234	41.3%
Premium non-organic raw milk						
Before elimination	449,956	171,819	27.6%	471,564	182,369	27.9%
After elimination ⁽³⁾	449,956	171,819	27.6%	461,942	178,705	27.9%
Subtotal						
Before elimination	780,271	470,796	37.6%	829,136	441,414	34.7%
After elimination	780,271	470,796	37.6%	766,034	392,939	33.9%
Liquid milk business						
Organic liquid milk						
Before elimination	—	—	—	167,728	71,339	29.8%
After elimination ⁽²⁾	—	—	—	120,868	118,199	49.4%
Premium non-organic liquid milk						
Before elimination	—	—	—	20,405	2,137	9.5%
After elimination ⁽³⁾	—	—	—	16,276	6,266	27.8%
Subtotal						
Before elimination	—	—	—	188,133	73,476	28.1%
After elimination	—	—	—	137,144	124,465	47.6%
Total after elimination	780,271	470,796	37.6%	903,178	517,404	36.4%

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

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

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



Management Discussion and Analysis

Cost of sales of the Group decreased from RMB903.2 million in the 2019 Interim Period to RMB780.3 million in the 2020 Interim Period. Gross profit margin increased from 36.4% in the 2019 Interim Period to 37.6% in the 2020 Interim Period. This is mainly benefitted from (1) the increase in the selling price of raw milk by RMB156.0/tonne as compared to the same period of last year; (2) the overall stable cost per kilogram of milk due to the fact that the increase in the output per cow was offset by the increase in the feed price; and (3) the increase in the proportion of sales volume of organic milk.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased from net income of RMB49.9 million in the 2019 Interim Period to net income of RMB22.2 million in the 2020 Interim Period, mainly due to the investment income of RMB85.8 million generated from the disposal of Shengmu Dairy in April 2019 by the Group, which resulted in higher income in the same period of last year than that of the current period.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group primarily include logistics and transportation expenses and employees' remunerations. In the 2020 Interim Period and the 2019 Interim Period, selling and distributing expenses of the Group amounted to RMB14.7 million and RMB118.2 million, respectively. Significant decrease in the 2020 Interim Period as compared to the 2019 Interim Period was mainly due to inclusion of January to April data of the disposed dairy company in the figure of the same period of last year of the Group.

ADMINISTRATIVE EXPENSES

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees, as well as administrative expenses including attorney and audit fees. In the 2020 Interim Period and the 2019 Interim Period, administrative expenses of the Group were RMB51.3 million and RMB67.4 million respectively, representing a decrease of approximately 23.9% as compared to the same period of last year, mainly due to the large amount of valuation, consultation and audit fees arising from acquisition and disposal of projects in the same period of last year, as well as inclusion of January to April administrative expenses data of the disposed dairy company in the same period of last year. In the 2020 Interim Period and the 2019 Interim Period, administrative expenses accounted for 4.1% and 4.7% of revenue, respectively.

LOSS ARISING FROM CHANGES IN FAIR VALUE LESS COSTS TO SELL OF BIOLOGICAL ASSETS

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

Management Discussion and Analysis

In the 2020 Interim Period and the 2019 Interim Period, the Group's loss arising from changes in fair value less costs to sell of biological assets were RMB161.1 million and RMB163.5 million, respectively. Loss arising from changes in fair value less costs to sell of biological assets of the Group in the 2020 Interim Period had no significant changes as compared to the 2019 Interim Period.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

The Group's associates include (a) Shengmu Dairy, an associate in which the Group held a 49% equity interest, completed its split arrangement at the beginning of the year. The new company 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) ("**Mengniu Dairy Company**") is responsible for sales business with its 49% minority interests owned by the Group. In January 2020, Shengmu Dairy ceased to be an associate of the Company after the Group disposed of 49% equity interests in Shengmu Dairy to Mengniu Group; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; and (c) Food Union Shengmu Dairy Co., Ltd. ("**Food Union Shengmu**") and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests, producing dairy products with the raw milk purchased from the Group. In the 2020 Interim Period and the 2019 Interim Period, the Group recorded share of losses of associates of RMB25.8 million and RMB21.6 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.

The Group had no income tax expense in the 2020 Interim Period, and the income tax expense in the 2019 Interim Period was RMB0.2 million.

PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AND PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests mainly represents the profit for the period attributable to dairy farmers with whom we cooperate in relation to dairy farm management in our farms. In the 2020 Interim Period and the 2019 Interim Period, profit attributable to non-controlling interests was RMB22.8 million and RMB52.7 million, respectively.

In the 2020 Interim Period, profit attributable to owners of the parent company of the Group was RMB142.9 million, representing a net increase of RMB216.4 million from loss of RMB73.5 million in the 2019 Interim Period, which was mainly attributable to (1) the stable increase in the selling price of the Group's raw milk as compared to the same period of last year; and (2) the Group completed the acquisition of minority interests in 12 joint venture farms by the end of November 2019.



