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

2014
ANNUAL REPORT


ORGANIC YOGURT
圣牧全程有机
有机酸牛奶
ORGANIC MILK
圣牧低脂奶通过欧盟有机认证
圣牧全程有机
沙漠有机·欧盟认证
有机低脂奶
ORGANIC MILK
圣牧纯牛奶通过欧盟有机认证
圣牧全程有机
沙漠有机·欧盟认证
有机纯牛奶
ORGANIC
kids milk
圣牧全程有机
有机儿童奶

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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

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
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)

China Merchants Bank Co., Ltd (Hohhot Branch)

Bank of Communications Co., Ltd. (Hohhot, Ulan Branch)

Agricultural Bank of China (Tumotezuoqi Branch)

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

Wilson Sonsini Goodrich & Rosati

As to Cayman Islands Law

Maples and Calder

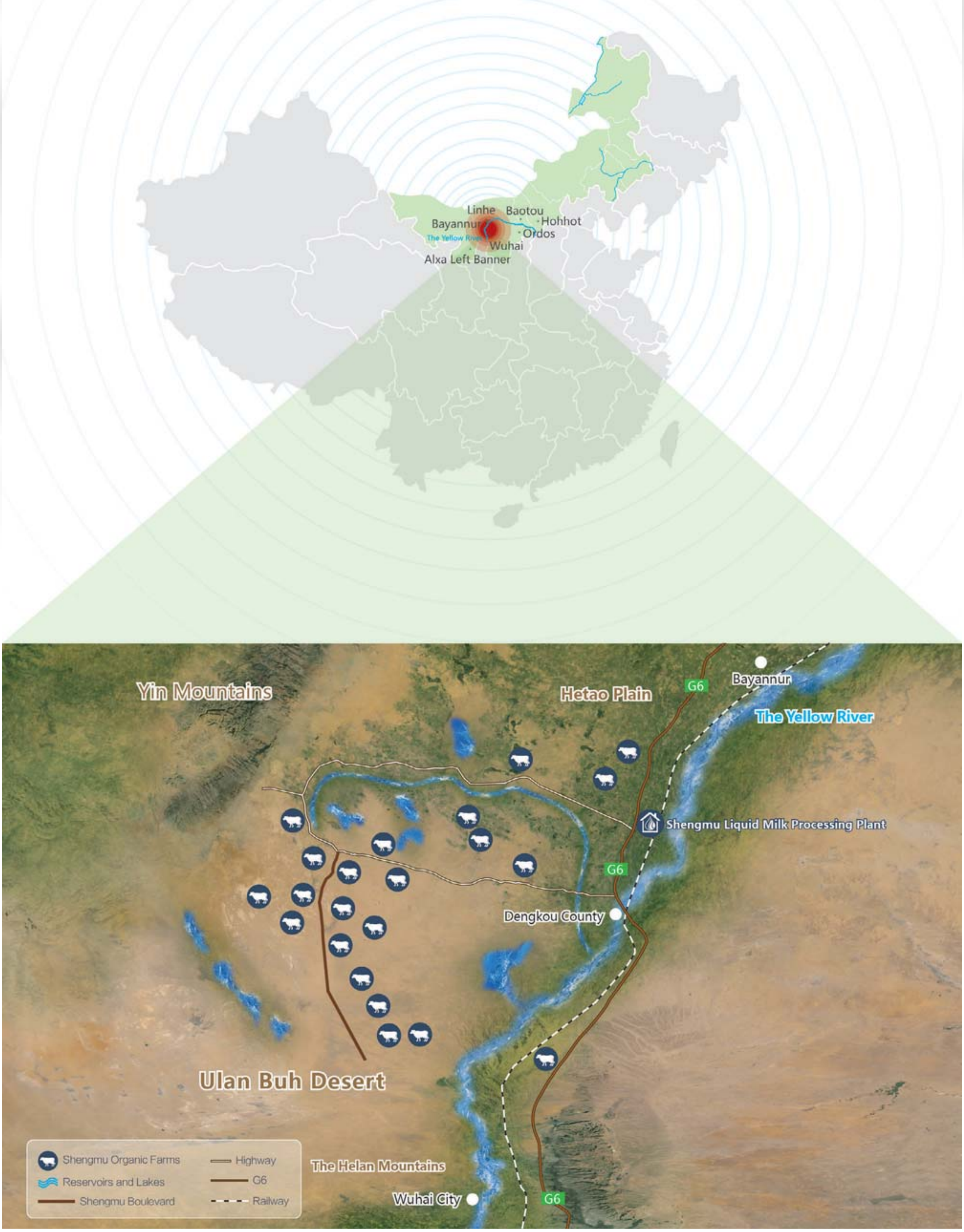
COMPLIANCE ADVISOR

TC Capital Asia Limited

WEBSITE OF THE COMPANY

http://www.youjimilk.com

LOCATION MAP OF ORGANIC PRODUCTION BASE



YAO Tongshan *Chairman*

Dear Shareholders,

2014 was a milestone year for China Shengmu Organic Milk Limited (the "**Company**", "**China Shengmu**" or "**Shengmu**", together with its subsidiaries, the "**Group**"). China Shengmu was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on July 15, 2014, gaining attention and recognition from the international capital markets. The complete "grass-to-glass" organic production system in desert ("沙漠全程有機產業體系") innovated by China Shengmu in Ulan Buh desert attracted attention from people and was recognized by more and more consumers, investors and cooperation partners gradually with favourable comments. China Shengmu's "complete grass-to-glass organic production system in desert" is the core business philosophy of the Group, which is the cornerstone for the quality of organic products, and is also necessary requirement for establishing our self-sustainable ecosphere. In 2014, the business of China Shengmu continued to maintain rapid growth, the Group's total sales revenue increased by 86.4% from RMB1,143.7 million in 2013 to RMB2,132.4 million, and profit attributable to owners of the parent increased by 117.3% from RMB327.3 million in 2013 to RMB711.2 million. With the support from the capital market, China Shengmu will further consolidate its leading position in the organic milk industry in the PRC, and establish a solid foundation for its global expansion.

China Shengmu proactively adhered to the business expansion plan after the listing. By the end of 2014, China Shengmu has completed construction of 6 new dairy farms which have commenced operation, completed construction of production line for organic yogurt launched an organic yogurt product series in July 2014 which is the first of its kind in the PRC market, expanded the distribution network to more than 400 distributors, and relocated the dairy cows and other properties on Bayannur Farm No.6 to new location. Further, China Shengmu has actively utilised the listing proceeds to fulfill the expansion plan, such as construction of organic farms, purchase of dairy cows, expansion of distribution network and liquid milk production capacity.

China Shengmu is the only vertically integrated organic dairy product company in China satisfying the European Union standards. China Shengmu is the only company in China providing branded organic dairy products processed from 100% raw milk supplied by self-owned organic farms with certification. China Shengmu is the only large-scale dairy product company in China adopting the complete grass-to-glass organic production system in desert.

