

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 2014

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YAO Tongshan (*Chairman and
Chief Executive Officer*)

Mr. WU Jianye

Ms. GAO Lingfeng

Mr. CUI Ruicheng

Non-executive Directors

Mr. WU Jingshui

Mr. FAN Xiang

Mr. CUI Guiyong

Mr. SUN Qian

Independent Non-executive Directors

Mr. WONG Kun Kau

Mr. LI Changqing

Ms. GE Xiaoping

Mr. YUAN Qing

JOINT COMPANY SECRETARIES

Mr. LI Yundong

Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. CUI Ruicheng

Mr. AU Wai Keung

AUDIT COMMITTEE

Ms. GE Xiaoping (Chairman)

Mr. LI Changqing

Mr. CUI Guiyong

REMUNERATION COMMITTEE

Mr. WONG Kun Kau (Chairman)

Mr. LI Changqing

Mr. SUN Qian

NOMINATION COMMITTEE

Mr. YAO Tongshan (Chairman)

Mr. YUAN Qing

Mr. WONG Kun Kau

REGISTERED OFFICE

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607

6/F, China Merchants Building

152-155 Connaught Road Central

Hong Kong

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

PO Box 1093, Boundary Hall

Cricket Square

Grand Cayman KY1-1112

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
(Hohhot Zhongshan Branch)
China Minsheng Bank
(Hohhot Branch)
Bank of Communications Co., Ltd.
(Hohhot, Ulan Branch)
China Merchants Bank Co., Ltd
(Hohhot Branch)
Agricultural Bank of China
(Tumotezuoqi Branch)

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

Chen & Associates
(in association with Wilson Sonsini Goodrich & Rosati,
Professional Corporation)

As to Cayman Islands Law

Maples and Calder

COMPLIANCE ADVISOR

TC Capital Asia Limited

WEBSITE

<http://www.youjimilk.com>

HIGHLIGHTS

	For the six months ended June 30,		Change %
	2014 (Unaudited) (RMB'000)	2013 (Unaudited)	
Revenue	905,629	461,543	+96.2%
Profit for the period	355,657	117,944	+201.7%
Profit before fair value adjustment of biological assets	345,641	113,607	+204.2%
Profit attributable to owners of the parent	279,090	102,802	+171.5%
Earnings per share attributable to ordinary equity holders of the parent:			
– Basic and Diluted	RMB0.049	RMB0.024	+104.2%

- The Group's revenue increased by 96.2% from RMB461.5 million for the same period in 2013 to RMB905.6 million for the six months ended June 30, 2014.
- The Group's profit increased by 201.7% from RMB117.9 million for the same period in 2013 to RMB355.7 million for the six months ended June 30, 2014.
- The Group's profit before fair value adjustment of biological assets increased by 204.2% from RMB113.6 million for the same period in 2013 to RMB345.6 million for the six months ended June 30, 2014.
- The Group's profit attributable to owners of the parent increased by 171.5% from RMB102.8 million for the same period in 2013 to RMB279.1 million for the six months ended June 30, 2014.
- The Group's basic and diluted earnings per share attributable to ordinary equity holders of the parent increased by 104.2% from RMB0.024 for the same period in 2013 to RMB0.049 for the six months ended June 30, 2014.
- The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: nil).

MARKET REVIEW

Rapid growth in China's dairy industry began in the 1990s and has continued in recent years. In China, with the rising health consciousness among the public and increasing disposable income of consumers, more and more consumers will pursue organic food, including organic dairy products.

With the higher concentration in China's dairy farming industry, the production of premium raw milk is expected to increase accordingly. As high-end milk products become more popular among Chinese consumers, it is expected that the increasing demand for premium raw milk in China will remain unchanged in the long term, and such demand will continue to grow steadily. The proportion of organic raw milk in total premium raw milk production has been rising in recent years, indicating that there is a strong growth in market demand for organic raw milk. The demand-over-supply situation in China's organic raw milk market is expected to continue and the gap will further expand.

According to the report of Frost & Sullivan, the China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (the "Group") enjoyed a 54.2% market share as based on 2013 organic raw milk production volume. The Company is the largest organic dairy company in China and also the only vertically integrated grass-to-glass organic dairy company in China that meets E.U. organic standards as of June 30, 2014. The Group is well-positioned to continue to capture the rapid growth in demand for organic dairy in China, and will maintain its position as a leading organic dairy company in China.

BUSINESS REVIEW

The Group's business consists of dairy farming business and liquid milk business. All the raw milk which the Group uses to produce its organic liquid milk products is supplied internally by certified organic dairy farms. In the first half of 2014 (the "2014 Interim Period"), the Group has achieved significant growth in its revenue from raw milk and liquid milk products as compared to the same period of 2013 (the "2013 Interim Period").

Herd Size and Production Volume

As of June 30, 2014, the Group had 13 organic dairy farms and 12 non-organic dairy farms. The Group expanded its herd size to 44,779 organic dairy cows and 34,474 non-organic dairy cows as of June 30, 2014 from 30,621 organic dairy cows and 29,836 non-organic dairy cows as of December 31, 2013.

The Group produced 83,921 tonnes of organic raw milk and 68,751 tonnes of premium non-organic raw milk in the first half of 2014 as compared to 38,451 tonnes of organic raw milk and 55,142 tonnes of premium non-organic raw milk in the same period of 2013. Production volume of liquid milk products which were entirely produced from organic raw milk supplied internally by its certified organic dairy farms increased to 18,210 tonnes in the first half of 2014 as compared to 7,546 tonnes in the same period of 2013.

Distribution Network

In light of increasing market demand and effective expansion of the Group's distribution network, the Group experienced significant growth in the first half of 2014 as compared to the same period of 2013.

The customers of the Group are mainly categorized into industrial customers and distributors. The Group sells its premium non-organic raw milk and a portion of its organic raw milk to a limited number of leading dairy companies in China. The Group increasingly sells its organic raw milk after processing as liquid milk products under its "Shengmu 聖牧" brand. Its liquid milk products are primarily sold to distributors, which in turn sell to supermarket chains, department stores, convenience store chains and other points of sales. As of June 30, 2014, the Group had 332 distributors with over 68,000 points of sale as compared to 316 distributors with over 50,000 points of sale as of December 31, 2013.

FINANCIAL REVIEW

The Group continued to enjoy a rapid growth in the first half of 2014. The Group recorded a total revenue of RMB905.6 million in the 2014 Interim Period, representing an increase of 96.2% from RMB461.5 million in the 2013 Interim Period. Profit of the Group increased by 201.7% from RMB117.9 million in the 2013 Interim Period to RMB355.7 million in the 2014 Interim Period.

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

Revenue

	For the six months ended June 30,	
	2014	2013
	(Unaudited)	(Unaudited)
	(RMB'000)	
Dairy farming business	662,058	356,806
Liquid milk business	243,571	104,737
Total	905,629	461,543

For the six months ended June 30,	Dairy farming business				Liquid milk business				Total revenue (after elimination of inter-segment sales)
	Segment revenue	Inter-segment sales ⁽¹⁾	External sales	External sales as % of total revenue	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	
(RMB in thousands, except percentages)									
2014 (Unaudited)	785,042	122,984	662,058	73.1%	243,571	—	243,571	26.9%	905,629
2013 (Unaudited)	403,931	47,125	356,806	77.3%	104,737	—	104,737	22.7%	461,543

(1) Represents internally produced organic raw milk sold to liquid milk business.