Management Discussion and Analysis

Analysis on Interim Condensed Consolidated Statement of Financial Position

CURRENT ASSETS

As at 30 June 2020, total current assets of the Group were RMB1,724.4 million (as at 31 December 2019: RMB1,783.3 million), primarily consisting of inventory of RMB433.1 million (as at 31 December 2019: RMB678.1 million), trade and bills receivables of RMB159.7 million (as at 31 December 2019: RMB167.1 million), prepayments, deposits and other receivables of RMB563.0 million (as at 31 December 2019: RMB614.1 million), cash and bank balances of RMB559.8 million (as at 31 December 2019: RMB310.2 million), and consumable biological assets of RMB8.8 million (as at 31 December 2019: RMB13.8 million). There was insignificant change in the Group's current assets as at 30 June 2020 as compared with that of 31 December 2019, which was mainly attributable to the decrease of RMB245.0 million in inventory balance as compared with that at the beginning of the year due to the inventory storage characteristics in the dairy farming industry, as well as the increase of RMB249.6 million in the Group's cash and bank balances as compared with that at the beginning of the year mainly due to the continued improvement of the Company's operating results.

CURRENT LIABILITIES

As at 30 June 2020, total current liabilities of the Group amounted to RMB3,601.5 million (as at 31 December 2019: RMB4,121.0 million), primarily consisting of trade and bills payables of RMB1,276.3 million (as at 31 December 2019: RMB1,365.8 million), other payables, accruals and lease liabilities of RMB267.4 million (as at 31 December 2019: RMB607.1 million), interest-bearing bank and other borrowings of RMB2,057.8 million (as at 31 December 2019: RMB2,144.8 million), and derivative financial instruments of nil (as at 31 December 2019: RMB3.3 million). The decrease in the Group's current liabilities as at 30 June 2020 compared to that as at 31 December 2019, was mainly due to (1) repayment of portion of corporate loans in the 2020 Interim Period; and (2) completion of the share issuance for the non-cash consideration of the acquisition of minority interests in 12 farms, which reduced other payables.

FOREIGN EXCHANGE RISK

The Group's businesses are principally located in the mainland China and most transactions are conducted in RMB. As at 30 June 2020, the Group did not have significant foreign currency exposure from its operations, except for balances equivalent to approximately RMB0.5 million, RMB35.3 million and RMB0.4 million which were denominated in Hong Kong dollars, United States dollars and Euro, respectively. As at 30 June 2020, 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.

Management Discussion and Analysis

CHARGE ON ASSETS

As at 30 June 2020, the Group had pledged deposits of approximately RMB296.5 million (as at 31 December 2019: RMB177.5 million) in total to banks as deposits for the issuance of letters of credit and bank drafts. As at 30 June 2020, biological assets of the Group with fair value of approximately RMB919.3 million (31 December 2019: RMB945.7 million) and partial interests in 13 wholly-owned subsidiaries and 2 non-wholly-owned subsidiaries with an aggregate net assets of RMB2,466.8 million (31 December 2019: RMB2,393.9 million) were used as collaterals for the entrusted loans of the Group amounting to RMB1,340.0 million (31 December 2019: RMB1,370.0 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

In the 2020 Interim Period, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. As at 30 June 2020, the Group had (a) cash and bank balances of RMB263.3 million (as at 31 December 2019: RMB132.6 million), and (b) interest-bearing bank and other borrowings of RMB2,092.8 million (as at 31 December 2019: RMB2,184.3 million), all denominated in RMB, of which, RMB35.0 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 RMB46.3 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. As of 30 June 2020, the annual interest rate of bank loans ranged from 1.55% to 6.53% (for the year ended 31 December 2019: 1.55% to 12.97%).

ENVIRONMENTAL POLICIES AND PERFORMANCE

In the 2020 Interim Period, the Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group's capital commitments amounted to RMB94.1 million (as at 31 December 2019: RMB81.1 million). The increase as compared to that as at 31 December 2019 was mainly due to the fixed assets investment of the Group's subsidiaries.

HUMAN RESOURCES

As at 30 June 2020, the Group had a total of 2,591 employees (as at 30 June 2019: 2,749 employees). Total staff costs in the 2020 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB130.1 million (2019 Interim Period: RMB120.5 million). The increase in total staff costs as compared to the same period of last year was mainly due to the employment time difference of the Group's management personnel and the adjustment of the remuneration of the employees.



Management Discussion and Analysis

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

CONTINGENT LIABILITIES

As at 30 June 2020, the Group provided guarantees with amount of RMB80.0 million (31 December 2019: RMB80.0 million) and RMB42.7 million (31 December 2019: RMB65.4 million) for the bank borrowings of Shengmu Forage and Food Union Shengmu, respectively. The external guarantees provided by the Group were recognised in the financial statements on the basis of the valuation of the guarantees provided by the independent professional valuer regarded as the best estimates required to pay for the performance of the relevant current obligations in accordance with the requirements of IFRSs.

Material Acquisitions and Disposals

In the 2020 Interim Period, (1) Shengmu Dairy, an associate in which the Group held a 49% equity interest, completed the split of its dairy product sales business into a newly established entity named Inner Mongolia Mengniu Shengmu Hi-tech Dairy Products 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 its 49% equity interests in Shengmu Dairy; (2) the Group disposed of the 5.38% equity interest held in Food Union Shengmu to Food Union (Dairy) Hong Kong Limited; and (3) on 29 May 2020, the Group completed the issuance of 688,705,234 shares at an issue price of HK\$0.33 to pay the non-cash consideration for the acquisition of minority interests in 12 joint venture farms. Except the above, the Company did not have any other significant acquisition and disposal of subsidiaries and associates.

The Group received the exercise notices from Start Great Holdings Limited (a wholly-owned subsidiary of China Mengniu) and Greenbelt Global Limited on 27 July and 31 July 2020, respectively, to subscribe for 1,197,327,890 shares and 140,862,105 shares at an exercise price of HK\$0.33 per share. After completion of the above-mentioned share subscription and issuance, the total number of shares of the Company was 8,381,295,229. China Mengniu, through Start Great Holdings Limited, became the largest shareholder of the Company, holding 17.51% of issue shares of the Company.