With endeavours made over the years, China Shengmu pioneered the establishment of the complete grass-to-glass organic production system in desert, which strictly adhered to organic standards throughout all processes in the course of production, from organic environment, organic planting, organic farming, organic processing to organic product, striving to create a "China Premium Organic Milk Brand" for providing China Shengmu's "pure and authentic" grass-to-glass organic milk to consumers who are keen on having healthy food and a quality life.

We always insist on seeking development amidst reforms, take up new opportunities and challenges actively, and enhance the Group's management capabilities. By closely following market demand, promoting reforms in management methods, and implementing reforms and innovations, we are able to capture development opportunities to strengthen our capabilities in sustainable development.

While China Shengmu innovated the "complete grass-to-glass organic production system in desert" in the Ulan Buh desert to produce premium quality organic milk for consumers, it had also made contributions to the enhancement of reforming the ecological environment in desert. Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Sheng

Forage"), an associate of China Shengmu, had continuously carried out forestation and grass planting, improved desert soil by using cow dung as recycled fertilizer, the land by channeling water from the Yellow River, and thereby created over 100,000 mu of "desert ecological grassland" in the Ulan Buh desert. The "desert ecological grassland" provided sufficient organic feed to the organic dairy cows of China Shengmu, achieving the organic cycle by combining planting and farming. China Shengmu has already become a key force for the economic development of the local region. The recycling economic model of "windbreak and sand-control, grass planting and cow farming, recycling cow dung to the fields" developed by China Shengmu on a large scale in the Ulan Buh desert has created a unique miracle in the dairy industry of China. During 2014, Shengmu Forage has developed an additional 60,000 mu of growing field for organic forages to support the development of China Shengmu.

The operation model of China Shengmu's unique "complete grass-to-glass organic production system in desert" has three main features: firstly, it comprises large-scale organic production system; secondly, it comprises large-scale ecological system with benign cycle; thirdly, it comprises large-scale vertically integrated organic milk production base.

The edges of China Shengmu include the market leading position of the Company which cements its position to benefit from the fast growth of the organic milk market in China, the unique vertically integrated "complete grass-to-glass organic production system in desert" production model which ensures product safety and quality, the strategic location in desert which provides an ideal environment to raise organic dairy cows, a comprehensive farm management system and the commitment to enhance the welfare for dairy cows contributing to leading product quality in the industry, and that the premium and trusted brand of "Shengmu (聖牧)" which is recognized for safety and quality.

In terms of herd size of organic dairy cows and organic raw milk production volume in 2014, China Shengmu is the largest organic dairy product company in China with industry leading position, and is benefiting from the fast growth of the organic dairy product market in China.

These achievements are attributed to the support from our shareholders, customers, all sectors of society, and the efforts of all our staff, to which we would like to express our gratitude. In future, we strive to develop China Shengmu into a leading global organic dairy product company. To achieve this goal, we will continue to expand the organic dairy cow farming business and ensure its product safety and quality, improve our liquid milk processing capacity, expand our portfolio of premium organic products, build a more extensive national distribution network and enhance brand recognition.

It will always be our eternal goal to build an ecological system and contribute to an organic life!

YAO Tongshan
Chairman

March 26, 2015

MARKET REVIEW

In 2014, the Chinese government continued its steadfast effort in ensuring the stable and continuous development of its society and economy. The Certification and Accreditation Administration of People's Republic of China (the "CNCA") published the white paper "China Organic Industry Development Report" (《中國有機產業發展報告》) on September 22, 2014, which is the first white paper with a comprehensive summary and systematic research on the overall development of China's organic industry. In recent years, CNCA has issued a series of standards and technical specifications such as National Standard for Organic Product (《有機產品》國家標準), Implementation Rules on Organic Product Certification (《有機產品認證實施規則》) and Measures for the Administration of Organic Product Certification (《有機產品認證管理辦法》), to implement an overall process management covering various aspects of farming, producing, packaging, certifying, selling, etc. for organic products. In order to standardise and legalise the management of organic products, the PRC government has also implemented the "One Product, One Bar-code" traceable management system for organic products. All of the above measures have placed China's organic industry on track for standardization and institutionalization . The PRC certification and accreditation authorities have granted a total of 1.6 billion organic labels with organic codes in 2013. Currently, the annual sales of the PRC organic products is estimated to be in the range between approximately RMB20 billion to RMB30 billion, and China has become the fourth largest organic products consumer country in the world.

According to the white paper, the organic industry in the PRC has developed rapidly over the past two decades. On one hand, the organic industry provides consumers with abundant supply of high-quality, safe and healthy agricultural products. On the other hand, the organic industry reduces the pollution to the ecological environment and the consumption of non-renewable resources. In recent years, with the enhancement of the overall prosperity of the PRC, the living standard of Chinese people has been greatly improved. Along with this trend come higher expectation for overall food products quality, more attention given to daily dietary requirements and higher demand for quality life-style. At the same time, there are increasing concerns over environmental issues, and communities are opting for a more eco-friendly life-style. In this context, organic food products have gradually become more popular with consumers, begun to penetrate into mainstream sales channels and quickly occupied the high-end segment of the market. Meanwhile, the demand for high-end milk products, as fast-consumption products, have grown rapidly year by year, with consumers willing to pay a premium for high-quality dairy products. These trends have become and are expected to be the most imminent and important long-term driving force for the future growth of high-end organic dairy products, and to achieve continuous and positive developments for the organic dairy market segment.

Currently, the consumption of organic dairy products in China is growing rapidly with a constantly expanding consumer group, which demonstrate China's sizable market for organic dairy products. In light of the variety of choices offered by the high-end dairy market, consumers place more and more focus on the high-end dairy products, its production process and concerns over the safety and quality of dairy products, all of which have led to a highly dynamic high-end dairy products market segment. In addition, the PRC government's determination on its support for the dairy product industry can be demonstrated by its astute regulatory effort and explicit policy on the daily product industry. It is expected that the development of China's organic dairy products market will continue to accelerate, and certain aspects of organic dairy products industry such as techniques, know-how and quality will continue to be optimized and upgraded.

BUSINESS REVIEW

2014 was a milestone year for the Group with the Company's successful listing on the main board of the Stock Exchange on July 15, 2014 ("**Listing Date**"). China Shengmu, a leading organic dairy company in China, has the largest desert grass-to-glass organic industry system in China, and enjoys a great reputation in the indurtry. In terms of herd size of organic dairy cows and organic raw milk production volume in 2014, China Shengmu is the largest organic dairy company in China. China Shengmu is the only vertically integrated organic dairy company in China that meets E.U. organic standards; the only dairy company in China that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms; and the only sizeable dairy company in the PRC to operate a desert "grass-to-glass" organic industry system.

Since its establishment, China Shengmu has innovated and adhered to the unique vertically integrated desert grass-to-glass organic industry system to ensure the safety and quality of its products to provide consumers with high-quality organic liquid milk products. Through years of efforts, China Shengmu has strictly adhered to the organic production model in every aspect, such as the organic environment, organic planting, organic farming, organic processing and organic product, with the determination to establish a "China Premium Organic Milk Brand" for providing authentic and natural grass-to-glass organic milk for consumers who are keen on healthy living and quality products.

