

# 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 2021



Provide the highest quality desert organic milk in the world



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# Corporate Information

## Board of Directors

### EXECUTIVE DIRECTORS

Mr. ZHANG Jiawang (*Chief Executive Officer*)

### NON-EXECUTIVE DIRECTORS

Mr. LU Minfang (*Chairman*)

Mr. SUN Qian

Mr. ZHANG Ping

Mr. ZHAO Jiejun

Ms. SHAO Lijun

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Liyan

Mr. WU Liang

Mr. SUN Yansheng

## Company Secretary

Mr. AU Wai Keung

## Authorised Representatives

Mr. ZHANG Jiawang

Mr. AU Wai Keung

## Audit Committee

Mr. WANG Liyan (*Chairman*)

Mr. ZHANG Ping

Mr. WU Liang

## Remuneration Committee

Mr. SUN Yansheng (*Chairman*)

Mr. ZHANG Ping

Mr. WU Liang

## Nomination Committee

Mr. LU Minfang (*Chairman*)

Mr. WANG Liyan

Mr. WU Liang

## Strategic and Sustainability Committee

Mr. LU Minfang (*Chairman*)

Mr. ZHANG Jiawang

Mr. SUN Qian

Mr. ZHAO Jiejun

## Registered Office

P.O. Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

## Principal Place of Business in Hong Kong

Unit 1303, 13/F,

Hua Fu Commercial Building

111 Queen's Road West

Hong Kong

## Headquarter and Principal Place of Business in China

Food Industry Park, Deng Kou County

Bayannur City

Inner Mongolia Autonomous Region

PRC

## Stock Code

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

### **Principal Share Registrar and Transfer Office**

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

### **Hong Kong Branch Share Registrar and Transfer Office**

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **Principal Bankers**

Bank of China Limited (Hohhot Zhongshan Sub-branch)  
Agricultural Bank of China Limited  
(Hohhot Horinger Sub-branch)  
Industrial and Commercial Bank of China Limited  
(Hohhot Branch)  
Industrial Bank Co., Ltd. (Hohhot Xilin Sub-branch)  
Bank of Communications Co., Ltd. (Hohhot Ulan Sub-branch)  
Export-Import Bank of China  
Inner Mongolia Autonomous Region 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		
	2021 RMB'000	2020 RMB'000	Movements
Revenue	1,446,189	1,251,067	15.6%
Gross profit	547,290	470,796	16.2%
Profit for the period	271,471	165,729	63.8%
Profit attributable to owners of the parent	259,275	142,925	81.4%
Basic earnings per share (RMB)	0.031	0.022	40.9%



# Management Discussion and Analysis

## Industrial Overview

In the first half of 2021, China's economy continued to recover steadily. According to the economic data for the first half of 2021 released by the National Bureau of Statistics, China's GDP was RMB53,216.7 billion, a year-on-year increase of 12.7%, and an average growth rate of 5.3% in two years. Consumption plays a "bedrock (壓艙石)" role in economic growth. With a series of policies to expand domestic demand and promote consumption, holiday factors have driven the steady recovery of the consumer market, which has significantly stimulated economic growth. In the first half of the year, the contribution rate of final consumption expenditure to economic growth was 61.7%, driving economic growth by 7.8 percentage points. The growth rates of food, textile, paper, chemical fiber and other industries ranged from 8.2% to 13.4%, showing a gradual recovery trend.

In the dairy industry, according to the monitoring data of the Ministry of Agriculture and Rural Affairs, the monthly average price of raw fresh milk in June was RMB4.27 per kilogram, a month-on-month increase of 0.7% and a year-on-year increase of 19.3%. According to the National Bureau of Statistics, the milk production in the first half of the year was 15.40 million tonnes, an increase of 1.09 million tonnes and a year-on-year growth of 7.6%. Among them, the output of national liquid milk from January to May 2021 was 11.5068 million tonnes, a year-on-year increase of 20.96%; the output of dry dairy products was 779,400 tonnes, a year-on-year increase of 4.94%; the output of milk powder was 385,800 tonnes, a year-on-year decrease of 9.06%.

## Business Overview

The principal business of the Group is dairy farming, production and sales of high-end desert-based organic raw milk and quality non-organic raw milk. The Group is committed to concentrating its resources on the production and sales of desert-based organic milk. At the same time, based on the diversified demand of customers for quality raw milk, the Company continues to develop functional raw milk to improve its profitability. The Group currently owns 33 dairy farms with a herd of 115,935 cows and daily production of 1,635 tonnes of fresh milk, 19 of which have passed organic certification with daily production of 1,161 tonnes of organic fresh milk, being the largest organic raw milk producer in China. In addition, the Group also operates four DHA farms with daily production of 163 tonnes of high-quality fresh milk.

In the first half of 2021, the Group's total raw milk sales amounted to 287,856 tonnes, a slight decrease of 3.3% from the same period of last year. This was mainly due to the decline in output when the Group's ordinary farms were converted to DHA farms, and the increase in the proportion of first-born cattle in the herd structure. Organic raw milk sales amounted to 184,253 tonnes, an increase of 46.2% over the same period of last year, and accounted for 64.0% of total raw milk sales, an increase in structural proportion of 21.7 percentage points over the same period of last year. The increase in the production of organic raw milk was mainly due to the conversion of organic farms and increase in output of organic dairy cows. In addition, the sales of quality non-organic raw milk amounted to 103,603 tonnes, decrease of 39.6% from the same period of last year, accounting for 36.0% of total raw milk sales.



# Management Discussion and Analysis

## Operation Review

As people's health awareness continues to increase and consumption upgrades, organic dairy products, which are pollution-free, additive-free, and meet strict organic standards, have increasingly been trusted and favored by consumers. Therefore, the market's demand for organic dairy products continues to grow. In the first half of 2021, Shengmu Organic and Mengniu Deluxe Organic, the two major high-end organic milk brands mainly supplied by the Group's raw milk, both achieved rapid growth in their product sales. In order to ensure the rapid growth in demand for high-end organic milk and consolidate the Group's leading position in the organic raw milk market, in March 2021, the Group's five farms realized organic conversion, which correspondingly increased the daily output of organic fresh milk by approximately 245 tonnes, and the average daily output of organic milk in June reached 1,241 tonnes. In order to meet the growing demand for functional DHA raw milk, while optimizing the Group's products and profit structure, the Group converted three ordinary raw milk farms into functional DHA raw milk farms in the first half of the year, which led to the increase in the average daily output of DHA raw milk by approximately 126 tonnes, and the average daily output of high-end DHA milk in June reached 166 tonnes.

Benefited from the increase in market demand, the raw milk market price in the first half of the year rose compared with the same period of last year. The Group's overall average unit price of raw milk was RMB5.02 per kilogram, an increase of 19.5% over the same period of last year, among which, desert-based organic milk experienced a rapid growth in demand due to its unique brand and nutritional value. The average unit price of organic raw milk was RMB5.31 per kilogram, an increase of about 6.3% compared with the corresponding period of last year. The average unit price of quality non-organic raw milk is RMB4.52 per kilogram, an increase of approximately 24.7% compared with the corresponding period of last year. In the first half of 2021, the prices of agricultural products rose significantly over the same period of last year, with the producer prices of corn and soybeans rose by 44.5% and 35.7%, respectively. The Group's feed cost per kilogram of milk was approximately RMB2.53, an increase of approximately 26.2% over the same period of last year. Faced with rising costs, the Group imported feed products through the supply chain center established in Tianjin to reduce the purchase cost of intermediate links. By passing on supplier's payment cycle, improving feed quality, reducing feed costs, and achieving cost reduction and efficiency enhancement. The Group still maintained a stable gross profit margin in the first half of the year at 37.8%, representing an increase of 0.2% as compared with the same period last year.