For the 2014 Interim Period, the Group recorded revenue of RMB905.6 million, representing an increase of 96.2% from RMB461.5 million for the 2013 Interim Period. The Group began its operation with the dairy farming business and expanded into the liquid milk business in 2012. Liquid milk business has grown rapidly since then. Revenue from liquid milk business represented 26.9% of total revenue for the 2014 Interim Period (22.7% for the 2013 Interim Period). The Group expects that the revenue from its liquid milk business will continue to increase both in absolute amounts and as a percentage of the Group's total revenue in the foreseeable future.

Dairy farming business

	For the six months ended June 30,					
	2014 (Unaudited)			2013 (Unaudited)		
	Sales amount (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Sales Amount (RMB'000)	Sales Volume (Tonnes)	Average selling price (RMB/Tonne)
Organic raw milk						
External sales	337,913	60,330	5,601	140,310	29,199	4,805
Inter-segment sales ⁽¹⁾	122,984	21,356	5,759	47,125	8,601	5,479
Subtotal	460,897	81,686	5,642	187,435	37,800	4,959
Premium non-organic raw milk						
External sales	324,145	67,263	4,819	216,496	54,273	3,989
Segment revenue	785,042	148,949	5,271	403,931	92,073	4,387
External sales	662,058	127,593	5,189	356,806	83,472	4,275

(1) Represents internally produced organic raw milk sold to liquid milk business.

The Group's revenue from its dairy farming business increased by 85.6% from RMB356.8 million in the 2013 Interim Period to RMB662.1 million in the 2014 Interim Period. The increase was primarily due to the increase in its herd size and production volume of raw milk. As of June 30, 2014, the Group had a total of 79,253 dairy cows (consisting of 44,779 dairy cows in its organic dairy farms and 34,474 dairy cows in its non-organic dairy farms) as compared to a total of 60,457 dairy cows as of December 31, 2013.

Liquid milk business

	For the six months ended June 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Sales amount (RMB in thousands)	243,571	104,737
Sales volume (Tonnes)	16,400	7,527
Average selling price (RMB/tonne)	14,852	13,915

The Group's revenue from its liquid milk business increased by 132.7% from RMB104.7 million in the 2013 Interim Period to RMB243.6 million in the 2014 Interim Period. The increase was primarily due to the increasing demand of its products and the expansion of its distribution network. As of June 30, 2014, the Group had 332 distributors as compared to 316 distributors as of December 31, 2013.

Cost of sales, gross profit and gross margin

	For the six months ended June 30,					
	2014 (Unaudited)			2013 (Unaudited)		
	Cost of Sales Amount	Gross Profit Amount	Gross Margin %	Cost of Sales Amount	Gross Profit Amount	Gross Margin %
	(RMB in thousands, except percentages)					
Dairy farming business						
Organic raw milk						
Before elimination	230,415	230,482	50.0%	115,940	71,495	38.1%
After elimination ⁽¹⁾	170,175	167,738	49.6%	89,559	50,751	36.2%
Premium non-organic raw milk	187,215	136,930	42.2%	151,218	65,278	30.2%
Subtotal:						
Before elimination	417,630	367,412	46.8%	267,158	136,773	33.9%
After elimination ⁽¹⁾	357,390	304,668	46.0%	240,777	116,029	32.5%
Liquid milk business						
Before elimination	167,258	76,313	31.3%	74,040	30,697	29.3%
After elimination ⁽²⁾	104,514	139,057	57.1%	53,296	51,441	49.1%
Total, after elimination	461,904	443,725	49.0%	294,073	167,470	36.3%

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

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

The Group's cost of sales for the 2014 Interim Period was RMB461.9 million, representing an increase of 57.1% from RMB294.1 million for the 2013 Interim Period. The increase in cost of sales was primarily due to the increase in sales volume. The gross profit of the Group increased by 164.9% from RMB167.5 million for the 2013 Interim Period to RMB443.7 million for the 2014 Interim Period. The increase in gross profit was primarily due to the increase in sales volume and average selling price. The gross margin of the Group increased from 36.3% in the 2013 Interim Period to 49.0% in the 2014 Interim Period, mainly due to the increase in selling price per tonne and the increase in average annual milk yield per dairy cow.

Net Gains or Losses arising from Changes in Fair Value Less Costs to Sell of Biological Assets

Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes in its dairy cows, due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is culled and sold, its value decreases. The Group recorded net gains arising from changes in fair value less costs to sell of biological assets of RMB4.3 million in the 2013 Interim Period and RMB10.0 million in the 2014 Interim Period.

Other Income and Gains

Other income and gains include government grants, bank interest income, foreign exchange differences (net) and others. Other income and gains of the Group amounted to RMB 0.8 million in the 2013 Interim Period and RMB9.2 million in the 2014 Interim Period. Increase in other income and gains in the 2014 Interim Period as compared to the 2013 Interim Period was mainly due to the increase in foreign exchange differences (net) and bank interest income.

Selling and Distribution Expenses

	For the six months ended June 30,					
	2014 (Unaudited)			2013 (Unaudited)		
	Amount (RMB'000)	% of total revenue	% of segment revenue	Amount (RMB'000)	% of total revenue	% of segment revenue
Dairy farming business	7,774	0.8%	1.2%	5,429	1.2%	1.5%
Liquid milk business	26,125	2.9%	10.7%	26,296	5.7%	25.1%
Total	<u>33,899</u>	<u>3.7%</u>	<u>N/A</u>	<u>31,725</u>	<u>6.9%</u>	<u>N/A</u>

Selling and distribution expenses of the Group's dairy farming business represent transportation and logistics expenses associated with the delivery of raw milk to its customers. Selling and distribution expenses of the Group's liquid milk business mainly consist of transportation and logistics expenses incurred when delivering liquid milk to distributors, salary and welfare expense for marketing staff and promotion and advertisement expenses associated with liquid milk products.

Administrative Expenses

Administrative expenses primarily consist of salary and welfare of management and administrative employees. Administrative expenses as a percentage of revenue was 2.2% in the 2013 Interim Period and 4.5% in the 2014 Interim Period. Such increase was mainly due to the inclusion of the listing expenses incurred in the 2014 Interim Period in the administrative expenses for the same period. Disregarding the listing expenses, the administrative expenses as a percentage of revenue for the 2014 Interim Period was 2.9%.

Finance Costs

The Group's finance costs for the 2014 Interim Period amounted to RMB28.6 million, which increased from RMB12.2 million for the 2013 Interim Period. The increase was primarily due to the increase in the average balance of the Group's bank loans to fund its continuing investment in the construction of dairy farms and purchase of dairy cows.

Share of Profits and Losses of Associates

The Group's associates include (a) distributors of liquid milk products, namely, Saihan (Shanghai) Industrial Co., Ltd. (賽罕(上海)實業有限公司), Shengmu High-tech (Beijing) Trading Co., Ltd. (聖牧高科(北京)貿易有限公司), Tianjin Mengmu Food Co., Ltd. (天津蒙牧食品銷售有限公司) and Anhui Meilichen Trading Co., Ltd. (安徽美粒晨貿易有限公司), and (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 held their non-controlling interests.

The Group recorded share of losses of associates of RMB0.5 million and RMB3.7 million in the 2013 Interim Period and 2014 Interim Period, respectively.