China Shengmu's organic dairy products portfolio includes organic whole milk, organic low-fat milk and organic children's milk, all of which are made of organic raw milk produced by self-owned certified organic dairy farms. In order to cater for the market's diversified demands, China Shengmu has launched an organic yogurt product series since the second-half of 2014. Furthermore, China Shengmu has increased its production capacity with a view to further consolidate its leading position in the organic dairy market by increasing the production lines of organic liquid milk in the second-half of 2014.

The revenue for the year ended December 31, 2014 amounted to approximately RMB2,132 million, representing an increase of 86.4% as compared to RMB1,144 million in 2013.

Desert Grass-to-Glass Organic Industry System (“沙漠全程有機產業體系”)

The “Desert Grass-to-Glass Organic Industry System” is the core business philosophy of China Shengmu, the foundation for quality of organic products and the necessary requirement for establishing our self-sustainable ecosphere.

In 2014, China Shengmu continued to implement its grass-to-glass organic quality control in producing organic liquid milk, through preserving organic environment, supervising the planting of organic forage, developing its self-owned dairy farms and organic feeding for dairy cow. In addition, China Shengmu provided the organic cow dung to Shengmu Forage for recycling as organic fertilizer, and such recyling is comprehensively implemented in the desert organic recycling chain to achieve an organic closed-cycle. While protecting the environment, Shengmu has also built a desert ecological environment by turning desert into oasis.

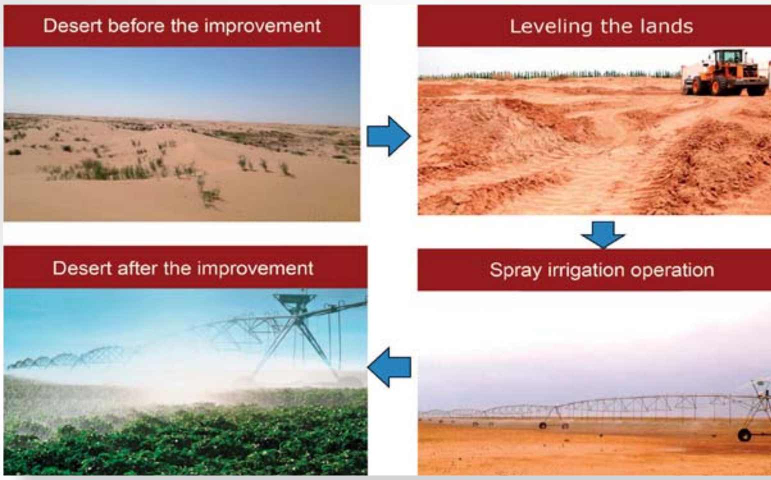
FARMING BUSINESS

Organic Dairy Farming

As the key component of Shengmu's "Desert Grass-to-Glass Organic Industry System", the Group has continued its commitment to organic dairy farming and producing organic raw milk for the year of 2014.

The organic raw milk utilized by the Group has been strictly monitored to ensure the health of dairy cows and the quality of raw milk. The Company is committed to cattle welfare as part of the culture of organic dairy farming. Each dairy cow enjoys an average living space ranging from 60 to 80 square meters as well as the access to "sport fields" for exercising and socializing. Shengmu provides comfortable living environment for dairy cows, with free-stall dairy farms offering easy access to food and water. In order to ensure the dairy cows' health and further improve milk quality, Shengmu uses different feed formulae developed in-house by employing the total mixed ration (TMR) concept based on the cow's development stage, lactation stage and milk yield. In relation to healthcare, Shengmu firmly adheres to the policy of "prevention ahead of cure", and regards dairy cows' healthcare as one of the most important aspect for the farming management . A majority of Shengmu's dairy farms have a capacity to house between 2,500 and 4,500 dairy cows, the farm size of which could enable us to achieve great economic benefits without over-exploiting the environment.

Organic Forage Planting



Organic forage is an essential raw material in organic dairy farming. Shengmu Forage has entered into a long-term strategic cooperation agreement with us, pursuant to which Shengmu Forage will exclusively supply organic forages to us. Shengmu Forage is primarily engaged in organic forage planting and processing. The place for planting organic forage is located in Ulan Buh Desert. With the pollution-free air, soil and water resourses, it is a rare piece of land well suited for the organic industry. With the advantageous environment of Ulan Buh Desert, Shengmu Forage has grown the forages without using any agricultural chemicals or chemical synthetic fertilizers. All of the planting fields developed by Shengmu Forage meet the organic standards of both E.U. and China Organic Food Certification Center (中綠華夏有機食品認證中心). Shengmu strictly adheres to the philosophy of "Grass from herd, herd from grass (以牧養草，以草畜牧)". The fields of Shengmu are fertilized with the fertilizers processed from the organic dairy cow dung, which in turn improve the fertility of the soil gradually, generating both pollution-free and chemical-free organic forage for the exclusive use of our dairy farms.

Innovative Business Models

The stringent organic standards of Shengmu dairy farms require not only sophisticated and refined management systems, but also a large number of managerial talents for its day-to-day operation. In order to achieve long-term development for both dairy farms and managerial talents, Shengmu adopts two cooperation models for dairy farm management which are considered relatively innovative in the industry: the first is performance guarantee model, and the second is joint equity model. Innovative business models would not only help to ensure that our dairy farms are managed by competent and experienced personnels in accordance with organic standards, but also to motivate the management personnel of the dairy farms as well. Further, the cooperation models have helped many dairy farmers in breaking through technology and financing bottlenecks to achieve a win-win situation.

LIQUID MILK BUSINESS

Production and Processing

In 2014, the Group continued to strictly monitor the production and processing of organic liquid milk. The processing phase includes organic raw milk collection, cooling, pre-treatment, homogenization, UHT, packaging and the final completion of liquid milk products. The Group is equipped with advanced equipment and machines purchased from famous suppliers, such as Tetra Pak (Sweden), for the processing and packaging of organic liquid milk. The Group operated several sets of control systems covering every quality control point and the processing of organic milk in order to ensure the quality safety of the products.

All the raw milk Shengmu used to produce liquid milk products was supplied internally by its organic dairy farms without using any preservatives, artificial coloring or artificial flavoring during the production process. Each of our organic liquid milk product is stamped with CNCA code for tracing the production origin.

Organic Quality Control

In order to ensure the implementation of Shengmu's desert grass-to-glass organic industry system and its product quality control, the Company continued to implement stringent quality control in 2014 year throughout the production process, such as the procurement and storage of feed, dairy farming, milking and raw milk processing and the storage and transportation of raw milk and finished products.

In terms of organic quality control, the Company adopted a combination of quality examination by internal staff, external institutions and sizeable customers to ensure the strict and consistent implementation of "grass-to-glass" organic management system and to establish stringent organic management practice along the chain from environment, planting, farming to production. In terms of organizational structure, the Company set up an organic management center under the direct supervision of its deputy chief executive officer. The organic management center is managed by officers who have solid knowledge about domestic and E.U. organic standards and are authorized to conduct regular or random inspections on any processing step according to organic standards, in order to ensure the effective operation of the organic industrial chain. In addition, the Company has established an information evaluation center and installed monitoring facilities for key areas of organic and non-organic dairy farms management, through which the Company can keep abreast of the dairy farm's operations to effectively supervise and evaluate farming operations.