In the first half of the year, the Group carried out lean operations, focused on improving the level of farm management, and carried out 6S management in the farms. The six elements of tidying, rectification, sweeping, cleaning, literacy, and safety were fully implemented to improve the working environment, enhance employee literacy, and improve economic benefits. In April 2021, Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科技牧業有限公司) was assessed as the highest-level S by the Dairy Association of China among the first batch of 36 "Modern Dairy Industry Grading and Evaluation Dairy Farms (現代奶業定級評價奶牛場)", which marked the Group's first national "Modern Dairy Industry Grading and Evaluation Dairy Farms" coming into being. In June 2021, the Group signed a strategic cooperation agreement with the Shanxi Animal Husbandry Genetics and Breeding Center (山西省畜牧遺傳育種中心) in terms of joint breeding of Holstein cattle. In the future, both parties will give full play to their respective advantages and have in-depth cooperation in areas such as production performance measurement, core group breeding of Holstein cattle, and independent breeding of reserve bulls. This strategic cooperation in joint breeding is of great significance for accelerating the Group's construction of seed cow herds, enhancing the independent innovation ability in terms of Holstein cattle germplasm, and improving the comprehensive competitiveness of the dairy cattle seed industry.



## Management Discussion and Analysis

In January 2021, the Group's SAP-ERP system was successfully launched, and it gradually realized the standardization and integration of various internal and external data and processes of the Group and improved the Group's overall management and control capabilities, process standardization capabilities, refinement management ability and industrial coordination ability. In addition, the Group established a standardized daily cost accounting model for the automatic calculation of milk costs and automatic allocation of herd costs, creating a precedent in the industry. This system built an integrated, comprehensive and smart decision-making digital platform for the Group and laid a solid foundation for further digital management and smart farms construction.

In terms of human resources, in the first half of the year, the Group focused on promoting the rejuvenation and professionalization of personnel, recruited high-quality professionals for core positions, and vigorously promoted the construction of key departments. A think tank group of Shengmu Research Institute was established, and many well-known experts and scholars in the industry were invited to join, so as to assist the development of the Group's business in all dimensions through the combination of the industry, university and research. Moreover, the Group vigorously promoted the construction of personnel echelon, organized different types of training and learning for different levels of personnel, and developed close school-enterprise cooperation with China Agricultural University, Inner Mongolia Agricultural University, Beijing Academy of Agriculture and Forestry Sciences and other schools to achieve resource contribution and complementary advantages, providing advantageous resources for long-term development in terms of the Group's scientific research and personnel training. With respect to financing, the Group continued to promote the optimization of its liability structure in the first half of the year. Benefited from the optimization of the shareholder structure, the improvement of financial indicators and the enhancement of the Company's brand influence, the financing environment continued to improve, and financing costs dropped significantly compared with the same period of last year, as well as unutilised banking facilities increased largely, laying a solid foundation for ensuring the security of the Group's funds and long-term development.

In the first half of the year, the Group continued to practice green environmental protection and sustainable corporate development, and actively contributed to carbon neutrality. On 18 January 2021, the Group received a welcome letter from the United Nations Global Compact, and thus officially became a corporate member of the United Nations Global Compact (UNGC). On 27 July 2021, the United Nations Global Compact (UNGC) officially published the "Corporate Net Zero Pathway – Delivering the Paris Agreement and the Sustainable Development Goals of the United Nations". As the first representative company in the livestock industry, the Group was included by the "Corporate Net Zero Pathway". As an excellent case of reducing carbon emissions from farming activities in the agriculture and food industry, the Group has achieved significant results in reducing carbon emissions from farming activities and promoting corporate carbon emission reduction through recycling and reuse of methane in manure, scientific and efficient use of fertilizers, improvement of soil and energy efficiency of farms and other measures.

On 6 July 2021, Start Great Holdings Limited, a wholly owned subsidiary of China Mengniu Dairy Company Limited ("**China Mengniu**") the single largest shareholder of the Group, further acquired approximately 1.05 billion ordinary shares of the Company at a price of approximately HK\$1.1 per share. After that, China Mengniu's shareholdings reached approximately 29.99%. The increase of shareholdings by China Mengniu reflects the substantial shareholder's recognition of the Group's business development and corporate value. In the future, the Group will develop coordinately under the China Mengniu's grand strategy.



# Management Discussion and Analysis

## Financial Review

In the 2021 Interim Period, the Group's revenue amounted to RMB1,446.2 million, representing an increase of 15.6% as compared with RMB1,251.1 million in the 2020 Interim Period. Despite the significant increase in feed costs, the Group's gross profit margin increased from 37.6% in the 2020 Interim Period to 37.8% in the 2021 Interim Period. Profit for the period increased by RMB105.8 million from RMB165.7 million in the 2020 Interim Period to RMB271.5 million in the 2021 Interim Period, among which, profit attributable to owners of the parent company increased by RMB116.4 million from RMB142.9 million in the 2020 Interim Period to RMB259.3 million in the 2021 Interim Period, representing a growth rate of 81.4%.

## Analysis on 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					
	2021 (Unaudited)			2020 (Unaudited)		
	Revenue	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue	Sales volume (Tonnes)	Average selling price (RMB/Tonne)
<b>Raw milk</b>	<u>1,446,189</u>	<u>287,856</u>	<u>5,024</u>	<u>1,251,067</u>	<u>297,675</u>	<u>4,203</u>

In the 2021 Interim Period, the sales of raw milk business of the Group amounted to RMB1,446.2 million (2020 Interim Period: RMB1,251.1 million), representing an increase of 15.6% as compared to last year, which was mainly benefited from the increase in the prices of raw milk and a year-on-year increase in the sales volume of organic milk.

### DAIRY FARMING BUSINESS

	For the six-month period ended 30 June							
	2021 (Unaudited)				2020 (Unaudited)			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming revenue
<b>Organic raw milk</b>	<u>978,046</u>	<u>184,253</u>	<u>5,308</u>	<u>67.6%</u>	<u>629,292</u>	<u>126,056</u>	<u>4,992</u>	<u>50.3%</u>
<b>Premium non-organic raw milk<sup>(1)</sup></b>	<u>468,143</u>	<u>103,603</u>	<u>4,519</u>	<u>32.4%</u>	<u>621,775</u>	<u>171,619</u>	<u>3,623</u>	<u>49.7%</u>
<b>Total</b>	<u>1,446,189</u>	<u>287,856</u>	<u>5,024</u>	<u>100.0%</u>	<u>1,251,067</u>	<u>297,675</u>	<u>4,203</u>	<u>100.0%</u>

(1) Premium non-organic raw milk includes natively functional DHA milk.

## Management Discussion and Analysis

In the 2021 Interim Period, following the market development trend, the Group focused on its organic milk business and changed five dairy farms into organic farms in the first half of 2021. Sales volume of organic milk increased from 126,056 tonnes in the 2020 Interim Period to 184,253 tonnes in the 2021 Interim Period, representing an increase of 46.2%. Sales volume of non-organic milk in the 2021 Interim Period was 103,603 tonnes, including natively functional DHA milk of 19,287 tonnes.