Income Tax Expense

The profits generated by the Group were entirely derived from its operations in the PRC. The Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the Enterprise Income Tax Law of the PRC ("EIT Law"), the Group's income arising from agricultural activities, such as dairy farming and processing of primary agricultural products, is exempt from enterprise income tax. In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號), the Group's taxable income arising from processing of non-primary agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax expenses of the Group were RMB9,418 and RMB0.6 million in the 2013 Interim Period and 2014 Interim Period, respectively, and the effective income tax rate was 0.0% and 0.2% during the same periods.

Profit for the 2014 Interim Period

Profit of the Group increased by 201.7% from RMB117.9 million in the 2013 Interim Period to RMB355.7 million in the 2014 Interim Period. By comparison, the Group's profit before biological assets fair value adjustments was RMB345.6 million in the 2014 Interim Period, representing an increase of 204.2% from RMB113.6 million in the 2013 Interim Period.

Profit Attributable to Non-controlling Interest

The Group recorded profit attributable to non-controlling interest of RMB15.1 million and RMB76.6 million in the 2013 Interim Period and 2014 Interim Period, respectively. Non-controlling interest primarily represented the minority interests in dairy farms of the Group held by dairy farmers with whom the Group works in managing its farms.

Analysis on Interim Condensed Consolidated Statement of Financial Position

Non-Current Assets

As of June 30, 2014, the total non-current assets of the Group were RMB3,238.1 million (as compared to RMB2,477.5 million as of December 31, 2013), primarily consisting of property, plant and equipment of RMB1,177.8 million (as compared to RMB922.8 million as of December 31, 2013), biological assets of RMB1,997.4 million (as compared to RMB1,510.2 million as of December 31, 2013) and prepayments for property, plant and equipment and biological assets of RMB22.4 million (as compared to RMB9.0 million as of December 31, 2013).

The increase in biological assets was primarily due to the increase in herd size. The increase in property, plant and equipment was primarily due to the continuing investment by the Group in the construction of its organic dairy farms. Organic farms of the Group increased from 13 operating farms and 3 farms under construction as of December 31, 2013 to 13 operating farms and 6 farms under construction as of June 30, 2014.

Current Assets

As of June 30, 2014, the total current assets of the Group were RMB951.7 million (as compared to RMB635.2 million as of December 31, 2013), primarily consisting of inventories of RMB239.8 million (as compared to RMB335.2 million as of December 31, 2013), trade and bill receivables of RMB173.5 million (as compared to RMB63.5 million as of December 31, 2013), prepayments, deposits and other receivables of RMB203.8 million (as compared to RMB94.4 million as of December 31, 2013) and cash and cash equivalents of RMB325.6 million (as compared to RMB127.1 million as of December 31, 2013).

Trade and bills receivables

	As of June 30, 2014	As of December 31, 2013
	(Unaudited) (RMB'000)	(Audited)
Trade and bills receivables	<u>173,500</u>	<u>63,470</u>

Aging analysis of the trade and bills receivables:

	As of June 30, 2014	As of December 31, 2013
	(Unaudited) (RMB'000)	(Audited)
Within 3 months	172,909	63,470
4-6 months	<u>591</u>	<u>—</u>
Total	<u>173,500</u>	<u>63,470</u>

The Group requires its industrial customers to settle the trade receivables according to the previously agreed arrangements. The Group occasionally grants credit limits to its distributors depending on their specific operation in case-by-case basis. As of August 20, 2014, a total of RMB154.0 million, or 88.7% of the Group's total trade receivables, which were outstanding as of June 30, 2014 have been settled.

Prepayments, deposits and other receivables

The Group's prepayments, deposits and other receivables totaled RMB203.8 million and RMB94.4 million as of June 30, 2014 and December 31, 2013, respectively. The increase was primarily due to the increase in the prepayments to Shengmu Forage and other forage suppliers as a result of the increased purchase by the Group from them.

Current Liabilities

As of June 30, 2014, the total current liabilities of the Group amounted to RMB1,378.3 million (as compared to RMB1,404.7 million as of December 31, 2013), primarily consisting of trade and bills payables of RMB174.7 million (as compared to RMB191.0 million as of December 31, 2013), receipts in advance of RMB53.2 million (as compared to RMB82.5 million as of December 31, 2013), other payables and accruals of RMB205.0 million (as compared to RMB198.6 million as of December 31, 2013) and interest-bearing bank and other borrowings of RMB944.0 million (as compared to RMB932.0 million as of December 31, 2013).

Foreign Exchange Risk

The Group's businesses are principally located in the Mainland China and substantially all transactions are conducted in RMB. As at 30 June 2014, the Group did not have significant foreign currency exposure from its operations, except certain bank balances of approximately RMB113.1 million and RMB1.7 million which were denominated in United States dollars and Hong Kong dollars, respectively. During the 2014 Interim Period, the Group did not enter into any arrangements to hedge against any fluctuation in foreign currency.

Credit Risk

The Group trades only with recognized and creditworthy third parties. It is its policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Credit risk relating to the Group's other financial assets arises from the 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, there is no requirement for collateral.

Charge on Assets

As of June 30, 2014, the Group has pledged deposits, aggregating to approximately RMB9.0 million (December 31, 2013: RMB15.0 million) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts. Details are set out in Note 15 to the interim condensed consolidated financial statements.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its daily operations from internally generated cash flows and bank borrowings. As of June 30, 2014, the Group had (a) cash and cash equivalents of RMB325.6 million (December 31, 2013: RMB127.1 million), and (b) interest-bearing bank borrowings of RMB944.0 million (December 31, 2013: RMB932.0 million), which were denominated in RMB and repayable within one year. The gearing ratio (calculated as total debt (total bank borrowings) divided by total capital) was 33.6% as of June 30, 2014 (December 31, 2013: 54.6%).

Capital Commitments

As of June 30, 2014, the Group's capital commitments amounted to RMB74.5 million (December 31, 2013: RMB86.1 million), primarily relating to the construction and acquisition of plants and the purchase of machinery for the construction of dairy farms. The Group has sufficient internal and financial resources (including the net proceeds from its global offering which was completed on July 15, 2014) to fund its capital expenditures. Details of capital commitments are set out in Note 20 to the interim condensed consolidated financial statements.

Human Resources

As of June 30, 2014, the Group had a total of 2,489 employees. Total staff costs for the 2014 Interim Period (including the emoluments of directors and senior management) amounted to approximately RMB77.4 million (the 2013 Interim Period: RMB49.2 million).

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

The Company has also approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme is to attract, retain and motivate the directors, senior management and employees of the Group and other participants. For further details, please see "Pre-IPO Share Option Scheme and Share Option Scheme" in the Directors' Report of this report.

Contingent Liabilities

As of June 30, 2014, the Group did not have any material contingent liabilities.

Material Acquisitions and Disposals

Save for the acquisitions and/or disposals during the reorganization of the Group (the “**Reorganization**”) in anticipation of the listing of the Company, the details of which are set out in the prospectus of the Company dated June 30, 2014 (the “**Prospectus**”), the Company did not make any material acquisitions and disposals of subsidiaries and associated companies in the 2014 Interim Period.

Future Plans for Material Investments or Acquisition of Capital Assets and Expected Source of Funding

Save for those disclosed above in connection with capital commitments under the paragraph headed “Capital Commitments” and those disclosed 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.