In order to ensure the traceability of the grass-to-glass organic process and achieve the seamless integration of upstream and downstream processes, the Company establishes its system by standardizing and recording the procedures for all the key grass-to-glass organic processes according to the characteristics of its business units. The Company records its data by keeping track of organic fields, organic cows and organic products and establishing internal inspection team and other management systems.

External institutions such as ECOCERT S.A. (歐盟認證) and China Organic Food Certification Center, conduct frequent examinations on the Company in accordance with corresponding organic or safety standards in order to monitor the Company's implementation of organic standards. Additionally, Shengmu also assist its major customers by actively cooperating with them in various inspections and providing them with high-quality raw milk which meets their quality standards.

Shengmu has undertaken the implementation of organic standards and achieved the traceability of its organic milk's production origin through internal and external examination and supervisions.

NON-ORGANIC DAIRY FARMING

Apart from business operation under the "Desert Grass-to-Glass Organic Industry System" standards, Shengmu also operated non-organic dairy farms in the rural areas of Hohhot, Inner Mongolia for the production of high-quality non-organic raw milk. Likewise, the Company is also committed to provide its non-organic dairy cows with a comfortable and spacious environment as well as nutritious feed for the benefit of their health and milk yield.

Currently, Shengmu's high-quality non-organic raw milk is sold to major industry players for their further processing into high-end dairy products.

HERD SIZE AND PRODUCTION

As of December 31, 2014, we had 19 organic dairy farms in operation, 3 organic dairy farms under construction and 12 non-organic farms in operation. The organic and non-organic herd size of the Group have increased from 30,621 and 29,836 dairy cows as of December 31, 2013 to 64,769 and 38,483 dairy cows as of December 31, 2014 respectively.

	As at December 31,							
	2014				2013			
	Dairy farms	Calves and heifers	Milkable cows	Dairy Cows Subtotal	Dairy farms	Calves and heifers	Milkable cows	Dairy Cows Subtotal
Organic	19	30,768	34,001	64,769	13	13,796	16,825	30,621
Non-organic	12	17,452	21,031	38,483	12	10,811	19,025	29,836
Total	31	48,220	55,032	103,252	25	24,607	35,850	60,457

The Group produced 210,519 tonnes of organic raw milk and 142,765 tonnes of premium non-organic raw milk in 2014, and produced 94,152 tonnes of organic raw milk and 113,253 tonnes of premium non-organic raw milk in 2013. The volume of organic liquid milk products which are 100% processed from raw milk produced by self-owned certified organic dairy farms increased from 20,885 tonnes in 2013 to 62,280 tonnes in 2014.

SALES CHANNELS

Distribution network

In 2014, based on its nationwide extensive distribution network of organic liquid milk products, Shengmu built up the marketing network in major tier-1 and tier-2 cities of the PRC which had not yet been developed before, such as Harbin, Baotou, Chongqing, Chengdu, Guangzhou and Shenzhen, to broaden Shengmu's marketing network and achieved a comprehensive and thorough penetration into the major tier-1 and tier-2 cities, as well as coverage expansion into supermarkets, department stores, convenience store chains and other sales spot through the sales network from our nationwide distributors.

O2O sales model

In addition to further expand the traditional distribution network, Shengmu also proactively adopted diversified marketing models to accommodate consumers' online shopping by leveraging on rapid development of the internet and huge number of internet users. The Company officially launched Shengmu organic milk online-to-offline (O2O) marketing method in October 2014, through which the Company tried to create an innovative "exclusive to organic (專屬有機)" model, providing customers with fresher and a more convenient shopping experience and attracting customers who are keen on online shopping. With the support from authorized distributors, Shengmu O2O marketing model integrates online and offline recourses, combining convenient online payment with efficient offline delivery.

BRAND BUILDING AND STRATEGY

In 2014, Shengmu built the image of "No. 1 organic milk" through various promotion activities such as packaging, brand activities, exhibitions, online and offline advertisement. These promotion activities help Shengmu to build a unique and distinct brand association in the industry, media and customers' mind, which enhance the brand awareness, influence and credibility of the Shengmu brand. All the above measures laid solid foundations for the expansion to markets nationwide and contribute to the Company's realization of leapfrog development.

In 2014, Shengmu hosted consumers, investors and media several times for visitors who visited the Company's production base in Ulan Buh Desert to experience the production procedures of grass-to-glass organic industrial chain. Through such visits which were labelled as "Shengmu Organic Journey", visitors gained better knowledge of the "desert grass-to-glass organic industrial chain" of Shengmu, while enhancing their understanding and confidence of the Company's products.

In May 2014, Shengmu participated in the "Shanghai International Organic Food & Green Food Expo", inviting consumers and industry participants to know more about the spray irrigation ecosphere of organic planting (有機種植噴灌生態圈) in 3D experience zone. Participants gained immersive experience of the grass-to-glass organic life at the display booths simulating the environment in desert with blue sky and green grass.

In late August 2014, Shengmu ran series of advertisements on CCTV2 and CCTV12 to achieve better publicity. We earned trust and recognition from extensive customers, attracted more PRC consumers to understand the "desert grass-to-glass organic industrial chain" and experience the healthiness and happiness of organic lifestyle.

In addition, Shengmu launched a series of offline interactive activities such as, "Organic Day Campaign", which called for people to support organic, ecological, environment friendly and healthy Organic Day, to live a day of organic life by eating organic food as far as possible and using chemical synthesis products as less as possible, for the purpose of protecting their own health and maintaining environment safety. These activities further deepened the customer loyalty to our brand and the recognition of our brand concept.

In December 2014, with the philosophy of "desert grass-to-glass organic industry system" and the concept of organic food becoming more and more popular, Shengmu set Beijing as the key city to promote its brand through various channels. Shengmu placed digital advertising of "Shengmu Organic Milk" in prominent areas of the Departures Hall in Terminal 2 of Beijing Capital International Airport, targeting high-end consumers and promoting Shengmu's high-end dairy products. Also, Shengmu advertised on the trains and in the interior of Beijing Metro Line 2 to publicize the concept of "Desert Grass-to-Glass Organic Industry System", sending consumers the message of Shengmu's brand philosophy and organic competitive power. The train with Shengmu's advertising is like a Shengmu Express, reflecting the "Desert Grass-to-Glass Organic Industry System" which embraces the ideas of fields, grass, cows, milk, desert to dining table, driving consumers to a new era of organic life.

FINANCIAL REVIEW

The Group's business continued to enjoy a rapid growth in 2014. The Group recorded a revenue of RMB2,132.4 million in 2014, representing an increase of 86.4% from RMB1,143.7 million in 2013. The Group's profit attributable to owners of the parent increased by 117.3% from RMB327.3 million in 2013 to RMB711.2 million in 2014.