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.

Report of the Directors

Report of the Directors

The board (the “**Board**”) of directors (the “**Directors**”) of the Company herein presents the interim report of the Group for the six months ended 30 June 2020 together with the unaudited condensed consolidated financial report, and such interim financial report has been reviewed by the audit committee (“**Audit Committee**”) of the Board.

Dividend Distribution

The Board does not recommend the payment of any interim dividend for the 2020 Interim Period (the 2019 Interim Period: Nil).

Use Of Proceeds

The Company completed its initial public offering of 444,800,000 shares at the offer price of HK\$2.39 per share and dealings in the shares of the Company commenced on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 July 2014 (the “**Listing Date**”). The net proceeds from the global offering amounted to approximately RMB801.2 million (the “**IPO Net Proceeds**”). The table below sets out the planned use of the IPO Net Proceeds, the actual use of the IPO Net Proceeds from the Listing Date to 30 June 2020 and the unutilised IPO Net Proceeds as of 30 June 2020, respectively:

	Planned use of the IPO Net Proceeds RMB million	Actual use of the IPO Net Proceeds from the Listing Date to 30 June 2020 RMB million	Unutilised IPO Net Proceeds as of 30 June 2020 RMB million
Constructing six additional organic dairy farms	200.1	187	13.1
Acquiring dairy cows domestically and from overseas	240.2	145.6	94.6
Sales and marketing activities and expansion of distribution network	40.1	40.1	0
Expanding the Group’s liquid milk production capacity	120.3	120.3	0
Repayment of loans	120.3	120.3	0
Additional working capital and general corporate purposes	80.2	80.2	0
Total	801.2	693.5	107.7



Report of the Directors

The amount of the unutilised IPO Net Proceeds was approximately RMB107.7 million as of 30 June 2020. The Group plans to use approximately RMB13.1 million in relation to the construction of the six additional organic farms by end of 2020 by purchasing supporting facilities for these farms. Due to the unfavourable conditions of the PRC dairy market in previous financial years, the Group postponed its plan of acquiring dairy cows. As the current conditions of the PRC dairy market are becoming more favourable, the Group plans to use approximately RMB94.6 million to acquire approximately 5,000 to 6,000 dairy cows domestically and from overseas by end of 2021.

On 5 June 2020, the Company completed the issuance of 13,774,105 unlisted warrants (the “**Tranche 2 of Warrants B**”) to Greenbelt Global Limited (the “**Subscriber B**”) according to the warrants subscription agreement with the Subscriber B dated 23 December 2018 (as supplemented and amended on 25 December 2019). The Company received the net proceeds of HK\$588,154 from the issuance of the Tranche 2 of Warrants B which had been fully utilised to purchase grass feed by end of August 2020, according to the intention disclosed in the circular of the Company dated 7 January 2019.

Purchase, Redemption or Sale of Listed Securities of the Company

During the 2020 Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

Events After the Reporting Period

On 27 July 2020, the Company received the exercise notice (the “**Subscriber A Exercise Notice**”) from Start Great Holdings Limited (the “**Subscriber A**”) to exercise all 1,197,327,890 unlisted warrants to subscribe for 1,197,327,890 new ordinary shares (the “**Warrant Shares A**”) at the exercise price of HK\$0.33 per Warrant Share A. The allotment and issuance of 1,197,327,890 Warrant Shares A to the Subscriber A was completed on 31 July 2020. The Company received the sum of HK\$395,118,203.70 (the “**Warrant Shares A Subscription Monies**”) from the allotment and issuance of Warrant Shares A and the Company shall apply the Warrant Shares A Subscription Monies to repay the outstanding entrusted loans under the financial assistance framework agreement dated 30 December 2019 between 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, and 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 wholly-owned subsidiary of China Mengniu Dairy Company Limited (“**China Mengniu**”) which is 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), in accordance with the warrant subscription agreement dated 23 December 2018 between the Company and the Subscriber A and the Subscriber A Exercise Notice. Please refer to the announcement of the Company dated 28 July 2020 for further information.

On 31 July 2020, the Company received the exercise notice (the “**Subscriber B Exercise Notice**”) from Greenbelt Global Limited (the “**Subscriber B**”) to exercise all 140,862,105 unlisted warrants to subscribe for 140,862,105 new ordinary shares (the “**Warrant Shares B**”) at the exercise price of HK\$0.33 per Warrant Share B. The allotment and issuance of 140,862,105 Warrant Shares B to the Subscriber B was completed on 6 August 2020. The Company received the sum of HK\$46,484,494.65 (the “**Warrant Shares B Subscription Monies**”) from the allotment and issuance of Warrant Shares B and the Company shall use the Warrant Shares B Subscription Monies for the purchase of grass feed and other general working capital purposes according to the intention disclosed in the circular of the Company dated 7 January 2019. Please refer to the announcement of the Company dated 3 August 2020 for further information.

Report of the Directors

Save for the events mentioned above, there has been no significant event since 30 June 2020 and up to the date of this interim report.

Corporate Governance Practices

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

In the opinion of the Board, during the 2020 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code.

Audit Committee and Review of Interim Results

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

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results for the 2020 Interim Period.