In the 2021 Interim Period, the average selling price of the Group's raw milk was RMB5,024/tonne, representing an increase of 19.5% as compared to the same period of last year. Among which, the average selling price of organic raw milk was RMB5,308/tonne, increasing by 6.3% as compared to the same period of last year; and the average selling price of non-organic raw milk was RMB4,519/tonne, increasing by 24.7% as compared to the same period of last year.

### COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Unit: RMB in thousands, except percentages

	For the six-month period ended 30 June					
	2021 (Unaudited)			2020 (Unaudited)		
	Cost of sales Amount	Gross profit Amount	Gross profit margin	Cost of sales Amount	Gross profit Amount	Gross profit margin
Organic raw milk	583,806	394,240	40.3%	330,315	298,977	47.5%
Premium non-organic raw milk	315,093	153,050	32.7%	449,956	171,819	27.6%
<b>Total</b>	<b>898,899</b>	<b>547,290</b>	<b>37.8%</b>	<b>780,271</b>	<b>470,796</b>	<b>37.6%</b>

The Group's cost of sales increased from RMB780.3 million for the 2020 Interim Period to RMB898.9 million for the 2021 Interim Period due to the increase in price of bulk feed. However, the Group actively adjusted products structure, and increased the proportion of sales of high-value products. In the 2021 Interim Period, the Group completed the transformation to five organic farms and three DHA natively functional milk farms, which resulted in an increase in gross profit margin from 37.6% for the 2020 Interim Period to 37.8% for the 2021 Interim Period.

### OTHER INCOME AND GAINS

For the 2021 Interim Period, the Group's other income and gains amounted to RMB3.5 million (2020 Interim Period: RMB22.2 million), mainly due to gains from disposal of certain equity interests in an associate company for the 2020 Interim Period.



## Management Discussion and Analysis

### SELLING AND DISTRIBUTION EXPENSES

Group's selling and distribution expenses primarily include logistics and transportation expenses and employees' remunerations. For the 2021 Interim Period and the 2020 Interim Period, the Group's selling and distribution expenses amounted to RMB25.3 million and RMB14.7 million, respectively. The significant increase for the 2021 Interim Period as compared to the 2020 Interim Period was mainly due to the year-on-year increase in transportation cost resulted from longer transportation distances as the Group developed customers for raw milk.

### ADMINISTRATIVE EXPENSES

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of the management and administrative employees, as well as administrative expenses including attorney and audit fees. For the 2021 Interim Period and the 2020 Interim Period, the Group's administrative expenses amounted to RMB47.6 million and RMB51.3 million, representing a decrease of approximately 7.2%. For the 2021 Interim Period and the 2020 Interim Period, administrative expenses accounted for 3.3% and 4.1% of sales revenue, respectively.

### FINANCE COSTS

For the 2021 Interim Period and the 2020 Interim Period, the Group's finance costs amounted to RMB31.1 million and RMB74.2 million, respectively, representing a decrease of RMB43.1 million as compared to the same period of last year, which was mainly due to the combined impact of optimization of debt structure and decrease in interest-bearing liabilities and interest rates.

### LOSS ARISING FROM CHANGES IN FAIR VALUE

Loss arising from changes in fair value mainly 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, the value of a heifer increases when it grows up to a milkable cow, 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.

For the 2021 Interim Period and the 2020 Interim Period, the Group recorded loss arising from changes in fair value of RMB154.9 million and RMB161.1 million, respectively.

### SHARE OF LOSSES OF ASSOCIATES

The Group's associates include (a) 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) invested and owned as to 49% by the Group, which is primarily engaged in the operating and selling of Shengmu organic liquid milk products; (b) Bayannur Shengmu High-tech Ecological Forage Co. Ltd (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; (c) Food Union Shengmu Dairy Co., Ltd. (富友聯合聖牧乳品有限公司) ("**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; and (d) Inner Mongolia Yiyingmei Dairy Co., Ltd. (內蒙古益嬰美乳業有限公司), in which the Group invested and held minority interests, producing high-end organic infant milk powder with the raw milk purchased from the Group in the future. For the 2021 Interim Period and the 2020 Interim Period, the Group recorded a share of the losses of the abovementioned associates of RMB13.3 million and RMB25.8 million, respectively.



## Management Discussion and Analysis

### 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 PRC corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

For the 2021 Interim Period, the Group's income tax expense was RMB0.2 million, and the Group had no income tax expense for the 2020 Interim Period.

### PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AND PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

For the 2021 Interim Period, profit attributable to owners of the parent company of the Group was RMB259.3 million, representing a net increase of RMB116.4 million or a growth rate of 81.4% from a profit of RMB142.9 million for the 2020 Interim Period, which was mainly attributable to (1) the year-on-year increase in the selling price of the Group's raw milk; (2) the year-on-year increase in the sales volume of organic milk due to the adjustment made to the structure of organic milk; and (3) the significant decrease in the Group's finance costs.

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. For the 2021 Interim Period and the 2020 Interim Period, profit attributable to non-controlling interests was RMB12.2 million and RMB22.8 million, respectively.

## Analysis on Consolidated Statement of Financial Position

### CURRENT ASSETS

As at 30 June 2021, total current assets of the Group were RMB2,406.4 million (as at 31 December 2020: RMB2,196.4 million), primarily consisting of inventory of RMB486.5 million (as at 31 December 2020: RMB715.1 million), trade receivables of RMB206.4 million (as at 31 December 2020: RMB136.6 million), prepayments, other receivables and other assets of RMB610.3 million (as at 31 December 2020: RMB614.6 million), other financial assets at amortised cost of RMB72.0 million (as at 31 December 2020: nil), cash and bank balances and pledged deposits of RMB995.5 million (as at 31 December 2020: RMB715.1 million), and consumable biological assets of RMB35.7 million (as at 31 December 2020: RMB15.0 million). There was an increase in the Group's current assets as at 30 June 2021 as compared with that of 31 December 2020, which was mainly attributable to the increase of RMB280.4 million in the Group's cash and bank balances as compared with that at the beginning of the year. Trade receivables increased by RMB69.8 million or 51.1% from that at the beginning of the year, which was because that no early collection of trade receivables from Mengniu Group, a major customer, was made during the Interim Period as the Company recorded positive operating results and increasingly adequate cash flow.