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

REVENUE

Unit: RMB in thousands, except percentages

For the year ended December 31	Dairy farming business: Segment revenue	Inter-segment sales [(1)]	External sales	External sales as % of total revenue	Liquid milk business: Segment revenue	Inter-segment sales [(1)]	External sales	External sales as % of total revenue	Total revenue
2014	1,810,035	416,918	1,393,117	65.3%	739,311	–	739,311	34.7%	2,132,428
2013	972,308	131,561	840,747	73.5%	302,962	–	302,962	26.5%	1,143,709

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

In 2014, the Group's revenue increased by 86.4% over last year, which was mainly driven by both dairy farming business and liquid milk business. In 2014, our external sales for dairy farming business increased by 65.7% over last year, and our revenue for liquid milk business increased by 144.0% over last year. The strong growth of the Group's revenue was mainly attributable to the fact that the Company maintained its leading position in the PRC organic dairy products market in 2014 by increasing its investment in the grass-to-glass organic business, and the sales of both organic raw milk and organic liquid milk rose significantly. Further, as a long-term measure, the Company reinforced its marketing activities on the organic liquid milk business and expanded its coverage and channels for organic liquid milk in 2014. As a result, revenue from organic liquid milk sales has represented a higher percentage of total revenue increased to 34.7% in 2014 from 26.5% in 2013, which indicated that the business focus of the Company was being gradually shifted to liquid milk. The Group expects that the proportion of organic liquid milk to the total revenue will continue to increase.

Dairy farming business

Unit: RMB in thousands, except percentages

For the year ended December 31,	2014 Sales volume *(Tonnes)*	2014 Average selling price *(RMB'000/ Tonne)*	2014 revenue	2014 % of revenue	2013 Sales volume *(Tonnes)*	2013 Average selling price *(RMB'000/ Tonne)*	2013 revenue	2013 % of revenue
Organic raw milk								
External sales	132,906	5.51	731,806	40.5%	68,518	5.15	352,918	36.3%
Inter-segment sales	72,586	5.74	416,918	23.0%	23,813	5.52	131,561	13.5%
Subtotal	205,492	5.59	1,148,724	63.5%	92,331	5.25	484,479	49.8%
Premium non-organic raw milk	139,204	4.75	661,311	36.5%	111,465	4.38	487,829	50.2%
Dairy farming	344,696	5.25	1,810,035	100.0%	203,796	4.77	972,308	100.00%

The Group's revenue from its dairy farming business increased by 86.2% from RMB972.3 million in 2013 to RMB1,810.0 million in 2014, which was mainly due to (1) significant increase in sales volume of both organic raw milk and premium non-organic raw milk in 2014 over 2013, of which sales volume of organic raw milk increased by 122.6% from 92,331 tonnes in 2013 to 205,492 tonnes in 2014, and sales volume of premium non-organic raw milk increased by 24.9% from 111,465 tonnes in 2013 to 139,204 tonnes in 2014; and (2) increase in the average selling price of raw milk in 2014 over 2013.

Liquid milk business

The Group's revenue from its liquid milk business increased by 144.0% from RMB303.0 million in 2013 to RMB739.3 million in 2014, which was mainly due to market recognition of organic liquid milk under the grass-to-glass organic industry chain and the increase in market demands. Meanwhile, the Company actively promoted the diversity of its liquid milk product portfolio by successively launching organic whole milk and organic low-fat milk (business pack) in 2014, and proactively rolling out the first organic yogurt products in the PRC, which powered the enhancement of its market position of high-end liquid milk sector.

	For the year ended December 31,		
	2014	2013	Increase
Revenue (RMB'000)	**739,311**	302,962	144.0%
Sales volume (Tonnes)	**51,248**	20,715	147.4%
Average selling price (RMB'000/tonne)	**14.43**	14.63	-1.4%

REVENUE FROM ORGANIC/NON-ORGANIC BUSINESS AND THEIR RATIO PERCENTAGE:

Unit: RMB in thousands, except percentages

	For the year ended December 31,			
	2014		2013	
	Amount	Percentage	Amount	Percentage
Premium non-organic raw milk	661,311	31.0%	487,829	42.6%
Organic products:				
Organic raw milk	731,806	34.3%	352,918	30.9%
Organic liquid milk	739,311	34.7%	302,962	26.5%
Subtotal of organic products	1,471,117	69.0%	655,880	57.4%
Total	2,132,428	100.0%	1,143,709	100.0%

Cost of sales, gross profit and gross margin

	For the year ended December 31,					
	2014			2013		
	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	575,446	573,278	49.9%	271,176	213,303	44.0%
After elimination (1)	372,181	359,625	49.1%	201,237	151,681	43.0%
Premium non-organic raw milk	385,062	276,249	41.8%	312,670	175,160	35.9%
Subtotal:						
Before elimination	960,508	849,527	46.9%	583,846	388,462	40.0%
After elimination (1)	757,243	635,874	45.6%	513,907	326,841	38.9%
Liquid milk business:						
Before elimination	481,685	257,626	34.8%	200,998	101,964	33.7%
After elimination (2)	305,377	433,934	58.7%	139,377	163,585	54.0%
Total	1,062,620	1,069,808	50.2%	653,284	490,425	42.9%

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

(2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is arrived at by calculating 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 (i) above.

The Group's cost of sales increased from RMB653.3 million in 2013 to RMB1,062.6 million in 2014, gross profit increased by 118.1% from RMB490.4 million in 2013 to RMB1,069.8 million in 2014, and gross margin increased from 42.9% in 2013 to 50.2% in 2014.

The increase of cost of sales was mainly due to the expansion of sales scale. In 2014, the cost of sales of the Group increased by 62.7% as compared to 2013. As the increase in cost of sales is less than that of revenue for the same period, the gross profit of the Group increased significantly by 118.1%.

In 2014, the Group recorded a significant increase in gross margin compared with last year, which was mainly due to the increase in the unit selling price of raw milk over last year, and the decrease in average unit cost compared with last year resulting from the economies of scale and the improvement of efficiency of the Group. In respect of product structure, the sales percentage of organic raw milk and organic liquid milk with higher gross margin increased from 57.4% in 2013 to 69.0% in 2014, which led to the enhancement of the Group's gross margin.

OTHER INCOME AND GAINS

The Group's other income and gains increased from RMB6.9 million in 2013 to RMB28.4 million in 2014, which was mainly due to the increase in the government grants and bank interest income received by the Group.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses include logistics and transportation expenses, advertisement and promotion expenses and employee remunerations. In 2014, the selling and distribution expenses of the Group amounted to RMB128.1 million, representing a significant increase as compared to RMB71.8 million in 2013, which was mainly due to significant increase in the sales volume of both dairy farming business and liquid milk business over the last year. In 2014, with the wider coverage of the distribution network in respect of liquid milk products, as a measure of delivery arrangement, the Company increased its branch warehouses in some important transport hub areas to meet the market demands. Meanwhile, in order to further enhance the exposure and strengthen the consumers' recognition on grass-to-glass organic liquid milk products, the Company has undertaken more advertisement and promotion in 2014.