Remuneration Committee

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

Nomination Committee

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

Model Code for Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by its Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the 2020 Interim Period.

Directors' Interest in a Competing Business

Mr. Zhao Jiejun, a non-executive Director of the Company (appointed with effect from 30 March 2020), is 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) (“**China Modern Dairy**”), a company incorporated in Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117). Mr. Zhang Ping, a non-executive Director of the Company (appointed with effect from 25 August 2020), is currently a non-executive director and a member of the remuneration committee of China Modern Dairy.

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 this entity. 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 during the six-month period ended 30 June 2020, and as at the date of this report, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with our business.

Continuing Connected Transactions

The Company’s continuing connected transactions during the 2020 Interim Period are as follows:

1. The non-exempt continuing connected transactions conducted pursuant to the Framework Agreement for Sale and Purchase of Cows, the Shengmu Pangu Financial Assistance Framework Agreement and the Feed Supply Framework Agreement entered into with Bayannur Shengmu Pangu Farming Co., Ltd. (“**Shengmu Pangu**”), whose details were disclosed in the section headed “Report of the Directors – Connected and Continuing Connected Transactions” in the 2019 annual report of the Company.
2. The non-exempt continuing connected transactions conducted pursuant to the Dabeinong Group Feed Supply Framework Agreement entered into with Beijing Dabeinong Technology Group Co., Ltd. (“**Dabeinong Group**”), whose details were disclosed in the section headed “Report of the Directors – Connected and Continuing Connected Transactions” in the 2019 annual report of the Company.

Report of the Directors

3. The non-exempt continuing connected transactions conducted pursuant to the Raw Fresh Milk Supply Framework Agreement and the Financial Assistance Framework Agreement entered into with Inner Mongolia Mengniu (for itself and on behalf of China Mengniu and its subsidiaries (together, the “**China Mengniu Group**”)), whose details were disclosed in the section headed “Report of the Directors – Connected and Continuing Connected Transactions” in the 2019 annual report of the Company.

Related Party Transactions

Details of the Group’s related party transactions are set out in note 15 to the financial statements. The related party transactions mainly comprise: (1) sale of raw materials to certain entities which have been accounted for as associates of the Company as the Group holds interests in such entities. None of the connected person of the Company holds interests in or position with such entities, and such entities are not considered as connected person under the Listing Rules; (2) purchase of feed from Dabeinong Group in accordance with the Dabeinong Group Feed Supply Framework Agreement; (3) provision of financial assistance for the external borrowings of Food Union Shengmu and Shengmu Forage; and (4) payment of emoluments to key management of the Group. The arrangement whereby Shengmu Forage provided biowaste (i.e. cow dung) cleaning services to our organic dairy farms for free in return for our supply of such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free, is an exempt continuing connected transaction, details of which has been set out in the section headed “Continuing Connected Transaction” in the Prospectus. All the requirements under Chapter 14A of the Listing Rules have been complied with during the 2020 Interim Period.

Change of Director’s Information

Mr. YAO Tongshan was re-elected as an executive Director, Mr. SHAO Genhuo, Mr. ZHAO Jiejun and Mr. LU Boxiang were re-elected as non-executive Directors and Mr. LI Xuan was re-elected as an independent non-executive Director at the 2020 AGM. For further information on the re-election of Mr. YAO, Mr. SHAO, Mr. ZHAO, Mr. LU and Mr. LI as Directors, please refer to the section headed “Proposed Re-election of the Retiring Directors” in the circular of the Company in relation to the 2020 AGM dated 27 April 2020.

Mr. WU Jianye has resigned as an executive Director and a joint company secretary of the Company and Mr. WEN Yongping has resigned as a non-executive Director of the Company with effect from 30 March 2020. Mr. ZHAO Jiejun and Mr. LU Boxiang have been appointed as non-executive Directors of the Company with effect from 30 March 2020. For further information on the resignation of Mr. WU Jianye as an executive Director and a joint company secretary and Mr. WEN Yongping as a non-executive Director and the appointment of Mr. ZHAO Jiejun and Mr. LU Boxiang as non-executive Directors, please refer to the announcement of the Company dated 30 March 2020.

Mr. LU Boxiang has resigned as a non-executive Director of the Company with effect from 25 August 2020. Mr. ZHANG Ping has been appointed as a non-executive Director of the Company with effect from 25 August 2020. For further information on the resignation of Mr. LU Boxiang as a non-executive Director and the appointment of Mr. ZHANG Ping as a non-executive Director, please refer to the announcement of the Company dated 25 August 2020.

Mr. WANG Liyan, Mr. LI Xuan and Mr. FU Wenge have been appointed as the independent directors of Dabeinong Group, a company listed on the SME Board of the Shenzhen Stock Exchange (stock code: 002385), since 20 March 2020.

Save as disclosed herein, during the 2020 Interim Period, there was no change of information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

So far as is known to any Director or chief executive of the Company, as at 30 June 2020, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code, to be immediately notified to the Company and the Stock Exchange, were as follows:

(I) LONG POSITION IN THE SHARES OR UNDERLYING SHARES

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
SHAO Genhuo	Interest of a controlled corporation ⁽¹⁾	1,301,651,000 ⁽¹⁾	18.48%
YAO Tongshan	Beneficial Owner	409,092,700	5.81%
WU Jianye ⁽²⁾	Beneficial Owner	32,706,261	0.46%
ZHANG Jiawang	Beneficial Owner	138,130,000	1.96%

(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.

(2) Resigned as a Director on 30 March 2020.