# Management Discussion and Analysis

## CURRENT LIABILITIES

As at 30 June 2021, total current liabilities of the Group amounted to RMB2,314.7 million (as at 31 December 2020: RMB3,275.3 million), primarily consisting of trade and bills payables of RMB1,152.4 million (as at 31 December 2020: RMB1,699.4 million), other payables and accruals of RMB186.6 million (as at 31 December 2020: RMB240.0 million), interest-bearing bank and other borrowings of RMB975.2 million (as at 31 December 2020: RMB1,335.9 million), and derivative financial instruments of RMB0.5 million (as at 31 December 2020: nil). The significant decrease in the Group's current liabilities as at 30 June 2021 compared to that as at 31 December 2020, was mainly due to (1) in response to the price rise of bulk feed, the adjusting by the Group of the payment model in procurement for effective control over material price; and (2) the adjusting by the Group of the debt structure to reduce interest-bearing liabilities.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the 2021 Interim Period, the Group financed its daily operations mainly from internally generated cash flows and bank borrowings. As of 30 June 2021, the Group had (a) cash and bank balances of RMB800.7 million (as at 31 December 2020: RMB327.7 million), of which approximately RMB85.705 million was frozen due to the litigation, and (b) interest-bearing bank and other borrowings of RMB1,816.4 million (as at 31 December 2020: RMB1,366.3 million), all denominated in RMB, of which, RMB841.2 million were repayable within one to five years, while the remaining interest-bearing bank and other borrowings were repayable within one year. As of 30 June 2021, the gearing ratio (calculated as total bank borrowings divided by total equity) was 49.2% (31 December 2020: 40.0%). Except the principal amount of bank and other borrowings equivalent to RMB34.7 million which are denominated in Euros, RMB745.9 million which are denominated in United State dollars and bear fixed interest rates, the Group's remaining bank and other borrowings are denominated in RMB and bear fixed interest rates. In respect of the bank borrowings equivalent to RMB745.9 million which are denominated in United State dollars and bear fixed interest rates, the Group entered into currency swap agreements with financial institutions to hedge the impact on the Company's profit or loss arising from change in exchange rate. As of 30 June 2021, the annual interest rate of bank loans ranged from 1.55% to 5.22% (for the year ended 31 December 2020: 1.55% to 6.53%).

## CHARGE ON ASSETS

As at 30 June 2021, the Group had pledged deposits of approximately RMB194.8 million (as at 31 December 2020: RMB387.5 million) in total to banks as deposits for the issuance of letters of credit and bank drafts.

## CAPITAL COMMITMENTS

As at 30 June 2021, the Group's capital commitments in respect of the acquisition of property, plant and equipment amounted to RMB2.4 million (as at 31 December 2020: nil), which was mainly due to the commencement of construction of certain works in the 2021 Interim Period.

## CONTINGENT LIABILITIES

As at 30 June 2021, the Group provided guarantees of RMB139.6 million (as at 31 December 2020: RMB94.6 million) and nil (as at 31 December 2020: RMB14.5 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.



# Management Discussion and Analysis

## CREDIT RISK

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

## ENVIRONMENTAL POLICIES AND PERFORMANCE

In the 2021 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.

## HUMAN RESOURCES

As at 30 June 2021, the Group had a total of 2,562 employees (as at 30 June 2020: 2,591 employees). Total staff costs during the 2021 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB128.6 million (2020 Interim Period: RMB130.1 million).

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 and efficiency incentive 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.

## SUSTAINABLE DEVELOPMENT

On 18 January 2021, the Group received a welcome letter signed by Ms. Sanda Ojiambo, the Director General of the United Nations Global Compact (UNGC), and thus officially became a corporate member of the United Nations Global Compact (UNGC).

The United Nations Global Compact (UNGC) is the world's largest international organization that promotes corporate social responsibility and sustainable development, with approximately 10,000 corporate members and more than 3,000 other stakeholder members from 170 countries. Chinese members include over 420 companies, such as Huawei, Lenovo, State Grid, Sinopec, Haier and Yili, etc.

Over the past decade, the Group has invested a total of RMB7.5 billion in the Ulan Buh Desert, helping over 200 square kilometers of the desert become oasis and building 150 square kilometers of high-quality grassland. On 27 July 2021, the United Nations Global Compact (UNGC) officially published the "Corporate Net Zero Pathway - Delivering the Paris Agreement and the Sustainable Development Goals of the United Nations", in which 12 Chinese enterprises including China Shengmu as the first representative enterprise in the livestock industry, China Development Bank, Huawei and Baidu were jointly included in the "Corporate Net Zero Pathway".

The selection of the Group as one of the United Nations Net-Zero enterprise cases not only represents a recognition of the Group's sustainable development and the environmental, social and governance (ESG) performance, but also demonstrates the responsibility of China Shengmu as the first enterprise in the Chinese livestock industry to respond to the national carbon neutrality strategy. China Shengmu will adhere to organic, ecological and sustainable development, continuously optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and contribute to the country's "double-carbon" green goal!



# Management Discussion and Analysis

## MATERIAL ACQUISITIONS AND DISPOSALS

During the 2021 Interim Period, the Company did not have any significant acquisition and disposal of subsidiaries and associates.

## 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 report.

## Outlook

Achieving peak carbon dioxide emissions and carbon neutrality is a broad and profound economic and social systemic change. The industry will face a reshuffle, and seizing the opportunity to become the animal husbandry company with the lowest carbon emissions in China is the key point for the Group to achieve overtaking in the industry. The strong empowerment of national policies and industrial resources shows that the Group has tremendous advantages and value in terms of team building, business model, and resource endowment. In the next three to five years, relying on brand new resource endowments and with the capital and fund support of the substantial shareholder, China Mengniu, the Group will strengthen cooperation with China Mengniu, enhance the integration process, promote the implementation of business planning and achieve double growth in the sales volume of organic raw milk, developing a new team organization structure to achieve the common development of teams, businesses and individuals.

In terms of business, the Group will continue to leverage on the growth of the industry to deepen the organic raw milk business, continue to expand the scale of the organic milk business, and strengthen the desert-based organic raw milk brand. The Group will increase the production of organic raw milk in a timely manner according to the demand of downstream dairy products market. In terms of farm operations, the Group will focus on implementing the dairy cow welfare system to increase the lifetime production of dairy cows, and leveraging on the premium resources of the Ulan Buh Desert, the Company will comprehensively improve the comfort level of dairy cows and effectively extend the life of economic lactation of dairy cows. At the same time, we will improve the moderate herd expansion plan, implement the 3-5 year genetic improvement plan to breed core herds, optimize the breeding system, maintain a good herd structure, and realize the high-quality growth of the herd size. Meanwhile, the Group will upgrade the SAP system, start the second phase of the ERP project, build smart farms, and realize the process, standardization, digitalization and intelligence of dairy cow breeding, production and management. In terms of costs, the Group will enhance cost control, empower supply chain management through digitization and specialization, and establish a strategic supplier management system to reduce costs and increase efficiency.

In terms of human resources, the Group will make constant efforts to promote the construction of corporate culture, consolidate the cultural foundation, sublimate the promotion and implementation of culture, effectively promote the implementation of cultural values, and further promote the three-level (the company, system and department) talent training system. In addition, the Group will continue to build a talent training platform, promote the rejuvenation and professionalization of the team and carry out high-quality training projects. It will also improve the joint development mechanism, provide a solid talent guarantee for the fulfillment of corporate vision and strategic goals, and dig out the endogenous driving force for enterprise development.



## Management Discussion and Analysis

In terms of sustainable development, the Group will adhere to ecology first and green development, launch agricultural geographical indication certification and GAP certification projects, promote the marketing of raw milk branding, and enhance raw milk's competitive strength. At the same time, the Group has hired Boston Consulting Group (BCG) in July 2021 to provide advice and assistance for the Group's carbon neutral governance and corporate ESG development. The Group will continue to improve and promote desert control and the reasonable and sustainable planting-feeding integration agricultural production system with cow dung returning to the farm and forage grass feeding cows, continuously optimize the industrial chain and energy structure, accelerate the planning and implementation of scientific carbon reduction, and contribute to the country's "dual-carbon" green goal, building the "moat" for differentiated competition in the dairy farming industry of the Group and steadily realizing the corporate vision of creating the world's number one brand of organic milk.