ADMINISTRATIVE EXPENSES

Administrative expenses primarily consist of salary and welfare, travel expenses and transportation expenses of management and administrative employees. The administrative expenses of the Group amounted to RMB25.4 million and RMB101.7 million in 2013 and 2014, representing 2.2% and 4.8% of the revenue, respectively. The significant increase in 2014 over 2013 was mainly due to: (1) the inclusion of the listing expenses and the amortisation of the fair value of share options granted during the year in the administrative expenses, the listing expenses and the amortisation of the fair value of share options granted during the year of the Group was RMB46.1 million in total and the administrative expenses as a percentage of revenue was 2.2% and 2.6% (on the basis that the listing expenses and abovementioned share option expenses are disregarded), respectively; (2) the expansion of the Company's scale, which led to the increase of administrative staff and the rising of average salary, and thus the total salary and welfare included in the administrative expenses increased as compared to last year.

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 RMB9.5 million in 2013 and RMB87.1 million in 2014.

The significant increase of net gains arising from changes in fair value less costs to sell of biological assets in 2014 as compared to last year was mainly due to: (1) an increase in herd size from 60,457 cows as at the end of 2013 to 103,252 cows as at the end of 2014; (2) further optimization of the structure of dairy cows. The organic herd size with higher evaluation as a percentage of overall herd size increased from 50.6% in 2013 to 62.7% in 2014; (3) the number of newly-estblished and operating dairy farms was greater in 2014 and there was significant increase in the number of milkable cows of the Group as compared with last year, most of which entered into their peak period in milk yield, therefore, the revaluation surplus of each dairy cow increased as compared to last year.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

The Group's associates include (a) the companies that were jointly established by the Group and the outstanding distributors in our key distributing cities to distribute the branded liquid milk products of the Group, including mainly 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), Anhui Meilichen Trading Co., Ltd. (安徽美粒晨貿易有限公司), Fujian Spring Trading Co., Ltd. (福建省斯博瑞貿易有限公司), and Shenzhen Shengmu Weiye Trading Co., Ltd. (深圳市聖牧偉業貿易有限公司); 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 invested and held minority interests. The Group recorded share of losses of associates of RMB1.3 million and RMB7.7 million in 2013 and 2014, respectively. The increase in loss from investment is because the associates which are invested and established by the Company with quality distributors in key distribution cities for the purpose of taking initiative in terminal sales are in their initial stage of market development and therefore recorded losses. As the operation of Shengmu Forage, our important forage supplier, improved gradually and the Group increased its equity interests in Shengmu Forage, the Group has recognized investment income for the year based on the profit of Shengmu Forage.

INCOME TAX EXPENSE

According to the Enterprise Income Tax Law of the PRC ("**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of 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》(Caishui [2011] No. 58) (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.

Our income tax expenses was RMB3.7 million in 2014, representing a significant increase over RMB0.9 million in 2013, primarily due to the significant increase in the taxable income of Inner Mongolia Shengmu High-tech Milk Company Limited (內蒙古聖牧高科奶業有限公司) (one of our wholly-owned subsidiaries) arising from processing of non-primary agricultural products as compared to last year. Based on the proportion of our income tax expense in the total revenue, the enterprise income tax rate of the Group for 2013 and 2014 are 0.2% and 0.4% respectively.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interest primarily represented the minority interests in our dairy farms held by dairy farmers with whom we cooperate in managing its farms. Profit attributable to non-controlling interest for 2014 was RMB172.6 million, representing a significant increase over RMB47.2 million in 2013, which is mainly due to the increase in both numbers of non-wholly owned subsidiaries and operating profit for the year.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As of December 31, 2014, the total current assets of the Group were RMB2,035.0 million (as compared to RMB635.2 million as of December 31, 2013), primarily consisting of inventories of RMB701.2 million (as compared to RMB335.2 million as of December 31, 2013), trade and bills receivables of RMB397.5 million (as compared to RMB63.5 million as of December 31, 2013), prepayments, deposits and other receivables of RMB185.2 million (as compared to RMB94.4 million as of December 31, 2013) and cash and cash equivalents of RMB734.7 million (as compared to RMB127.1 million as of December 31, 2013).

Trade and bills receivables

Unit: RMB'000

	As at December 31,	
	2014	2013
Trade receivables	393,443	61,360
Bills receivables	4,100	2,110
Total	397,543	63,470

Trade and bills receivables of the Group increased significantly as compared to last year, primarily because the company has changed its sales strategy from delivery against payment strategy in the initial sales period to the grant of credit lines and credit terms according to the industry practice and the sales and credibility of distributors, so as to expand and solidify our organic liquid milk market.

As of March 20, 2015, RMB282.1 million or 71.0% of the outstanding trade receivables of the Group as of December 31, 2014 have been settled.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's prepayments, deposits and other receivables amounted to RMB185.2 million and RMB94.4 million as of December 31, 2014 and December 31, 2013, respectively, primarily due to the corresponding increase in the prepayments as a result of the increased in purchase by the Group from Shengmu Forage and other forage suppliers.

CURRENT LIABILITIES

As of December 31, 2014, the total current liabilities of the Group amounted to RMB2,086.1 million (as compared to RMB1,404.7 million as of December 31, 2013), primarily consisting of trade and bills payables of RMB424.0 million (as compared to RMB191.0 million as of December 31, 2013), receipts in advance of RMB32.4 million (as compared to RMB82.5 million as of December 31, 2013), other payables and accruals of RMB293.4 million (as compared to RMB198.6 million as of December 31, 2013) and interest-bearing bank and other borrowings of RMB1,334.0 million (as compared to RMB932.0 million as of December 31, 2013).

As of December 31, 2014, the total current liabilities of the Group amounted to RMB2,086.1 million, representing a growth of 48.5% as compared to RMB1,404.7 million as of December 31, 2013, primarily due to our business expansion.

FOREIGN CURRENCY RISK

The Group's businesses are principally located in mainland China and substantially all transactions are conducted in RMB. As at December 31, 2014, the Group did not have significant foreign currency exposure from its operations, except certain bank balances of approximately RMB38.3 million and RMB21.7 million which were denominated in United States dollars and Hong Kong dollars, respectively. In 2014, 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 the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, we monitor the receivable balances on an on-going 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, no collateral is required.

CHARGE ON ASSETS

As of December 31, 2014, the Group has pledged deposits within an aggregate amount of approximately RMB16.4 million (December 31, 2013: RMB15.0 million) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

In 2014, the Group generally finances its daily operations from internally generated cash flows, the net proceeds from the Global Offering and bank borrowings. As of December 31, 2014, the Group had (a) cash and cash equivalents of RMB734.7 million (December 31, 2013: RMB127.1 million), and (b) interest-bearing bank borrowings and other borrowings of RMB1,484.0 million (December 31, 2013: RMB932.0 million), which were denominated in Renminbi, and RMB150.0 million of which are repayable within two years while the other remaining interest-bearing bank borrowings and other borrowings are repayable within one year. The gearing ratio (calculated as total debt (total borrowings) divided by total capital) was 34.9 % as of December 31, 2014 (December 31, 2013: 54.6%).

CAPITAL COMMITMENTS

As of December 31, 2014, the Group's capital commitments amounted to RMB243.0 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.