(II) LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

Name	Name of associated corporation	Percentage of interest
YAO Tongshan	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	1.45%
WU Jianye ⁽³⁾	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司)	45.00%
	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	6.83%

(3) Resigned as a Director on 30 March 2020.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2020, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

Interests of the Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at 30 June 2020, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
Start Great Holdings Limited	Beneficial owner	1,467,193,490 (L)	20.83% (L)
China Mengniu	Interest of a controlled corporation	1,467,193,490 (L)	20.83% (L)
Greenbelt Global Limited	Beneficial Owner	536,097,305 (L)	7.61% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	536,097,305 (L)	7.61% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	536,097,305 (L)	7.61% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	536,097,305 (L)	7.61% (L)
Salata Jean	Interest of a controlled corporation	536,097,305 (L)	7.61% (L)
Zhang Junli (張軍力)	Interest of the spouse	409,092,700 (L)	5.81% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000 (L)	5.37% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000 (L)	5.37% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000 (L)	5.37% (L)
Sequoia Capital China Advisors Limited	Investment Manager	378,320,000 (L)	5.37% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000 (L)	5.37% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000 (L)	5.37% (L)
Shen Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000 (L)	5.37% (L)
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	396,960,506 (L) 1,723,000 (S)	5.64% (L) 0.02% (S)
Nong You	Beneficial Owner	1,301,651,000 (L)	18.48% (L)
Beijing Zhi Nong	Interest of a controlled corporation	1,301,651,000 (L)	18.48% (L)

Interests of the Substantial Shareholders of Any Member of the Group (Other than the Company)

Name	Name of member company	Percentage of interest
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司)	30.00%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of the Company) who, as at 30 June 2020, 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 the Group (other than the Company) or any options in respect of such capital.

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 any other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 635,440,000 Shares, which also represents 10% of the issued share capital of the Company as at the date of this interim report.

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

Report of the Directors

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 interim report. A summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV – Statutory and General Information – E. Share Option Scheme" in the Prospectus. The Share Option Scheme was approved by shareholders' resolutions of the Company passed on 18 June 2014 and will remain in force for a period of 10 years following such date.

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

Hong Kong, 25 August 2020



Report on Review of Interim Financial Statements



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Independent review report

To the board of directors of China Shengmu Organic Milk Limited

(Incorporated in the Cayman Islands as an exempted company with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 26 to 50, which comprises the condensed consolidated statement of financial position of China Shengmu Organic Milk Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong
25 August 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Notes	2020	2019
		(Unaudited) RMB'000	(Unaudited) RMB'000
CONTINUING OPERATIONS			
REVENUE	3	1,251,067	1,200,780
Cost of sales		(780,271)	(756,195)
Gross profit		470,796	444,585
Loss arising from changes in fair value less costs to sell of biological assets		(161,077)	(163,495)
Other income and gains/(losses)		22,205	(16,472)
Selling and distribution expenses		(14,729)	(17,809)
Administrative expenses		(51,341)	(57,336)
Impairment losses on financial and contract assets, net		733	(12,802)
Other expenses		(838)	—
Finance costs		(74,206)	(122,860)
Share of losses of associates		(25,814)	(21,361)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	4	165,729	32,450
Income tax expense	5	—	(217)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		165,729	32,233
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	6	—	(52,991)
PROFIT/(LOSS) FOR THE PERIOD		165,729	(20,758)
Profit/(loss) attributable to:			
Owners of the parent		142,925	(73,501)
Non-controlling interests		22,804	52,743
		165,729	(20,758)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	8		
Basic			
– For profit/(loss) for the period		RMB0.022	(RMB0.012)
– For profit/(loss) from continuing operations		RMB0.022	(RMB0.003)
Diluted			
– For profit/(loss) for the period		RMB0.022	(RMB0.012)
– For profit/(loss) from continuing operations		RMB0.022	(RMB0.003)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000
PROFIT/(LOSS) FOR THE PERIOD	165,729	(20,758)
Exchange differences on translation of foreign operations	(1,070)	(1,903)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(1,070)	(1,903)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(1,070)	(1,903)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	164,659	(22,661)
Attributable to:		
Owners of the parent	141,855	(75,404)
Non-controlling interests	22,804	52,743
	164,659	(22,661)

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

	Notes	30 June	31 December
		2020	2019
		(Unaudited)	(Audited)
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	1,995,827	2,043,525
Right-of-use assets		52,851	54,272
Other intangible assets		2,458	11,254
Investments in associates		103,551	150,413
Biological assets	10	2,499,022	2,531,188
Long term receivables		14,115	14,505
Other non-current assets		11,997	11,843
Total non-current assets		4,679,821	4,817,000
CURRENT ASSETS			
Inventories		433,081	678,054
Biological assets	10	8,747	13,799
Trade and bills receivables	11	159,744	167,118
Prepayments, other receivables and other assets		563,024	614,130
Pledged deposits		296,502	177,516
Cash and bank balances		263,280	132,636
Total current assets		1,724,378	1,783,253
CURRENT LIABILITIES			
Trade and bills payables	12	1,276,251	1,365,884
Other payables and accruals		267,424	574,772
Derivative financial instruments		—	3,267
Interest-bearing bank and other borrowings		2,057,805	2,144,832
Lease liabilities		—	32,287
Total current liabilities		3,601,480	4,121,042
NET CURRENT LIABILITIES		(1,877,102)	(2,337,789)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,802,719	2,479,211