# 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 2021 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 2021 Interim Period (the 2020 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 2021 and the unutilised IPO Net Proceeds as of 30 June 2021, respectively:

	Planned use of the IPO Net Proceeds RMB million	Actual use of the IPO Net Proceeds from the Listing Date to 30 June 2021 RMB million	Unutilised IPO Net Proceeds as of 30 June 2021 RMB million
Constructing six additional organic dairy farms	200.1	200.1	—
Acquiring dairy cows domestically and from overseas	145.6	145.6	—
Sales and marketing activities and expansion of distribution network	40.1	40.1	—
Expanding the Group’s liquid milk production capacity	120.3	120.3	—
Repayment of loans	120.3	120.3	—
Additional working capital and general corporate purposes	174.8	167.3	7.5
<b>Total</b>	<b>801.2</b>	<b>793.7</b>	<b>7.5</b>

The amount of the unutilised IPO Net Proceeds was approximately RMB7.5 million as of 30 June 2021. The Group plans to utilize the remaining RMB 7.5 million by the end of 2021 to purchase high-power fans and renovate dairy cowsheds for the improvement of the bedding environment of herds, so as to extend their lifespan.

### Purchase, Redemption or Sale of Listed Securities of the Company

During the 2021 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 6 July 2021, Start Great Holdings Limited, a wholly-owned subsidiary of China Mengniu Dairy Company Limited ("China Mengniu"), acquired an aggregate of 1,045,985,065 ordinary shares of the Company, from other shareholders of the Company, representing approximately 12.48% of the entire issued shares of the Company. Immediately after the subscription of shares, the number of shares held by China Mengniu increased from 1,467,193,490 shares (representing approximately 17.51% of the total issued shares of the Company) to 2,513,178,555 shares (representing approximately 29.99% of the total issued shares of the Company).

### Litigation

A civil judgement was issued by the Intermediate People's Court of Huhhot (the "**PRC Court**") (the "**Judgment**") on 16 August 2021 in relation to a claim made against 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 two of the Company's former directors YAO Tongshan and WU Jianye (the "**Ex-Directors**") concerning certain payment obligations which the plaintiff claimed it was owed under an investment agreement entered into amongst the plaintiff, Shengmu High-tech, and the Ex-Directors in or around July 2014. Pursuant to the Judgment, Shengmu High-tech and the Ex-Directors were held jointly and severally liable to pay (i) to the plaintiff a sum of RMB118,414,864.00, together with relevant interest in the sum of RMB16,442,561.73; (ii) to the plaintiff a sum of RMB40,000.00, being the plaintiff's legal fees; and (iii) for the litigation expenses in the sum of RMB721,287.13. Furthermore, in connection with the litigation, certain bank accounts of Shengmu High-tech with an aggregate balance of about RMB85.705 million and its 65% shareholding in Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司), a subsidiary of Shengmu High-tech, were frozen by the PRC Court. Shengmu High-tech lodged an appeal to the High People's Court of Inner Mongolia Autonomous Region on 10 September 2021. Please refer to the announcement published by the Company on 16 September 2021 for further details.

### 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 2021 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code.



# Report of the Directors

## 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. WU Liang and Mr. ZHANG Ping, 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 2021 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. SUN Yansheng (appointed on 30 July 2021), Mr. ZHANG Ping (appointed on 30 July 2021) and Mr. WU Liang, and is chaired by Mr. SUN Yansheng. 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. LU Minfang (appointed on 30 July 2021), Mr. WANG Liyan and Mr. WU Liang (appointed on 30 July 2021), and is chaired by Mr. LU Minfang. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

## Strategic and Sustainability Committee

The Company has set up a strategy committee with effect from 30 July 2021. The strategy committee was approved by the board of directors on 23 August 2021 and changed to a strategic and sustainability committee, to better formulate the Company's long-term development strategy and cover environmental, social and corporate governance related matters. The sustainability department of the Company will report the work progress to the strategic and sustainability committee on a regular basis. The strategic and sustainability committee comprises Mr. LU Minfang, Mr. ZHANG Jiawang, Mr. SUN Qian and Mr. ZHAO Jiejun, and is chaired by Mr. LU Minfang (all appointed on 30 July 2021).

### 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 2021 Interim Period.

### Directors' Interest in a Competing Business

Mr. ZHAO Jiejun, a non-executive Director, has been appointed as the vice president and the general manager of milk sources and group supply chain of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司) ("**Inner Mongolia Mengniu**"), a subsidiary of China Mengniu since November 2019. He is also currently a non-executive Director, the vice chairman of the board of directors 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 the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 1117). Mr. LU Minfang, a non-executive Director and the chairman of the Board (appointed with the effect from 30 July 2021), is currently an executive director and chief executive officer of China Mengniu (together with its subsidiaries "**China Mengniu Group**"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 2319). Mr. Lu is the chairman and a non-executive director of Yashili International Holdings Ltd (雅士利國際控股有限公司) ("**Yashili**"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (stock code: 1230) and the chairman and a non-executive director of China Modern Dairy. Mr. ZHANG Ping, a non-executive Director of the Company appointed from 25 August 2020, is currently a non-executive director and a member of the remuneration committee of China Modern Dairy, and a non-executive director of Yashili.

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

The principal activities of China Modern Dairy are (i) production and sale of raw milk to customers for processing into dairy products; and (ii) production and sale of liquid milk products.

Yashili is primarily engaged in the manufacture and sale of dairy and nourishment products.

The above-mentioned competing business is managed by separate entities. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, has acted and will continue to act in the best interests of the Group.

Save as disclosed above, all Directors have confirmed that for the six-month period ended 30 June 2021 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.



# Report of the Directors

## Continuing Connected Transactions

The Company's continuing connected transactions during the 2021 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 2020 annual report of the Company.
2. The non-exempt continuing connected transactions conducted pursuant to the 2021 Dabeinong Group Materials 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 2020 annual report of the Company.
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 China Mengniu Group, whose details were disclosed in the section headed "Report of the Directors – Connected and Continuing Connected Transactions" in the 2020 annual report of the Company.
4. The non-exempt continuing connected transactions conducted pursuant to the Materials Supply Framework Agreement entered into with Inner Mongolia Aiyangniu Technology Co., Ltd ("**Aiyangniu Technology**"), whose details were disclosed in the section headed "Report of the Directors – Connected and Continuing Connected Transactions" in the 2020 annual report of the Company.
5. The non-exempt continuing connected transactions conducted pursuant to the Fuyuan International Materials Supply Framework Agreement entered into with Inner Mongolia Fuyuan International Industrial (Group) Co., Limited ("**Fuyuan International**"), whose details were disclosed in the section headed "Report of the Directors – Connected and Continuing Connected Transactions" in the 2020 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 products to certain associates (such associates constitute associates under the accounting standards as the Group holds certain shares in them. However, such associates do not constitute connected persons under the Listing Rules as none of the connected persons of the Company hold shares in or position with them); (2) sale and purchase of cows pursuant to the Framework Agreement for Sale and Purchase of Cows entered into with Shengmu Pangu; (3) financial assistance pursuant to the Shengmu Pangu Financial Assistance Framework Agreement entered into with Shengmu Pangu; (4) supply of feed pursuant to the Feed Supply Framework Agreement entered into Shengmu Pangu; (5) purchase of forage from Shengmu Forage; (6) purchase of feed from Dabeinong Group in accordance with the Dabeinong Group Feed Supply Framework Agreement; (7) sale of raw fresh milk to Mengniu Group; (8) purchase of materials from Aiyangniu Technology in accordance with the Materials Supply Framework Agreement; (9) purchase of materials in accordance with the Fuyuan International Materials Supply Framework Agreement; (10) payment of emoluments to key management of the Group; (11) guarantees provided by the Group for the bank borrowings of Shengmu Forage and Food Union Shengmu; and (12) entrusted loan provided by the Group to Shengmu Forage. 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 2021 Interim Period.