OUTLOOK

The Group’s long-term objective is to become a leading organic dairy company in the world. To achieve this goal, we will continue to (a) expand the organic dairy farming operation and ensure its product safety and quality; (b) increase the liquid milk processing capacity; (c) expand the premium organic product portfolio; and (d) build an extensive nationwide distribution network and strengthen brand recognition.

Expand Organic Dairy Farming Operations and Ensure Product Safety and Quality

The Group plans to expand its organic dairy farming operation by (i) building up additional organic dairy farms; (ii) expanding its organic herd size primarily due to breeding by our own dairy farms, supplemented by purchasing heifers from domestic dairy farmers and from overseas markets according to the organic standards and specifications; (iii) improving the physical conditions and average milk yield of its dairy cows and its operating efficiency; and (iv) further strengthening its relationship with Shengmu Forage to ensure that they develop additional organic growing fields to meet the Group’s increasing requirements for organic forages.

The Group is now constructing six additional organic dairy farms, and will also continue to invest in quality control and product safety to support growth.

Increase Liquid Milk Processing Capacity

The Group plans to further expand its “Shengmu 聖牧” branded liquid milk production business capacity to capture additional margin along the value chain. To achieve this, the Group will continue to acquire and construct new production lines to increase its liquid milk processing capacity.

Expand Premium Organic Product Portfolio

In the first half of 2014, the Group offered organic liquid milk products under the “Shengmu 聖牧” brand, including organic whole milk, organic low-fat milk and organic milk for children, all of them are made from organic raw milk supplied internally from the certified organic farms of the Group. The Group aims to continue to develop new products which can leverage the increasing raw organic milk production, share its existing and new processing, marketing and distribution platforms, as well as benefit from its increasingly recognized brand. Specifically, the Group has commenced production of organic yogurt products since July 2014. The Group’s organic yogurt products are currently being sold in 138 cities in 26 provinces, municipalities and autonomous regions.

Build an extensive nationwide distribution network and strengthen brand recognition

The Group currently sells its liquid milk products through distributors. The Group plans to expand its distribution network to over 400 distributors by the end of 2014 and will increase efforts in engaging additional distributors in tier three and tier four cities. In terms of points of sale, the Group plans to continue to increase its product presence in department stores and large supermarket chains in order to promote its brand recognition. The Group will also focus on expanding convenience store chains as a key sales channel. Furthermore, in addition to its direct sales to consumers via VIP membership cards and corporate wholesale, the Group plans to develop online-to-offline (O2O) sales channels by setting up an Internet direct sales portal to reach a wider customer base. To ensure prompt delivery of products to its rapidly growing customers, the Group plans to set up regional distribution centers by leasing warehouse facilities close to regional transportation hubs throughout China and purchase trucks to establish its own delivery fleet to support its sales growth.

On the other hand, the Group also plans to increase our brand recognition and solidify its high-end image in target markets through (i) developing and implementing a uniform marketing strategy and coordinating nationwide advertising and marketing campaigns, including online advertising, to promote the benefits of organic milk as well as its own brand; (ii) promoting the establishment of more specialty shops which, in addition to their sales function, will serve to educate consumers about the “grass-to-glass” organic production model and the benefits of organic milk and promote its brand image; and (iii) demonstrating our “grass-to-glass” organic production chain through more open-house events at our dairy farms and production facilities.

The board (the “Board”) of directors (the “Directors”) of the Company has the pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2014. Save as stated otherwise in this interim report, the defined terms herein shall have the same meaning as in the Prospectus.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2014 Interim Period (the 2013 Interim Period: Nil).

EVENT AFTER THE REPORTING PERIOD AND USE OF PROCEEDS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

In the 2014 Interim Period, the shares of the Company have not been listed on the Stock Exchange, nor were there any other listed securities issued by the Company or any of its subsidiaries. Since the Listing Date and up to the date of this interim report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company, since the Listing Date and up to the date of this interim report, has adopted, applied and complied with the code provisions contained in the Corporate Governance Code except the code provision A.2.1 of the Corporate Governance Code as disclosed below.

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

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established the Audit Committee on June 18, 2014 in compliance with Rule 3.21 of the Listing Rules. The Audit Committee has been established with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee comprises Ms. GE Xiaoping, Mr. LI Changqing and Mr. CUI Guiyong, and is chaired by Ms. GE Xiaoping. 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 2014 Interim Period.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on June 18, 2014 in compliance with Rule 3.25 of the Listing Rules. The Remuneration Committee has been established with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee comprises Mr. WONG Kun Kau, Mr. LI Changqing and Mr. SUN Qian and is chaired by Mr. WONG Kun Kau. 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 on June 18, 2014 with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee comprises Mr. YAO Tongshan, Mr. YUAN Qing and Mr. WONG Kun Kau, and is chaired by Mr. YAO Tongshan. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by its Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listing 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 from the Listing Date to the date of this interim report.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Save as disclosed in the Prospectus, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that was in competition with or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group since the Listing date up to the date of this interim report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. WU Jingshui, a non-executive Director, has been appointed a non-executive director of China Modern Dairy Holdings Ltd. (a company listed on the Stock Exchange with stock code: 1117) since June 26, 2014. Save for such change, from the Listing Date and up to the date of this interim report, there was no change to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

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

So far as is known to any Director or chief executive of the Company, as of the date of this interim report, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or 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 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, pursuant to the Model Code, to be 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
YAO Tongshan (姚同山)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	70,419,200	1.11%
WU Jianye (武建艷)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	64,876,800	1.02%
GAO Lingfeng (高凌鳳)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%
CUI Ruicheng (崔瑞成)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%

- (1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, the Ultimate Controlling Shareholders (as defined in the Prospectus) other than Mr. YAO Tongshan shall support Mr. YAO Tongshan's decisions in relation to the operation and management of the Group by exercising their voting rights at the meetings of the shareholders of the member companies of the Group in accordance with the decision of Mr. YAO Tongshan upon completion of the Reorganization. For more details, please refer to the section on "Relationship with our Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, the Ultimate Controlling Shareholders together control 56.56% interest in the share capital of the Company through World Shining Investment Limited ("World Shining"). As a result of the acting-in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the share capital of the Company. World Shining is owned as to 87.44% by the Ultimate Controlling Shareholders as a group of persons acting in concert.

(2) Interests in options granted pursuant to the Pre-IPO Share Option Scheme.