Interim Condensed Consolidated Statement of Financial Position

30 June 2020

	Note	30 June	31 December
		2020	2019
		(Unaudited)	(Audited)
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		35,001	39,443
Long term payables		28,940	28,940
Total non-current liabilities		63,941	68,383
Net assets		2,738,778	2,410,828
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	57	50
Reserves		2,531,560	2,186,371
		2,531,617	2,186,421
Non-controlling interests		207,161	224,407
Total equity		2,738,778	2,410,828

Zhang Jiawang
Director

Yao Tongshan
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Note	Attributable to owners of the parent									
		Share capital	Share premium account	Contributed surplus	Share option reserve	Reserve funds	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020 (audited)		50	1,757,767 [#]	566,681 [#]	95,558 [#]	483,414 [#]	14,953 [#]	(732,002) [#]	2,186,421	224,407	2,410,828
Profit for the period		-	-	-	-	-	-	142,925	142,925	22,804	165,729
Exchange differences on translation of foreign operations		-	-	-	-	-	(1,070)	-	(1,070)	-	(1,070)
Total comprehensive income/(loss) for the period		-	-	-	-	-	(1,070)	142,925	141,855	22,804	164,659
Distribution of dividends to non-controlling shareholders		-	-	-	-	-	-	-	-	(40,050)	(40,050)
Issue of shares	13	7	199,993	-	-	-	-	-	200,000	-	200,000
Equity-settled warrant arrangements		-	-	3,341	-	-	-	-	3,341	-	3,341
At 30 June 2020 (unaudited)		57	1,957,760 [#]	570,022 [#]	95,558 [#]	483,414 [#]	13,883 [#]	(589,077) [#]	2,531,617	207,161	2,738,778

[#] These reserve accounts comprise the consolidated reserves of RMB2,531,560,000 (31 December 2019: RMB2,186,371,000) in the condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

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

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Note	2020	2019
		(Unaudited) RMB'000	(Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		165,729	(20,541)
From continuing operations		165,729	32,450
From a discontinued operation	6	—	(52,991)
Adjustments for:			
Change in fair value of biological assets		161,077	163,495
Interest income		(3,877)	(5,543)
Finance costs		74,206	126,805
Share of losses of associates		25,814	21,569
Gain on disposal of a subsidiary		—	(85,751)
Gain on partial disposal of investments in associates		(21,660)	—
Fair value losses, net:			
Derivative financial instruments		—	1,706
Depreciation of property, plant and equipment		55,433	98,279
Depreciation of right-of-use assets		1,083	855
Amortisation of other intangible assets		434	861
Loss on disposal of items of property, plant and equipment		260	4,906
Impairments of items of property, plant and equipment		229	—
Impairments of items of intangible assets		8,251	—
Foreign exchange differences, net		(531)	2,555
		466,448	309,196
Decrease in inventories		252,273	210,361
Increase in trade and bills receivables		(117,956)	(11,883)
Decrease/(increase) in prepayments, other receivables and other assets		51,009	(299,981)
(Increase)/decrease in pledged deposits		(3,654)	136,414
Decrease/(increase) in other non-current assets		156	(1,358)
(Decrease)/increase in trade and bills payables		(63,913)	158,942
(Decrease)/increase in other payables and accruals		(76,906)	204,912
Cash generated from operations		507,457	706,603
Interest received		2,768	5,200
Net cash flows from operating activities		510,225	711,803

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Note	2020	2019
		(Unaudited) RMB'000	(Unaudited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(41,654)	(37,269)
Additions to right-of-use assets		(180)	(948)
Additions to other intangible assets		—	(4)
Purchases of biological assets		(585)	(1,479)
Reversal of prepayment of biological assets		—	706
Payments for breeding calves and heifers		(255,403)	(230,364)
Proceeds from disposal of biological assets		152,469	238,911
Proceeds from disposal of items of property, plant and equipment		(4,336)	(285)
Disposal of a subsidiary	6	—	(520)
Partial disposal of investments in associates		42,709	—
Acquisition of a subsidiary		(19,020)	—
Net cash flows used in investing activities		(126,000)	(31,252)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to non-controlling shareholders		(40,050)	(87,903)
New bank loans and other borrowings		1,318,440	879,000
Acquisition of non-controlling interests		—	(86,684)
Repayment of bank loans and other borrowings		(1,424,913)	(1,107,535)
Principal portion of lease payments		(32,287)	—
Interest paid		(74,308)	(98,453)
Net cash flows used in financing activities		(253,118)	(501,575)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		132,636	77,283
Effect of foreign exchange rate changes, net		(463)	(6,024)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		263,280	250,235
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		263,280	250,235
Time deposits with original maturity of more than three months		(205)	(200)
Cash and cash equivalents as stated in the statement of cash flows		263,075	250,035

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

1. Basis of Preparation

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

Going concern

The Group had net current liabilities of RMB1,877,102,000 and capital commitments of RMB94,124,000 as at 30 June 2020 (31 December 2019: net current liabilities of RMB2,337,789,000 and capital commitments of RMB81,086,000). In view of the net current liability position, the board of directors (the "Directors") has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group has sufficient financial resources to continue as a going concern.

Having considered the unutilised banking facilities of RMB1,895,644,000 as at 30 June 2020, the entrusted loan facility of RMB1,600,000,000 with the maturity date extended to 31 December 2022, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the Directors have prepared the interim condensed consolidated financial information on a going concern basis.