HUMAN RESOURCES

As of December 31, 2014, the Group had a total of 3,288 employees. Total staff costs in 2014 (including the emoluments of directors of the Company (the "**Directors**") and senior management) amounted to approximately RMB177.2 million (excluding equity-settled share option expenses) (2013: RMB106.7 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 based on each employee's performance, qualifications, position and seniority. The Group has made contributions to the social security funds and housing reserve for its employees in accordance with the relevant national and local social welfare laws and regulations.

The 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.

Contingent Liabilities

As at December 31, 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 2014.

The Company increased its equity interests in Shengmu Forage on December 8, 2014, the details of which are set out in announcement of the Company dated December 8, 2014.

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

EXPAND THE ORGANIC DAIRY FARMING OPERATIONS AND ENSURE PRODUCT SAFETY AND QUALITY

The Group constructed 6 additional organic dairy farms in 2014, and as of December 31, 2014, we had 19 self-owned certified organic dairy farms in operation and 3 organic dairy farms under construction. We intend to complete the construction of the 3 organic dairy farms under construction in 2015. The Group intends to expand organic herd size principally through the herd's reproduction in self-owned dairy farms. The Group will continue to invest in quality control and product safety, to improve herd's health and the milk yield as well as operation efficiency, for the purpose of long-term performance growth.

The Group will continue to strengthen its cooperation with Shengmu Forage. The Group further invested in Shengmu Forage on December 8, 2014 after which the Group's equity interest in Shengmu Forage increased from 8.6% to 9.01%. Shengmu Forage intends to develop additional organic planting fields of over 140,000 mu in 2015 to meet the Group's growing demand for organic forage.

INCREASING THE LIQUID MILK PRODUCT PROCESSING CAPACITY AND EXPAND PREMIUM ORGANIC PRODUCT PORTFOLIO

The Group plans to further expand its “Shengmu聖牧” brand of liquid milk business to further improve our profitability. To achieve this, the Group will continue to purchase and construct new production lines to increase its liquid milk processing capacity.

In 2014, the Group continued to offer liquid milk products including organic whole milk, organic low-fat milk and organic children’s milk under our “Shengmu聖牧” brand. In order to enrich our organic products portfolio, since July 2014, the Group successfully launched the organic yogurt products which entail relatively larger market demand. In this context, the Group intends to construct additional organic yogurt production lines to improve its production capacity. In 2015, the Group plans to innovate marketing model by opening Shengmu Organic Life Houses (聖牧有機生活館), producing origin-flavored organic yogurt, flavored organic yogurt and fruity organic yogurt with Shengmu features on the premises. We will exhibit the processing techniques for consumers to sight every production step so as to create new attractions in addition to Shengmu’s “organic” concept. In addition to attracting consumers’ purchases through personalized business model and diversified operation method, Shengmu Organic Life Houses can also enhance consumers’ recognition of our brand and increase our reputation through words of mouths. In 2015, the Group plans to build production bases of low-temperature products which are expected to commence production in the fourth quarter. The Group will constantly launch new products to enrich the liquid milk products portfolio by leveraging the increasing organic raw milk production volume, sharing its existing and new processing capacity, marketing and distribution platforms, as well as benefiting from the increasingly recognized brand.

BUILD AN EXTENSIVE NATIONWIDE DISTRIBUTION NETWORK AND STRENGTHEN BRAND RECOGNITION

The Group plans to continue selling liquid milk products through distributors and expanding its distribution channel in major tier-1 and tier-2 cities and increasing its investment in tier-3 and tier-4 cities by engaging more distributors in those areas. In terms of retail spots, the Group intends to further increase our product presence at department stores and large chain-supermarkets, as these markets are platforms to exhibit and promote Shengmu brand to enhance brand awareness and to improve product experience. The Group will also be focusing on expanding our business into channels such as convenience store chains around communities and super community stores, which will become the markets for Shengmu’s future sales of liquid milk products. Additionally, the Group plans to further develop online-to-offline (O2O) sales channels to reach a wider customer base. To ensure prompt delivery of products to our rapidly growing customers, in 2015, we plan to set up additional regional distribution centers by leasing warehouse facilities close to regional transportation hubs throughout China and purchase or lease trucks to establish our own delivery fleet to support our sales growth.

The Group also intends to enhance “Shengmu” brand recognition and solidify its high-end image in the target markets through the following initiatives: (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 our own brand; (ii) promoting the establishment of more Shengmu Organic Life House which, in addition to their sales function, will serve to educate consumers about our “grass-to-glass” organic production model and the benefits of our organic milk and promote our brand image; and (iii) demonstrating the “Desert Grass-to-Glass Organic Industry System” through more open-house events at our dairy farms and production facilities, so as to let consumers gain the immersive experience of the organic, green, environmentally friendly “grass-to-glass” journey.

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

PRINCIPAL BUSINESSES

The Group's principal businesses consist of the dairy farming business and the liquid milk business.

For details of the principal subsidiaries of the Group, please refer to Note 17 to the financial statements.

The Group's income is mainly derived from its business activities in the PRC. For operating segment information of the Group for the year ended December 31, 2014, please refer to Note 4 to the financial statements.

RESULTS

The Group's consolidated results for the year ended December 31, 2014 are set out in the consolidated statement of profit or loss and other comprehensive income in the independent auditor's report.

FOUR-YEAR FINANCIAL HIGHLIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

For details of the changes in the properties, plant and equipment of the Group during the year, please refer to Note 14 to the financial statements.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended December 31, 2014 (2013: Nil).

DISTRIBUTABLE RESERVES

The Company's distributable reserves amounted to RMB2,980.1 million as at December 31, 2014. For details of the changes in the Company's reserves in 2014, please refer to the consolidated statement of changes in equity in the independent auditor's report and Note 29 to the financial statements.

SHARE CAPITAL

For details of the changes in the Company's share capital in 2014, please refer to the consolidated statement of changes in equity in the independent auditor's report and Note 28 to the financial statements.

EVENT AFTER THE REPORTING PERIOD

There is no significant event after the reporting period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

From the Listing Date to December 31, 2014, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on Wednesday, June 10, 2015. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from June 8, 2015 to June 10, 2015, both days inclusive. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on June 5, 2015.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2014, the five largest customers of the Group in aggregate accounted for 67.9% of the Group's total income and the largest customer accounted for 45.7% of the Group's total income. In 2014, the five largest suppliers accounted for 26.0% of the Group's total amount of purchases and the largest supplier accounted for 13.3% of the Group's total amount of purchases.

In 2014, to the knowledge of the Directors, except for Shengmu Forage, an associate of the Company, none of the Directors or any of their close associates or any shareholders who owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers of the Group.