(ii) *Long position in the shares of associated corporation*

Name	Name of associated company	Percentage of interest
YAO Tongshan (姚同山)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	2.34%
WU Jianye (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司)	45%
	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)	8.24%
GAO Lingfeng (高凌鳳)	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)	9.75%

Save as disclosed above and to the best knowledge of the Directors, as of the date of this interim report, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 of the date of this interim report, 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 in 10% 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
World Shining ⁽¹⁾	Beneficial Owner	3,594,221,600	56.56%
SHI Jianhong (史建宏) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
ZHU Jianhua (朱建華) ⁽²⁾	Interests of spouse	3,594,221,600	56.56%
WANG Fuzhu (王福柱) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
HOU Bo (侯波) ⁽³⁾	Interests of spouse	3,594,221,600	56.56%
ZHANG Junli (張軍力) ⁽⁴⁾	Interests of spouse	3,664,640,800	57.67%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
GUO Yunfeng (郭運鳳) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
WANG Zhizhong (王志忠) ⁽⁶⁾	Interests of spouse	3,594,221,600	56.56%
QIN Yuan (秦源) ⁽⁶⁾	Interests of spouse	3,659,098,400	57.58%
WANG Zhenxi (王振喜) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
WANG Ning (王寧) ⁽⁷⁾	Interests of spouse	3,594,221,600	56.56%
YUN Zhongping (雲中平) ⁽⁶⁾	Interests of spouse	3,626,213,600	57.06%
YUN Jindong (雲金東) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
GUO Haimei (郭海梅) ⁽⁹⁾	Interests of spouse	3,594,221,600	56.56%
YANG Yaping (楊亞萍) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
TENG Jie (騰傑) ⁽¹⁰⁾	Interests of spouse	3,594,221,600	56.56%
LU Shunyi (蘆順義) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
ZHAO Lizhen (趙麗珍) ⁽¹¹⁾	Interests of spouse	3,594,221,600	56.56%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
WANG Zhen (王鎮) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾ Beneficial Owner ⁽¹⁵⁾	3,594,221,600 11,160,000	56.56% 0.18%
YANG Yali (楊亞利) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
YANG Feng (楊峰) ⁽¹²⁾	Interests of spouse	3,594,221,600	56.56%
ZHANG Junke (張俊科) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
ZHENG Yueqin (鄭月琴) ⁽¹³⁾	Interests of spouse	3,594,221,600	56.56%
LI Liying (李麗英) ⁽¹⁴⁾	Interests of spouse	3,626,213,600	57.06%
Greater Honour International Limited	Beneficial Owner	514,242,400	8.09%
JIANG Jinzhi (蔣錦志)	Interest of a controlled corporation	514,242,400	8.09%
TANG Hua	Interests of spouse	514,242,400	8.09%
Greenbelt Global Limited	Beneficial Owner	395,235,200	6.22%
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200	6.22%
Baring Private Equity Asia GP V L.P.	Interest of a controlled corporation	395,235,200	6.22%
The Baring Asia Private Equity Fund V L.P.	Interest of a controlled corporation	395,235,200	6.22%
Jean Salata	Interest of a controlled corporation	395,235,200	6.22%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000	5.95%
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000	5.95%
SC China Holding Limited	Interest of a controlled corporation	378,320,000	5.95%
Sequoia Capital China Advisors Limited	Interest of a controlled corporation	378,320,000	5.95%
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000	5.95%
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000	5.95%
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000	5.95%
The Goldman Sachs Group, Inc.	Beneficial Owner	395,235,200	6.22%

- (1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, the Ultimate Controlling Shareholders (as defined in the Prospectus) (other than Mr. YAO Tongshan) shall support Mr. YAO Tongshan's decisions in relation to the operation and management of the Group by exercising their voting rights at the meetings of the shareholders of the member companies of the Group in accordance with the decision of Mr. YAO Tongshan upon completion of the Reorganization. For more details, please refer to the section on "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, the Ultimate Controlling Shareholders together control 56.56% interest in the issued share capital of the Company through World Shining. As a result of the acting-in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the issued share capital of the Company.
- (2) ZHU Jianhua is the spouse of SHI Jianhong. Under the SFO, ZHU Jianhua is deemed to be interested in the same number of Shares in which SHI Jianhong is interested.
- (3) HOU Bo is the spouse of WANG Fuzhu. Under the SFO, HOU Bo is deemed to be interested in the same number of Shares in which WANG Fuzhu is interested.
- (4) ZHANG Junli is the spouse of YAO Tongshan. Under the SFO, ZHANG Junli is deemed to be interested in the same number of Shares in which YAO Tongshan is interested.
- (5) WANG Zhizhong is the spouse of GUO Yunfeng. Under the SFO, WANG Zhizhong is deemed to be interested in the same number of Shares in which GUO Yunfeng is interested.
- (6) QIN Yuan is the spouse of WU Jianye. Under the SFO, QIN Yuan is deemed to be interested in the same number of Shares in which WU Jianye is interested.
- (7) WANG Ning is the spouse of WANG Zhenxi. Under the SFO, WANG Ning is deemed to be interested in the same number of Shares in which WANG Zhenxi is interested.
- (8) YUN Zhongping is the spouse of GAO Lingfeng. Under the SFO, YUN Zhongping is deemed to be interested in the same number of Shares in which GAO Lingfeng is interested.
- (9) GUO Haimei is the spouse of YUN Jindong. Under the SFO, GUO Haimei is deemed to be interested in the same number of Shares in which YUN Jindong is interested.
- (10) TENG Jie is the spouse of YANG Yaping. Under the SFO, TENG Jie is deemed to be interested in the same number of Shares in which YANG Yaping is interested.

- (11) ZHAO Lizhen is the spouse of LU Shunyi. Under the SFO, ZHAO Lizhen is deemed to be interested in the same number of Shares in which LU Shunyi is interested.
- (12) YANG Feng is the spouse of YANG Yali. Under the SFO, YANG Feng is deemed to be interested in the same number of Shares in which YANG Yali is interested.
- (13) ZHENG Yueqin is the spouse of ZHANG Junke. Under the SFO, ZHENG Yueqin is deemed to be interested in the same number of Shares in which ZHANG Junke is interested.
- (14) LI Liying is the spouse of CUI Ruicheng. Under the SFO, LI Liying is deemed to be interested in the same number of Shares in which CUI Ruicheng is interested.
- (15) Interests in options granted pursuant to the Pre-IPO Share Option Scheme.

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

Name	Name of member company	Percentage of interest
WU Jianye (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司)	45.0%
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)	30.0%
WANG Jinliang (王金良)	Otog Shengmu Xintai Farming Co., Ltd. (鄂托克旗聖牧欣泰牧業有限公司)	45.0%
CHEN Qingjun (陳慶軍)	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.0%
LI Yongqiang (李永強)	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.0%
LI Yundong (李運動)	Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司)	35.0%
WANG Qiang (王強)	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.0%
WANG Zhen (王鎮)	Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司)	17.5%
SUN Xiyao (孫喜耀)	Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司)	17.5%
LI Ruijun (李瑞軍)	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.0%
YANG Bin (楊斌)	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	35.0%
WANG Lixin (汪立新)	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.0%
CHANG Zhibo (常志拔)	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	35.0%
HOU Liubin (侯留斌)	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.0%
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	35.0%
REN Junmin (任俊明)	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	35.0%
Yu Gong (于工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	35.0%

Save as disclosed above, the Directors are not aware of any person (not being a Director or chief executive of the Company) who, as of the date of this interim report, 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 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).

PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

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

Prior to the Listing Date, options to subscribe for an aggregate of 504,480,000 Shares have been conditionally granted to a total of 189 grantees under the Pre-IPO Share Option Scheme by the Company. The Shares subject to the options granted under the Pre-IPO Share Option Scheme represent (i) approximately 7.94% of the Company's issued share capital as of the date of this interim report (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme); and (ii) approximately 7.36% of the Company's issued share capital as of the date of this interim report, assuming that all options granted under the Pre-IPO Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme. Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The subscription price in respect of each option granted under the Pre-IPO Share Option Scheme is HK\$1.56.

None of the above share options was exercised or cancelled or lapsed as of the date of this report and therefore the balance of the outstanding share options remain the same as those as of the date of grant.