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

2. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3

Amendments to IFRS 9, IAS 39
and IFRS 7

Amendment to IFRS 16

Amendments to IAS 1 and IAS 8

Definition of a Business

Interest Rate Benchmark Reform

Covid-19-Related Rent Concessions
(early adopted)

Definition of Material

2. Changes in Accounting Policies and Disclosures (continued)

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

- (a) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group as no rent concessions have been received by the Group as a result of the covid-19 pandemic.
- (d) 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. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

3. Revenue

An analysis of revenue from continuing operations is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue from contracts with customers	<u>1,251,067</u>	<u>1,200,780</u>

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Type of goods or services		
Sale of goods	<u>1,251,067</u>	<u>1,200,780</u>
Geographical market		
Mainland China	<u>1,251,067</u>	<u>1,200,780</u>
Timing of revenue recognition		
At a point in time	<u>1,251,067</u>	<u>1,200,780</u>

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

4. Profit Before Tax

The Group's profit before tax from continuing operations is arrived at after charging:

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Cost of inventories sold	780,271	756,195
Loss arising from changes in fair value less costs to sell of biological assets	161,077	163,495
Depreciation of items of property, plant and equipment	55,433	76,293
Amortisation of right-of-use assets	1,083	775
Amortisation of other intangible assets	434	649
Research and development costs	2,459	2,546
Minimum lease payments under operating leases	2,127	600
Auditor's remuneration	580	660
(Reversal of) impairment losses on financial and contract assets, net	(733)	12,802
Impairment losses of other intangible assets	6,941	—
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	122,895	107,530
Other social insurances and benefits	3,595	7,912
Pension scheme contributions	3,659	5,077

5. Income Tax Expense

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Current - PRC	—	—
Deferred	—	(217)
Total tax expense for the period from continuing operations	—	(217)
Total tax expense for the period from a discontinued operation	—	—
	—	(217)

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

6. 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. 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 is no longer required as the Group only has the dairy farming business retained upon the disposal of the liquid milk business.

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

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	—	219,802
Cost of sales	—	(146,983)
Gross profit from the discontinued operation	—	72,819
Other income and losses	—	(19,402)
Selling and distribution expenses	—	(100,364)
Administrative expenses	—	(10,038)
Finance costs	—	(3,945)
Share of losses of associates	—	(208)
Impairment losses on financial and contract assets	—	(77,604)
Loss before tax from the discontinued operation	—	(138,742)
Gain on disposal of the discontinued operation	—	85,751
Loss for the period from the discontinued operation	—	(52,991)

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

6. Discontinued Operation (continued)

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

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

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

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Operating activities	—	(53,979)
Investing activities	—	(34,158)
Financing activities	—	85,427
Net cash outflows	—	(2,710)
Loss per share:		
Basic, from the discontinued operation	—	(RMB0.009)
Diluted, from the discontinued operation	—	(RMB0.009)

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

6. Discontinued Operation (continued)

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

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Loss attributable to ordinary equity holders of the parent from the discontinued operation	—	(52,991)
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation (note 8)	6,480,663,000	6,354,400,000
Weighted average number of ordinary shares used in the diluted loss per share calculation (note 8)	6,480,663,000	6,354,400,000

7. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (30 June 2019: nil).



Notes to Interim Condensed Consolidated Financial Information

30 June 2020

8. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of The Parent

The calculation of the basic earnings/(loss) per share amount is based on the profit for the period attributable to ordinary equity holders of the parent of RMB142,925,000 (2019: loss for the period attributable to ordinary equity holders of the parent of RMB73,501,000), and the weighted average number of ordinary shares of 6,480,663,000 (2019: 6,354,400,000) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings/(loss) per share amount is based on the profit for the period attributable to ordinary equity holders of the parent of RMB142,925,000 (2019: loss for the period attributable to ordinary equity holders of the parent of RMB 73,501,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 6,480,663,000 (2019: 6,354,400,000) in issue during the period, as used in the basic loss per share calculation, plus the weighted average number of ordinary shares of nil (2019: 68,152,000) 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 amount presented for the six months ended 30 June 2020 and for the six months ended 30 June 2019 in respect of a dilution because the impact of the warrants and dilutive potential ordinary shares had an anti-dilutive effect on the basic earnings/(loss) per share amount presented.

9. Property, Plant and Equipment

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB31,263,000 (30 June 2019: RMB38,624,000).

Assets with a net book value of RMB1,190,000 were disposed of by the Group during the six months ended 30 June 2020 (30 June 2019: RMB4,456,000), resulting in a net loss on disposal of RMB259,000 (30 June 2019: RMB4,857,000).

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

10. Biological Assets

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

(A) QUANTITY OF BIOLOGICAL ASSETS

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

	30 June 2020	31 December 2019
	Head (Unaudited)	Head (Audited)
Milkable cows	59,137	59,425
Heifers and calves	47,582	45,178
Beef cattle	1,168	1,471
	107,887	106,074

(B) VALUES OF BIOLOGICAL ASSETS

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

	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Milkable cows	1,718,026	1,761,300
Heifers and calves	780,996	769,888
Beef cattle	8,747	13,799
	2,507,769	2,544,987

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

The valuation techniques and principal valuation assumptions used in the determination of the fair value of dairy cows and cows held for sale are consistent with those set out in the Group's 2019 annual report.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

11. Trade and Bills Receivables

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

	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 3 months	158,030	164,346
4 to 6 months	1	185
7 months to 1 year	—	1,718
Over 1 year	1,713	869
	159,744	167,118