### Change of Director's Information

Mr. ZHANG Jiawang was re-elected as an executive Director, Mr. SUN Qian and Mr. ZHANG Ping were re-elected as non-executive Directors, and Mr. WANG Liyan and Mr. WU Liang were re-elected as independent non-executive Directors at the 2021 AGM. For further information on the re-election of Mr. ZHANG Jiawang, Mr. SUN Qian, Mr. ZHANG Ping, Mr. WANG Liyan and Mr. WU Liang 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 2021 annual general meeting dated 28 April 2021 and the section headed "Results of the AGM" announcement of the Company in relation to the poll results of the annual general meeting held on 28 June 2021 dated 28 June 2021.

Mr. SHAO Genhuo has resigned as a non-executive Director and the chairman of the Company with effect from 30 July 2021. Mr. YAO Tongshan has resigned as an executive Director of the Company with effect from 30 July 2021. Mr. FU Wenge has resigned as an independent non-executive Director of the Company with effect from 30 July 2021. Mr. LU Minfang has been appointed as a non-executive Director of the Company and the chairman with effect from 30 July 2021. Ms. SHAO Lijun has been appointed as a non-executive Director with effect from 30 July 2021. Mr. SUN Yansheng have been appointed as the independent non-executive Directors of the Company with effect from 30 July 2021. For further information on the resignation of Mr. SHAO Genhuo, Mr. YAO Tongshan and Mr. FU Wenge, and the appointment of Mr. LU Minfang, Ms. SHAO Lijun and Mr. SUN Yansheng, please refer to the announcement of the Company dated 30 July 2021.

With effect from 1 January 2021, the emolument of the independent non-executive Directors increased from RMB100,000 to RMB 120,000 per annum.

Save as disclosed herein, during the 2021 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.

# Report of the Directors

## 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 2021, the interests or short positions of the Directors and chief executive of the Company in the issued ordinary shares of the Company (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 <sup>(1)</sup>	Interest of a controlled corporation <sup>(2)</sup>	1,301,651,000 <sup>(2)</sup>	15.53%
YAO Tongshan	Beneficial owner	409,092,700	4.88%
ZHANG Jiawang	Beneficial owner	138,130,000	1.65%

(1) Mr. SHAO Genhuo (邵根夥) resigned as a non-executive Director and chairman of the Company on 30 July 2021.

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

### (II) LONG POSITION IN THE SHARES OF ASSOCIATED CORPORATION

Name	Name of associated corporation	Percentage of interest
YAO Tongshan <sup>(3)</sup>	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科技生態草業有限公司)	1.45%

(3) Mr. YAO Tongshan (姚同山) resigned as an executive Director of the Company on 30 July 2021.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2021, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Interests of the Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at 30 June 2021, 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)	17.51% (L)
China Mengniu	Interest of a controlled corporation	1,467,193,490 (L)	17.51% (L)
Nong You Co., Ltd.	Beneficial owner	1,301,651,000 (L)	15.53% (L)
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000 (L)	15.53% (L)
Greenbelt Global Limited	Beneficial owner	536,097,305 (L)	6.40% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
Salata Jean	Interest of a controlled corporation	536,097,305 (L)	6.40% (L)
ZHANG Junli (張軍力)	Interest of the spouse	409,092,700 (L)	4.88% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial owner	378,320,000 (L)	4.51% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
Sequoia Capital China Advisors Limited	Investment manager	378,320,000 (L)	4.51% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000 (L)	4.51% (L)
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	396,960,506 (L)	4.74% (L)
		1,723,000 (S)	0.02% (S)





## Report of the Directors

### 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%
WU Jianye (武建艱)	Bayannur Shengmu Pangu Farming Co., Ltd.	45.00%
LIU Shiling (劉世玲)	Inner Mongolia Shengyou Cattle Industry Co., Ltd. (內蒙古晟有牛業有限公司)	15.31%
GAO Feng (高峰)	Inner Mongolia Shengyou Cattle Industry Co., Ltd. (內蒙古晟有牛業有限公司)	10.94%

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 2021, 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 represents approximately 7.58% 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 issue 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 highest 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 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**  
**Lu Minfang**  
*Chairman*

Hong Kong, 23 August 2021



# Report on Review of Interim Financial Statement



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**To the board of directors of China Shengmu Organic Milk Limited**

*(Incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 27 to 48, 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 2021 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

23 August 2021

# Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
REVENUE	3	1,446,189	1,251,067
Cost of sales		(898,899)	(780,271)
Gross profit		547,290	470,796
Loss arising from changes in fair value		(154,900)	(161,077)
Other income and gains		3,514	22,205
Selling and distribution expenses		(25,253)	(14,729)
Administrative expenses		(47,642)	(51,341)
Impairment losses on financial and contract assets, net		(6,791)	733
Other expenses		(137)	(838)
Finance costs		(31,108)	(74,206)
Share of losses of associates		(13,271)	(25,814)
PROFIT BEFORE TAX	4	271,702	165,729
Income tax expense	5	(231)	—
PROFIT FOR THE PERIOD		271,471	165,729
Profit attributable to:			
Owners of the parent		259,275	142,925
Non-controlling interests		12,196	22,804
		271,471	165,729
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic			
– For profit for the period		RMB0.031	RMB0.022
Diluted			
– For profit for the period		RMB0.031	RMB0.022

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

	2021	2020
	(Unaudited) RMB'000	(Unaudited) RMB'000
PROFIT FOR THE PERIOD	271,471	165,729
Other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods:		
Exchange differences		
Exchange differences on translation of foreign operations	28	(1,070)
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods	28	(1,070)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	28	(1,070)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	271,499	164,659
Attributable to:		
Owners of the parent	259,303	141,855
Non-controlling interests	12,196	22,804
	271,499	164,659

# Interim Condensed Consolidated Statement of Financial Position

30 June 2021

	Notes	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	1,718,848	1,772,651
Right-of-use assets		49,075	45,100
Other intangible assets		5,834	6,242
Investments in associates		110,839	122,255
Biological assets	9	2,545,978	2,572,102
Long term receivables		9,973	10,498
Total non-current assets		4,440,547	4,528,848
<b>CURRENT ASSETS</b>			
Other financial assets at amortised cost		72,000	—
Inventories		486,461	715,078
Biological assets	9	35,660	15,008
Trade receivables	10	206,375	136,611
Prepayments, other receivables and other assets		610,343	614,578
Pledged deposits		194,788	387,452
Cash and bank balances		800,737	327,651
Total current assets		2,406,364	2,196,378
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	1,152,373	1,699,448
Other payables and accruals		186,653	239,981
Derivative financial instruments		471	—
Interest-bearing bank and other borrowings		975,225	1,335,873
Total current liabilities		2,314,722	3,275,302
NET CURRENT ASSETS/(LIABILITIES)		91,642	(1,078,924)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,532,189	3,449,924