A detailed summary of the terms (including the term of the Scheme, the calculation method of the exercise price and vesting periods and conditions) of the Pre-IPO Share Option Scheme and list of grantees has been set out in the section headed "Appendix IV. Statutory and General Information – D. Pre-IPO Share Option Scheme" of the Prospectus. Details of the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements are set out under Note 8 to the interim condensed consolidated financial statements.

Share Option Scheme

On June 18, 2014, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensating them 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 Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the Listing Date, being a total of 635,440,000 Shares.

No share options have been granted by the Company under the Share Option Scheme since its adoption and up to the date of this interim report.

A summary of the terms of the Share Option Scheme, has been set out the section headed “Appendix IV: Statutory and General Information – E. Share Option Scheme” of the Prospectus.

By Order of the Board of
China Shengmu Organic Milk Limited
Yao Tongshan
Chairman

Hong Kong, August 26, 2014

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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To the Board of Directors
China Shengmu Organic Milk Limited
(Incorporated in the Cayman Islands)

INTRODUCTION

We have reviewed the interim financial information set out on page 30 to 50, which comprises the condensed consolidated statement of financial position of China Shengmu Organic Milk Limited (the “**Company**”) and its subsidiaries as of June 30, 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (“**IAS 34**”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our 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 accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Certified Public Accountants

Hong Kong
August 26, 2014

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

	Notes	For the six-month period ended	
		June 30, 2014	June 30, 2013
		(unaudited) RMB'000	(unaudited) RMB'000
REVENUE	4	905,629	461,543
Cost of sales		(461,904)	(294,073)
Gross profit		443,725	167,470
Gain arising from changes in fair value less costs to sell of biological assets		10,016	4,337
Other income and gains	4	9,235	792
Selling and distribution expenses		(33,899)	(31,725)
Administrative expenses		(40,490)	(10,212)
Finance costs	6	(28,609)	(12,201)
Share of profits and losses of associates		(3,706)	(508)
PROFIT BEFORE TAX	5	356,272	117,953
Income tax expense	7	(615)	(9)
PROFIT FOR THE PERIOD		<u>355,657</u>	<u>117,944</u>

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

	Notes	For the six-month period ended	
		June 30, 2014	June 30, 2013
		(unaudited) RMB'000	(unaudited) RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		3,613	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		359,270	117,944
Profit attributable to:			
Owners of the parent		279,090	102,802
Non-controlling interests		76,567	15,142
		355,657	117,944
Total comprehensive income attributable to:			
Owners of the parent		282,703	102,802
Non-controlling interests		76,567	15,142
		359,270	117,944
Earnings per share attributable to ordinary equity holders of the parent:			
– Basic and diluted	8	RMB0.049	RMB0.024

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at	
		June 30,	December 31,
		2014	2013
		(unaudited)	(audited)
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,177,784	922,764
Prepaid land lease payments		5,360	3,381
Other intangible assets		14,784	14,192
Investments in associates		19,620	17,727
Biological assets	11	1,997,401	1,510,160
Prepayments for property, plant and equipment and biological assets	14	22,359	9,043
Deferred tax assets		782	187
Total non-current assets		<u>3,238,090</u>	<u>2,477,454</u>
CURRENT ASSETS			
Inventories	12	239,806	335,218
Trade and bills receivables	13	173,500	63,470
Prepayments, deposits and other receivables	14	203,819	94,377
Pledged deposits	15	8,993	15,030
Cash and cash equivalents	15	<u>325,586</u>	<u>127,059</u>
Total current assets		<u>951,704</u>	<u>635,154</u>
CURRENT LIABILITIES			
Trade and bills payables	16	174,726	191,037
Receipts in advance		53,169	82,481
Other payables and accruals	17	204,959	198,565
Interest-bearing bank and other borrowings	18	944,000	932,000
Tax payable		<u>1,479</u>	<u>633</u>
Total current liabilities		<u>1,378,333</u>	<u>1,404,716</u>
NET CURRENT LIABILITIES		<u>(426,629)</u>	<u>(769,562)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,811,461</u>	<u>1,707,892</u>
Net assets		<u>2,811,461</u>	<u>1,707,892</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	1	—
Reserves		<u>2,471,248</u>	<u>1,494,160</u>
		2,471,249	1,494,160
Non-controlling interests		<u>340,212</u>	<u>213,732</u>
Total equity		<u>2,811,461</u>	<u>1,707,892</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Issued capital RMB'000	Share		Share option reserve RMB'000	Reserve funds RMB'000	Retained profits RMB'000	Foreign currency		Non- controlling interests RMB'000	Total equity RMB'000
		premium account RMB'000	Contributed surplus RMB'000				translation reserve RMB'000	Total RMB'000		
At January 1, 2014	—	—	641,138	—	92,213	760,809	—	1,494,160	213,732	1,707,892
Profit for the period	—	—	—	—	—	279,090	—	279,090	76,567	355,657
Other comprehensive Income	—	—	—	—	—	—	3,613	3,613	—	3,613
Total comprehensive income	—	—	—	—	—	279,090	3,613	282,703	76,567	359,270
Equity-settled share option arrangement	—	—	—	5,895	—	—	—	5,895	—	5,895
Reorganisation*	1	946,811	(265,768)	—	—	—	—	681,044	64,035	745,079
Purchase of non-controlling interests	—	—	—	—	—	—	—	—	(6,675)	(6,675)
Gain arising from purchase of non-controlling interests	—	—	7,447	—	—	—	—	7,447	(7,447)	—
At June 30, 2014 (unaudited)	<u>1</u>	<u>946,811</u>	<u>382,817</u>	<u>5,895</u>	<u>92,213</u>	<u>1,039,899</u>	<u>3,613</u>	<u>2,471,249</u>	<u>340,212</u>	<u>2,811,461</u>
At January 1, 2013	—	—	641,138	—	54,653	471,060	—	1,166,851	51,618	1,218,469
Profit for the period	—	—	—	—	—	102,802	—	102,802	15,142	117,944
Total comprehensive income	—	—	—	—	—	102,802	—	102,802	15,142	117,944
Capital injection	—	—	—	—	—	—	—	—	8,550	8,550
At June 30, 2013 (unaudited)	<u>—</u>	<u>—</u>	<u>641,138</u>	<u>—</u>	<u>54,653</u>	<u>573,862</u>	<u>—</u>	<u>1,269,653</u>	<u>75,310</u>	<u>1,344,963</u>