12. Trade and Bills Payables

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

	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
1 to 3 months	884,525	1,008,135
4 to 6 months	216,738	294,595
7 to 12 months	157,993	49,967
1 to 2 years	6,620	5,961
2 to 3 years	5,308	2,409
Over 3 years	5,067	4,817
	1,276,251	1,365,884

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

13. Share Capital

Shares

	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Authorised:		
30,000,000,000 ordinary shares of HK\$0.00001 each (2019: 30,000,000,000 ordinary shares of HK\$0.00001 each)	236	236
Issued and fully paid:		
7,043,105,234 (2019: 6,354,400,000) ordinary shares	57	50

On 21 December 2018, the Company and Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("Shengmu High-tech") entered into an equity transfer framework agreement with twelve individual shareholders of Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. ("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 ordinary 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.

On 29 May 2020, the Company successfully issued 688,705,234 shares at an issue price of HK\$0.33 to settle such non-cash consideration of RMB200,000,000, immediately after which there were 7,043,105,234 shares in issue.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

14. Commitments

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

	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	41,163	54,411
Buildings	52,961	26,675
	<u>94,124</u>	<u>81,086</u>

15. Related Party Transactions

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

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Associates:		
Sale of products	—	30,815
Purchases of raw materials	4,549	15,331
Sales of raw materials	18,341	48,508
Affiliates of a substantial shareholder:		
Purchases of raw materials	<u>13,851</u>	<u>3,033</u>

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

15. Related Party Transactions (continued)

(B) OTHER TRANSACTIONS WITH RELATED PARTIES:

During the period, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") provided bio-waste collecting and farm cleaning services to the Group's dairy farms for free. In return, Shengmu Forage obtained unprocessed bio-waste for free from the Group's farms.

During the six months ended and as of 30 June 2020, the Group provided guarantees to banks in respect of the bank loans of the following related parties:

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Shengmu Forage	80,000	—
Food Union Shengmu Dairy Co., Ltd. ("Food Union Shengmu")	—	—
Shengmu Dairy	—	295,000
	<u>80,000</u>	<u>295,000</u>

	30 June	31 December
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Shengmu Forage	80,000	80,000
Food Union Shengmu	42,710	65,410
Shengmu Dairy	—	198,000
	<u>122,710</u>	<u>343,410</u>

During the six months ended 30 June 2020, the Group has paid nil (30 June 2019: RMB20,820,000 and RMB15,000,000) for the purpose of fulfilling the guarantees provided to the then associates - distributors and Shengmu Forage, respectively.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

15. Related Party Transactions (continued)

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP:

	For the six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Short term employee benefits	2,660	1,621
Pension scheme contributions	11	37
	2,671	1,658

(D) OUTSTANDING BALANCES WITH RELATED PARTIES

	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Amounts owed by/(owed to) associates included in:		
Trade and bills receivables	13,843	49,414
Trade and bills payables	(2,399)	(51,441)
Prepayments, deposits and other receivables	511,144	528,515
Contract liabilities	—	(21,901)
Lease liabilities	—	(32,287)
Other payables and accruals	7,118	(22,085)

As at 30 June 2020, included in the Group's prepayments, deposits and other receivables were the prepayment to Shengmu Forage for the purchase of raw materials of RMB510,358,000 (31 December 2019: RMB515,622,000), which were secured by right-of-use assets owned by Shengmu Forage with fair value of RMB521,428,000 as at 30 June 2020.

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.

Notes to Interim Condensed Consolidated Financial Information

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16. Fair Value and Fair Value Hierarchy of Financial Instruments

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

	Carrying amounts		Fair values	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Unaudited)	RMB'000 (Audited)
Financial assets				
Long term receivables	14,115	14,505	14,115	14,505
Financial liabilities				
Derivative financial instruments	—	3,267	—	3,267
Financial guarantee contracts	1,146	2,635	1,146	2,635
Long term payables	28,940	28,940	28,940	28,940
Interest-bearing bank and other borrowings (other than lease liabilities)	2,092,806	2,184,275	2,088,936	2,199,527

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

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

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

The fair values of the non-current portion of long term receivables, the non-current portion of interest-bearing bank loans and long term payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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16. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

FAIR VALUE HIERARCHY

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

Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	30 June 2020	31 December 2019
	RMB'000	RMB'000
Derivative financial instruments	—	3,267
Financial guarantee contracts	1,146	2,635
	1,146	5,902

Assets and liabilities for which fair values are disclosed:

	Fair value measurement using significant observable inputs (Level 2)	
	30 June 2020	31 December 2019
	RMB'000	RMB'000
Long term receivables	14,115	14,505
Long term payables	28,940	28,940
Interest-bearing bank and other borrowings (other than lease liabilities)	2,088,936	2,199,527

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (six months ended 30 June 2019: nil).

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17. Events After The Reporting Period

On 27 July 2020, Start Great Holdings Limited, a wholly-owned subsidiary of China Mengniu, exercised all the 1,197,328,000 warrants to subscribe for 1,197,328,000 shares at the exercise price of HK\$0.33 per share. Immediately after the subscription of shares, China Mengniu became the largest shareholder of the Company.

On 31 July 2020, Greenbelt Global Limited exercised all the 140,862,000 warrants to subscribe for 140,862,000 shares at the exercise price of HK\$0.33 per share.

18. Approval of The Interim Financial Information

The unaudited interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 25 August 2020.