# Interim Condensed Consolidated Statement of Financial Position

30 June 2021

	Note	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		841,164	30,398
Total non-current liabilities		841,164	30,398
Net assets		3,691,025	3,419,526
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital	12	69	69
Reserves		3,455,966	3,196,663
		3,456,035	3,196,732
Non-controlling interests		234,990	222,794
Total equity		3,691,025	3,419,526

**Zhang Jiawang**  
Director

**Zhang Ping**  
Director

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	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 2021 (audited)	69	2,434,970 <sup>#</sup>	491,077 <sup>#</sup>	95,558 <sup>#</sup>	541,771 <sup>#</sup>	16,966 <sup>#</sup>	(383,679) <sup>#</sup>	3,196,732	222,794	3,419,526
Profit for the period	—	—	—	—	—	—	259,275	259,275	12,196	271,471
Exchange differences on translation of foreign operations	—	—	—	—	—	28	—	28	—	28
Total comprehensive income for the period	—	—	—	—	—	28	259,275	259,303	12,196	271,499
At 30 June 2021 (unaudited)	<u>69</u>	<u>2,434,970<sup>#</sup></u>	<u>491,077<sup>#</sup></u>	<u>95,558<sup>#</sup></u>	<u>541,771<sup>#</sup></u>	<u>16,994<sup>#</sup></u>	<u>(124,404)<sup>#</sup></u>	<u>3,456,035</u>	<u>234,990</u>	<u>3,691,025</u>

<sup>#</sup> These reserve accounts comprise the consolidated reserves of RMB3,455,966,000 (31 December 2020: RMB3,196,663,000) in the condensed consolidated statement of financial position.



# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

Note	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	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	12	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	

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	2021	2020
	(Unaudited) RMB'000	(Unaudited) RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax:	271,702	165,729
Adjustments for:		
Loss arising from changes in fair value	154,900	161,077
Interest income	(7,264)	(3,877)
Finance costs	31,108	74,206
Share of losses of associates	13,271	25,814
Gain on partial disposal of investments in associates	—	(21,660)
Gain on deem disposal of investments in an associate	(1,856)	—
Depreciation of property, plant and equipment	52,719	55,433
Depreciation of right-of-use assets	865	1,083
Amortisation of other intangible assets	223	434
Loss on disposal of items of property, plant and equipment	4,392	260
Impairments of property, plant and equipment	1,427	229
Impairments of other intangible assets	—	8,251
Impairments of receivables	7,328	—
Write-down of inventories to net realisable value	11,585	—
Foreign exchange losses/(gains), net	1,101	(531)
	<b>541,501</b>	<b>466,448</b>
Decrease in inventories	196,658	252,273
Increase in trade and bills receivables	(77,091)	(117,956)
Decrease in prepayments, other receivables and other assets	4,974	51,009
(Increase)/decrease in pledged deposits	192,664	(3,654)
Increase in other non-current assets	—	156
Decrease in trade and bills payables	(509,255)	(63,913)
Decrease in other payables and accruals	(14,532)	(76,906)
Cash generated from operations	334,919	507,457
Interest received	7,978	2,768
Income tax paid	(231)	—
Net cash flows from operating activities	<b>342,666</b>	<b>510,225</b>

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	2021	2020
	(Unaudited) RMB'000	(Unaudited) RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(67,185)	(41,654)
Additions to right-of-use assets	(5,553)	(180)
Purchases of biological assets	(12)	(585)
Payments for breeding calves and heifers	(289,277)	(255,403)
Proceeds from disposal of biological assets	184,369	152,469
Proceeds from disposal of items of property, plant and equipment	2,726	(4,336)
Increase in other financial assets at amortised cost	(72,000)	—
Partial disposal of investments in associates	800	42,709
Acquisition of a subsidiary	—	(19,020)
Net cash flows used in investing activities	<u>(246,132)</u>	<u>(126,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid to non-controlling shareholders	—	(40,050)
New bank loans and other borrowings	1,563,100	1,318,440
Repayment of bank loans and other borrowings	(1,157,174)	(1,424,913)
Principal portion of lease payments	—	(32,287)
Interest paid	(28,772)	(74,308)
Net cash flows from/(used in) financing activities	<u>377,154</u>	<u>(253,118)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>473,688</b>	131,107
Cash and cash equivalents at beginning of period	327,651	132,636
Effect of foreign exchange rate changes, net	(602)	(463)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>800,737</u></b>	<b><u>263,280</u></b>

# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS34 *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 2020.

## 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 2020, 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.



## Notes to Interim Condensed Consolidated Financial Information

30 June 2021

### 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

*(continued)*

- (a) The Group had certain interest-bearing bank borrowings denominated in United States dollars and based on the London Interbank Offered Rate ("LIBOR") as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.
  
- (b) 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 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. In March 2021, the International Accounting Standards Board issued another amendment to IFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021* to extend the availability of the practical expedient for any reduction in lease payments that affects only payments originally due on or before 30 June 2022 (the "2021 Amendment"). The 2021 Amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment 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.

# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 3. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue from contracts with customers	<u>1,446,189</u>	<u>1,251,067</u>

### DISAGGREGATED REVENUE INFORMATION FOR REVENUE FROM CONTRACTS WITH CUSTOMERS

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<b>Type of goods or services</b>		
Sale of goods	<u>1,446,189</u>	<u>1,251,067</u>
<b>Geographical market</b>		
Mainland China	<u>1,446,189</u>	<u>1,251,067</u>
<b>Timing of revenue recognition</b>		
At a point in time	<u>1,446,189</u>	<u>1,251,067</u>

# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories sold	898,899	780,271
Loss arising from changes in fair value	154,900	161,077
Depreciation of items of property, plant and equipment	52,719	55,433
Depreciation of right-of-use assets	865	1,083
Amortisation of other intangible assets	223	434
Research and development costs	2,936	2,459
Minimum lease payments under operating leases	1,303	2,127
Auditor's remuneration	480	580
(Reversal of) impairment losses on financial and contract assets, net	6,791	(733)
Write-down of inventories to net realisable value	11,585	—
Impairment of other intangible assets	—	8,251
Impairment losses of property, plant and equipment	1,427	229
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	116,863	122,895
Other social insurances and benefits	7,471	3,595
Pension scheme contributions	4,263	3,659

## 5. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current - PRC	231	—
Total tax expense for the period	231	—

# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 6. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (30 June 2020: nil).

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 8,381,295,000 (2020: 6,480,663,000) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of 8,381,295,000 (2020: 6,480,663,000) in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assume to have been issued at no consideration on the deemed exercise of warrants and dilutive potential ordinary shares.

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>259,275</u>	<u>142,925</u>

	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the reporting period	<u>8,381,295,000</u>	6,354,400,000
Effect of dilution - weighted average number of ordinary shares:		
New issue	—	126,263,000
	<u>8,381,295,000</u>	<u>6,480,663,000</u>



# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired assets with a cost of RMB30,707,000 (30 June 2020: RMB31,263,000).

Assets with a net book value of RMB7,118,000 were disposed of by the Group during the six months ended 30 June 2021 (30 June 2020: RMB1,190,000), resulting in a net loss on disposal of RMB4,392,000 (30 June 2020: RMB259,000).