* Since December 2013, the Company and its subsidiaries (here after collectively referred to as the “Group”) have undertaken a reorganization (the “Reorganization”) in anticipation of an initial public offering the Shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (“IPO”). The Reorganization was completed in March 2014. Please refer to the accountants’ report included as Appendix I to the Group’s IPO prospectus dated June 30, 2014 (“Accountants’ Report”) for details.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2014	June 30, 2013
	(unaudited) RMB'000	(unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	356,272	117,953
Adjustments for:		
Gain arising from change in fair value less costs to sell of biological assets	(10,016)	(4,337)
Interest income	(1,125)	(232)
Finance costs	28,609	12,201
Share of profits and losses of associates	3,706	508
Depreciation	24,923	11,809
Amortisation of prepaid land lease payments	42	36
Amortisation of other intangible assets	462	411
Share option expense	5,895	—
Foreign exchange differences, net	(7,453)	—
	401,315	138,349
Decrease in inventories	95,412	50,920
Increase in trade and bills receivables	(110,030)	(9,624)
Increase in prepayments, deposits and other receivables	(111,813)	(18,062)
Decrease/(increase) in pledged deposits	6,037	(11,189)
Decrease in trade and bills payables	(16,310)	(16,477)
Increase/(decrease) in other payables and accruals	(6,579)	18,404
Cash generated from operations	258,032	152,321
Interest received	1,125	232
Income taxes paid	(364)	(284)
Net cash flows from operating activities	<u>258,793</u>	<u>152,269</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2014	June 30, 2013
	(unaudited) RMB'000	(unaudited) RMB'000
Net cash flows from operating activities	258,793	152,269
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(300,431)	(99,225)
Additions to prepaid land lease payments	(1,950)	—
Additions to other intangible assets	(1,054)	(190)
Purchases of biological assets	(339,377)	(70,889)
Payments for breeding calves and heifers	(220,943)	(148,919)
Proceeds from disposal of biological assets	80,841	84,916
Proceeds from disposal of property, plant and equipment	44	182
Acquisition of associates	(5,600)	—
Net cash flows used in investing activities	<u>(788,470)</u>	<u>(234,125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital injection by investors	686,493	—
Capital injection by non-controlling interests	64,035	8,550
New bank loans	405,000	345,000
New other loans	2,850	11,500
Repayment of bank loans	(393,000)	(217,000)
Repayment of other loans	(20,470)	(38,263)
Interest paid	(27,770)	(12,113)
Net cash flows from financing activities	<u>717,138</u>	<u>97,674</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	187,461	15,818
Cash and cash equivalents at beginning of period	127,059	29,838
Effect of foreign exchange rate changes, net	11,066	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>325,586</u></u>	<u><u>45,656</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Group were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China ("PRC").

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

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended June 30, 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's Accountants' Report".

Going concern

The Group had net current liabilities of RMB426,629,000 and RMB769,562,000 as of June 30, 2014 and December 31, 2013, respectively. In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations, and the bank facilities of RMB1,317,000,000 granted by banks with expiry dates not earlier than June 30, 2015, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future. In addition, on July 15, 2014, the Company completed its initial public offering by issuing 444,800,000 shares with offer price of HK\$2.39 per share on the Main Board of The Stock Exchange of Hong Kong Limited. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

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

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's Accountants' Report, except for the adoption of new standards and interpretations effective as of January 1, 2014. These new and revised IFRSs do not impact the interim condensed consolidated financial statements of the Group.

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

New standards, interpretations and amendments adopted by the Group – continued

The nature and the impact of each new standard or amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements.

3. OPERATING SEGMENT INFORMATION

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

- (a) Dairy farming - breeding dairy cows to produce and distribute raw milk;
- (b) Liquid milk products - producing and distributing ultra-heat treated liquid milk.

3. OPERATING SEGMENT INFORMATION – continued

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the six-month period ended June 30, 2014 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	662,058	243,571	905,629
Intersegment sales	122,984	—	122,984
	<u>785,042</u>	<u>243,571</u>	<u>1,028,613</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(122,984)</u>
			<u>905,629</u>
Segment profit	295,447	50,194	345,641
<i>Reconciliation</i>			
Gain arising from changes in fair value less costs to sell of biological assets	<u>10,016</u>	<u>—</u>	<u>10,016</u>
Profit for the period	<u>305,463</u>	<u>50,194</u>	<u>355,657</u>
As at June 30, 2014 (unaudited)			
Segment assets	3,927,846	345,151	4,272,997
<i>Reconciliation:</i>			
Elimination of intersegment receivables			<u>(83,203)</u>
Total assets			<u>4,189,794</u>
Segment liabilities	1,192,642	248,894	1,441,536
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(63,203)</u>
Total liabilities			<u>1,378,333</u>

3. OPERATING SEGMENT INFORMATION – continued

For the six-month period ended June 30, 2013 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	356,806	104,737	461,543
Intersegment sales	47,125	—	47,125
	<u>403,931</u>	<u>104,737</u>	<u>508,668</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(47,125)</u>
			<u>461,543</u>
Segment profit	111,602	2,005	113,607
<i>Reconciliation</i>			
Gain arising from changes in fair value less costs to sell of biological assets	4,337	—	4,337
Profit for the period	<u>115,939</u>	<u>2,005</u>	<u>117,944</u>
As at December 31, 2013 (audited)			
Segment assets	2,932,182	242,784	3,174,966
<i>Reconciliation:</i>			
Elimination of intersegment receivables			<u>(62,358)</u>
Total assets			<u>3,112,608</u>
Segment liabilities	1,250,354	196,720	1,447,074
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(42,358)</u>
Total liabilities			<u>1,404,716</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	For the six-month period ended June 30,	
	2014	2013
	(unaudited) RMB'000	(unaudited) RMB'000
Revenue		
– Sales of raw milk	662,058	356,806
– Sales of liquid milk products	243,571	104,737
	<u>905,629</u>	<u>461,543</u>
Other income and gains		
– Government grants	200	—
– Bank interest income	1,125	232
– Foreign exchange differences, net	7,453	—
– Others	457	560
	<u>9,235</u>	<u>792</u>
	<u>914,864</u>	<u>462,335</u>

5. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2014	2013
	(unaudited) RMB'000	(unaudited) RMB'000
Cost of inventories sold	461,904	294,073
Depreciation of items of property, plant and equipment	24,923	11,809
Amortisation of prepaid land lease payments	42	36
Amortisation of other intangible assets	462	411
Employee benefits expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	70,789	44,645
Other social insurances and benefits	3,648	2,511
Pension scheme contribution	2,917	2,093
	<u>77,354</u>	<u>49,249</u>
Changes in fair value less costs to sell of biological assets	(10,016)	(4,337)

6. FINANCE COSTS

	For the six-month period ended June 30,	
	2014	2013
	(unaudited) RMB'000	(unaudited) RMB'000
Interest on bank loans wholly repayable within five years	<u>28,609</u>	<u>12,201</u>

7. INCOME TAX EXPENSE

	For the six-month period ended June 30,	
	2014	2013
	(unaudited) RMB'000	(unaudited) RMB'000
Current	1,210	43
Deferred	(595)	(34)
	<u>615</u>	<u>9</u>

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

The calculation of basic earnings per share for the six-month period ended June 30, 2014 is based on the profit attributable to ordinary equity holders of the Company of RMB279,090,000 (for the six-month period ended June 30, 2013: RMB102,802,000) and the weighted average of 5,709,250,000 (for the six-month period ended June 30, 2013: 4,338,170,000) ordinary shares of the Company in issue during the period, on the assumption that the Group's capitalisation issue had been completed on January 1, 2013.

There were no dilutive potential ordinary shares outstanding during the six-month period ended June 30, 2014 and 2013. For the six-month period ended June 30, 2014, the outstanding share options did not have any dilutive effect because the grantees has not met the performance targets as required before the share options can be vested.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six-month period ended 30 June 2014 (for the six-month period ended 30 June 2013: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	For the six-month period ended June 30,	
	2014	2013
	(unaudited) RMB'000	(unaudited) RMB'000
Carrying amount at 1 January	922,764	450,249
Additions	279,987	121,812
Disposals	(44)	(182)
Depreciation provided for the period	(24,923)	(11,809)
Carrying amount at 30 June	<u>1,177,784</u>	<u>560,070</u>

11. BIOLOGICAL ASSETS

The biological assets of the Group are dairy cows held to produce raw milk.

(A) *Nature of activities*

The quantity of dairy cows owned by the Group is shown below. The Group's dairy cows include heifers and calves and milkable cows. Heifers and calves are dairy cows that have not had their first calves.

	June 30, 2014	December 31, 2013
	(unaudited) Head	(audited) Head
Dairy cows		
Milkable cows	44,619	35,850
Heifers and calves	34,634	24,607
Total dairy cows	<u>79,253</u>	<u>60,457</u>

(B) *Value of biological assets*

The value of Group's biological assets as at June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Milkable cows	1,399,456	1,085,461
Heifers and calves	597,945	424,699
Total dairy cows	<u>1,997,401</u>	<u>1,510,160</u>

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

The fair value of the Group's biological assets are measured based on valuation techniques using significant unobservable inputs and accordingly is categorized as level 3.

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

12. INVENTORIES

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Raw materials	202,576	319,525
Finished goods	20,835	832
Consumables	16,395	14,861
	<u>239,806</u>	<u>335,218</u>

13. TRADE AND BILLS RECEIVABLES

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Trade and bills receivables	<u>173,500</u>	<u>63,470</u>

The Group normally allows a credit limit or offer to its customer credit terms which is adjustable in certain circumstances. The Group closely monitors overdue balances. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at June 30, 2014 and December 31, 2013, based on the invoice dates and net of provision, is as follows:

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Within 3 months	172,909	63,470
4-6 months	591	—
	<u>173,500</u>	<u>63,470</u>

No impairment of trade receivables is made for each of the reporting periods.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Prepayments	202,473	83,822
Deposits and other receivables	20,369	15,413
Prepaid expenses	3,336	4,185
	<u>226,178</u>	<u>103,420</u>
Non-current prepayments	(22,359)	(9,043)
Current portion	<u>203,819</u>	<u>94,377</u>

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Cash and cash equivalents	325,586	127,059
Pledged deposits	8,993	15,030
Cash and bank balances	<u>334,579</u>	<u>142,089</u>

16. TRADE AND BILLS PAYABLES

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

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
1 to 3 months	165,185	187,939
4 to 6 months	6,135	510
7 to 12 months	1,752	2,112
1 to 2 years	1,459	359
2 to 3 years	194	117
3 years and more	1	—
	<u>174,726</u>	<u>191,037</u>

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

17. OTHER PAYABLES AND ACCRUALS

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Advances from related parties	—	7,609
Payables for acquisition of property, plant and equipment	67,196	87,416
Payables for purchase of dairy cows	21,555	18,959
Payables for third parties' deposits	34,583	20,194
Payables for purchase of transportation services	8,524	8,217
Salary and welfare payables	21,803	20,060
Payables to shareholders	12,124	—
Others	39,174	36,110
	<u>204,959</u>	<u>198,565</u>

Other payables are non-interest-bearing and have an average term of three months.

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Current		
Bank and other borrowings – unsecured	944,000	782,000
Bank and other borrowings – secured	—	150,000
	<u>944,000</u>	<u>932,000</u>

18. INTEREST-BEARING BANK AND OTHER BORROWINGS – continued

Notes:

- (i) The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates. During the six-month period ended June 30, 2014, the annual interest rate of bank borrowings is 6.00% to 6.60% (for the six-month period ended June 30, 2013: 6.00%).
- (ii) During the six-month period ended June 30, 2014, the Group repaid bank borrowings of RMB393,000,000 (for the six-month period ended June 30, 2013: RMB217,000,000) and obtained new bank borrowings of RMB405,000,000 (for the six-month period ended June 30, 2013: RMB345,000,000) to finance the Group's operation.
- (iii) As at June 30, 2014 and December 31, 2013, the Group's interest-bearing bank and other borrowings are as follows:

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Guaranteed by certain shareholders*	—	150,000
Unguaranteed and unsecured	944,000	782,000
	<u>944,000</u>	<u>932,000</u>

* These bank and other borrowings were guaranteed by the Company's certain shareholders. Included in the above guarantees, a guarantee contract with an amount of RMB50,000,000 expired by February 28, 2014, and other guarantee contracts with an aggregate amount of RMB100,000,000 were released by February 28, 2014.

19. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. Upon incorporation, the Company has authorized share capital of HK\$300,000, divided into 300,000 shares with a par value of HK\$1 each.

On February 14, 2014, the authorized share capital of the Company was sub-divided into 30,000,000,000 Shares of par value of HK\$0.00001 each by sub-dividing every share of par value HK\$1.00 each into 100,000 Shares of par value of HK\$0.00001 each.

As at June 30, 2014, the Company's issued capital was HK\$1,438, with 143,839,020 shares in issuance.

20. COMMITMENTS

The Group had the following capital commitments as at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Contracted, but not provided for:		
Land and buildings	51,732	48,501
Plant and machinery	22,756	37,641
	<u>74,488</u>	<u>86,142</u>

21. RELATED PARTY DISCLOSURES

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

	Note	For the six-month period ended June 30,	
		2014	2013
		(unaudited) RMB'000	(unaudited) RMB'000
Sales of products	(i)	30,740	2,879
Purchase of raw materials	(i)	44,355	34,004

Note:

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

During the six-month period ended June 30, 2014 and 2013, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. and its subsidiaries ("Shengmu Forage") provided biowaste (i.e., cow dung) cleaning services to the dairy farms of the Group for free. Such services include collecting and cleaning unprocessed biowaste from the farms. In return, Shengmu Forage collected free unprocessed biowaste from the farms.

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

	For the six-month period ended June 30,	
	2014	2013
	(unaudited) RMB'000	(unaudited) RMB'000
Salaries, allowances and benefits in kind	569	294
Pension scheme contribution	18	13
	<u>587</u>	<u>307</u>

21. RELATED PARTY DISCLOSURES – continued

(D) Outstanding balances with related parties

	June 30, 2014	December 31, 2013
	(unaudited) RMB'000	(audited) RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	18,695	1,386
– Trade and bills payables	(1,525)	(2,963)
– Prepayments, deposits and other receivables	153,489	57,501
– Other payables and accruals	(114)	—
Amounts owed to certain shareholders included in:		
– Other payables and accruals	—	(6,880)

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

22. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS

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

	June 30, 2014		December 31, 2013	
	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	<u>944,000</u>	<u>944,729</u>	<u>932,000</u>	<u>932,000</u>

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

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

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

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

22. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS – continued

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	June 30, 2014	December 31, 2013
	(Unaudited) (RMB'000)	(Audited) (RMB'000)
Financial liabilities		
Interest-bearing bank and other borrowings	<u>944,729</u>	<u>932,000</u>

The Group did not have any financial assets or liabilities measured at fair value for the six-month period ended June 30, 2014.

23. SUBSEQUENT EVENT

On July 15, 2014, the Company completed its initial public offering by issuing 444,800,000 shares with offer price of HK\$2.39 per share on the Main Board of Stock Exchange of Hong Kong Limited.

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

The unaudited interim condensed consolidated financial statements have been authorized for issuance by the board of directors on August 26, 2014.