During the six months ended 30 June 2021, an impairment loss of RMB 1,427,000 (30 June 2020: RMB 229,000) was recognised for certain property, plant and equipment. The recoverable amount was nil which has been determined at the level of the cash-generating unit based on a value-in-use calculation using cash flow projections. The cash-generating unit mainly consisted of property, plant and equipment allocated to the other segments.

## 9. 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 2021	31 December 2020
	Head (Unaudited)	Head (Audited)
Milkable cows	58,605	57,658
Heifers, calves and beef cattle	57,330	53,077
	<u>115,935</u>	<u>110,735</u>

# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 9. BIOLOGICAL ASSETS *(continued)*

### (B) VALUES OF BIOLOGICAL ASSETS

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

	30 June 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
Milkable cows	1,718,111	1,763,463
Heifers, calves and beef cattle	863,527	823,647
	<u>2,581,638</u>	<u>2,587,110</u>

The Group's biological assets in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent 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 2020 annual report.

## 10. TRADE RECEIVABLES

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

	30 June 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 3 months	201,979	136,611
4 to 6 months	2,676	—
7 months to 1 year	1,720	—
	<u>206,375</u>	<u>136,611</u>

# Notes to Interim Condensed Consolidated Financial Information

30 June 2021

## 11. 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 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
1 to 3 months	629,111	1,014,154
4 to 6 months	284,857	512,573
7 to 12 months	233,125	157,604
1 to 2 years	1,277	9,466
2 to 3 years	494	1,501
Over 3 years	3,509	4,150
	<u>1,152,373</u>	<u>1,699,448</u>

## 12. SHARE CAPITAL

### SHARES

	30 June 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
Authorised:		
30,000,000,000 ordinary shares of HK\$0.00001 each (2020: 30,000,000,000 ordinary shares of HK\$0.00001 each)	<u>236</u>	<u>236</u>
Issued and fully paid:		
8,381,295,229 (2020: 8,381,295,229) ordinary shares	<u>69</u>	<u>69</u>

# Notes to Interim Condensed Consolidated Financial Information

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## 13. CONTINGENT LIABILITIES

On 16 August 2021, a civil judgement (the "Judgment") was issued by the Intermediate People's Court of Huhhot in relation to a claim made against Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("Shengmu High-tech"), an indirect wholly-owned subsidiary of the Company, and two of the Company's former directors Mr. YAO Tongshan and Mr. WU Jianye (the "Ex-Directors"). Pursuant to the Judgment, Shengmu High-tech and the Ex-Directors were held jointly liable for an aggregate payment obligation amounting to approximately RMB135,619,000. In connection with the litigation, certain bank accounts of Shengmu High-tech with an aggregate balance of approximately RMB85,705,000 and its 65% shareholding in Bayannur Shengmu Liuhe Farming Co., Ltd., a subsidiary of Shengmu High-tech, were frozen by Intermediate People's Court of Huhhot. The director based on the advice from the Group's legal counsel, believe that the Shengmu High tech has a valid defense against the allegation and Shengmu High-tech has lodged an appeal on the Judgment with the relevant court in the PRC; accordingly, the Group has not provided for any claim arising from the litigation, other than the related legal and other costs.

## 14. COMMITMENTS

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

	30 June 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	2,396	—

## 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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<u>Associates:</u>		
Purchases of raw materials	21,061	4,549
Sales of goods	24,544	18,341
Purchases of property, plant and equipment	776	—
<u>Affiliates of a substantial shareholder:</u>		
Sales of goods	1,297,906	—
Purchases of raw materials	43,776	13,851

# Notes to Interim Condensed Consolidated Financial Information

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## 15. RELATED PARTY TRANSACTIONS *(continued)*

(B) Other transactions with related parties:

Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage"), an associate of the Group, 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 2021, the Group had entrusted loans of RMB72,000,000 (30 June 2020: nil) due from Shengmu Forage, included in "Other financial assets at amortised cost". The Group loaned out the money via banks. The entrusted loans are counter-guaranteed with an annual interest rate of 4.40%.

During the six months ended and as of 30 June 2021, the Group provided guarantees to banks in respect of the bank loans of the following related parties:

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Shengmu Forage	80,000	80,000

  

	30 June 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
Shengmu Forage	139,600	94,600
Food Union Shengmu Dairy Co., Ltd.	—	14,455

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Short term employee benefits	3,015	2,660
Pension scheme contributions	103	11
	<b>3,118</b>	<b>2,671</b>

# Notes to Interim Condensed Consolidated Financial Information

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## 15. RELATED PARTY TRANSACTIONS *(continued)*

(D) Outstanding balances with related parties

	30 June 2021	31 December 2020
	RMB'000 (Unaudited)	RMB'000 (Audited)
<u>Amounts owed by/(owed to) associates included in:</u>		
Trade receivables	9,717	9,460
Trade and bills payables	(6,391)	(142,565)
Prepayments, deposits and other receivables	528,075	534,102
Other payables and accruals	(3,078)	(9,863)
<u>Affiliates of substantial shareholders:</u>		
Trade receivables	163,101	114,083
Trade and bills payables	(1,862)	(16,771)
Prepayments, deposits and other receivable	15,007	17,233
Other payables and accruals	(28,940)	(28,940)

As at 30 June 2021, included in the Group's prepayments, deposits and other receivables were the prepayment to Shengmu Forage for the purchase of raw materials of RMB507,807,000 (31 December 2020: RMB513,834,000), which were secured by right-of-use assets owned by Shengmu Forage with a fair value of RMB521,428,000 as at 30 June 2021.

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 credit terms similar 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
<b>Financial assets</b>				
Other financial assets at amortised cost	72,000	—	72,000	—
Long term receivables	9,973	10,498	9,590	10,188
<b>Financial liabilities</b>				
Derivative financial instruments	471	—	471	—
Financial guarantee contracts	1,192	322	1,192	322
Interest-bearing bank and other borrowings (other than lease liabilities)	1,816,389	1,366,271	1,789,886	1,360,920

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.

# Notes to Interim Condensed Consolidated Financial Information

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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 2021 RMB'000	31 December 2020 RMB'000
Derivative financial instruments	471	—
Financial guarantee contracts	1,192	322
	<u>1,663</u>	<u>322</u>

#### Assets and liabilities for which fair values are disclosed:

	Fair value measurement using significant observable inputs (Level 2)	
	30 June 2021 RMB'000	31 December 2020 RMB'000
Long term receivables	9,590	10,188
Interest-bearing bank and other borrowings (other than lease liabilities)	1,789,886	1,360,920
	<u>1,799,476</u>	<u>1,371,108</u>

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 2021: nil).





# Notes to Interim Condensed Consolidated Financial Information

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## 17. EVENTS AFTER THE REPORTING PERIOD

On 6 July 2021, Start Great Holdings Limited, a wholly-owned subsidiary of China Mengniu Dairy Company Limited ("China Mengniu"), acquired an aggregate of 1,045,985,065 ordinary shares of the Company, from other shareholders of the Company, representing approximately 12.48% of the entire issued shares of the Company. Immediately after the subscription of shares, the number of shares held by China Mengniu increased from 1,467,193,490 shares (representing approximately 17.51% of the total issued shares of the Company) to 2,513,178,555 shares (representing approximately 29.99% of the total issued shares of the Company).

## 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 23 August 2021.