DIRECTORS

As at December 31, 2014, the Company's Directors were as follows:

Executive Directors

Mr. YAO Tongshan (Chairman and chief executive officer) (appointed on February 14, 2014)
Mr. WU Jianye (President) (appointed on March 26, 2014)
Ms. GAO Lingfeng (Vice President) (appointed on March 26, 2014)
Mr. CUI Ruicheng (Vice President) (appointed on March 26, 2014)

Non-executive Directors

Mr. WU Jingshui (appointed on March 26, 2014)
Mr. FAN Xiang (appointed on March 26, 2014)
Mr. CUI Guiyong (appointed on March 26, 2014)
Mr. SUN Qian (appointed on March 26, 2014)

Independent Non-executive Directors

Mr. WONG Kun Kau (appointed on June 18, 2014)
Mr. LI Changqing (appointed on June 18, 2014)
Ms. GE Xiaoping (appointed on June 18, 2014)
Mr. YUAN Qing (appointed on June 18, 2014)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT MEMBERS

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

DIRECTORS' SERVICE CONTRACTS

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

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: 01117) since June 26, 2014. Save for such change, from the Listing Date and up to December 31, 2014, 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' INTERESTS IN COMPETING BUSINESS

As of December 31, 2014, Mr. WU Jingshui, a non-executive Director, who was also the Vice President of Inner Mongolia Mengniu, a non-wholly owned subsidiary of China Mengniu Dairy Company Limited, a listed company on the Stock Exchange. He was also a non-executive director of Yashili International Holdings Ltd. (雅士利國際控股有限公司), a listed company on the Stock Exchange (stock code: 1230) (principally engaged in production and sale of pediatric milk formula products and nutrition products), and a non-executive director of China Modern Dairy Holdings Ltd., a listed company on the Stock Exchange (stock code: 01117). Save as disclosed above, all Directors have confirmed that during the period from the Listing Date and up to December 31, 2014, they and their close associates have not engaged in or hold any interest in any business which is or may be, directly or indirectly, in competition with our business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the criteria set out in Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company considers that Mr. WONG Kun Kau, Ms. GE Xiaoping, Mr. LI Changqing and Mr. YUAN Qing are independent parties and has received from them written confirmations on their independence.

NON-COMPETITION UNDERTAKING

The Company's Ultimate Controlling Shareholders and World Shining Investment Limited (together the "**Covenantors**") have entered into a deed of non-competition (the "**Non-competition Deed**") (as set out in the section headed "Relationship with Controlling Shareholders" in the Prospectus) in favor of us. Pursuant to the Non-competition Deed, the Covenantors have undertaken to us that they would not, and that their associates (except any member of our Group) would not, during the restricted period set out in the Non-competition Deed, engage in or be interested in any business which is or may be in competition with our existing core business (the "**Restricted Business**") except for the business currently carried out by Xinjiang Shenghe Dairy Company Limited. All independent non-executive Directors of the Company have reviewed the matters relating to the implementation of the Non-competition Undertaking and consider that the Covenantors have complied with the terms of the Non-competition Undertaking during the period from the Listing Date to December 31, 2014.

For details on major retained businesses of the Ultimate Controlling Shareholders, please refer to the section headed "Relationship with Controlling Shareholders — Major Retained Businesses of Our Ultimate Controlling Shareholders" in the prospectus.

During the period from the Listing Date to December 31, 2014, the Group has increased capital contribution to Shengmu Forage (one of the retained businesses), the details of which are set out in the announcement of the Company dated December 8, 2014.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period from the Listing Date to December 31, 2014, there was no material acquisition or disposal of subsidiaries or associated companies of the Company by the Group.

During the period from the Listing Date to December 31, 2014, the Group has increased capital contribution to Shengmu Forage (an associate of the Company), the details of which are set out in the announcement of the Company dated December 8, 2014.

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

So far as is known to any Director or chief executive of the Company, as of December 31, 2014, 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 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 which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be 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; interest of a controlled corporation[1]	3,594,221,600	56.56%
	Beneficial Owner[2]	70,419,200	1.11%
WU Jianye (武建鄴)	Interests held jointly with another; 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; 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; 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 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 headed "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. 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 corporation	Percentage of interest
YAO Tongshan (姚同山)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd.[1] (巴彥淖爾市聖牧高科生態草業有限公司)	1.73%
WU Jianye (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司) ("Shengmu Pangu")	45%
	Bayannur Shengmu High-tech Ecological Forage Co., Ltd.[1] (巴彥淖爾市聖牧高科生態草業有限公司)	8.15%
GAO Lingfeng (高凌鳳)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd.[1] (巴彥淖爾市聖牧高科生態草業有限公司)	17.34%

(1) During the period from the Listing Date to December 31, 2014, Shengmu Forage has increased its capital on December 8, 2014, the details of which are set out in the announcement of the Company dated December 8, 2014.

Save as disclosed above and to the best knowledge of the Directors, as of December 31, 2014, 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 December 31, 2014, 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, as being 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
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%
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)(5)	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)(8)	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%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
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%
WANG Zhen (王鎮)(1)	Interests held jointly with another person; interest of a controlled corporation(1)	3,594,221,600	56.56%
	Beneficial Owner(15)	11,160,000	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 (唐華)	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 LP	Interest of a controlled corporation	395,235,200	6.22%
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	395,235,200	6.22%
Salata Jean	Interest of a controlled corporation	395,235,200	6.22%
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 2010 CGF Holdco, Ltd	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 (other than Mr. YAO) shall support Mr. YAO'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 upon completion of the Reorganization. For more details, please refer to the section headed "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)	45.00%
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%
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)	45.00%
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)	35.00%
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)	45.00%
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)	35.00%
WANG Qiang (王強)	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.00%
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)	17.50%
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) (“Shengmu Xiwang”)	17.50%
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)	35.00%
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)	35.00%
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)	35.00%
CHANG Zhiba (常志拔)	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	35.00%
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)	35.00%
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)	35.00%
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)	35.00%
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)	35.00%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as of December 31, 2014, was interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

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 December 31, 2014 (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 December 31, 2014, assuming that all options granted under the Pre-IPO Share Option Scheme have been exercised. 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.

The aforesaid share options were granted prior to the Listing Date, during the period from the Listing Date to December 31, 2014, no share options have been granted, cancelled or exercised according to the Pre-IPO Share Option Scheme. Under the Pre-IPO Share Option Scheme, subject to prescribed conditions being fulfilled, options shall be fully vested on the relevant grantees on the first business day immediately following the expiry of the Waiting Period. Since the Waiting Period will expire on 30 April 2015 (i.e. being the first anniversary after the date of grant on 30 April 2014), no options under the Pre-IPO Share Option Scheme has been vested as at the date of this annual report. The summary of outstanding share options and their grantees, and particulars of the detailed summary of the terms (including the terms of the Scheme, the calculation method of the exercise price and the vesting periods and conditions) of the Pre-IPO Share Option Scheme are set out in the section headed "Appendix IV. Statutory and General Information – D. Pre-IPO Share Option Scheme" of the Prospectus.

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 of the Company on the Listing Date, being a total of 635,440,000 Shares.

No share options have been granted under the Share Option Scheme from the date of its adoption to December 31, 2014. 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" of the Prospectus.

Use of Net Proceeds from the Global Offering

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

As of December 31, 2014, the net proceeds were applied as follows:

	Application of funds as of December 31, 2014 RMB'000
Constructing 6 additional organic dairy farms	58,150
Acquiring dairy cows domestically and from overseas	59,250
Sales and marketing activities and expansion of the distribution network	31,060
Expanding the Group's liquid milk production capacity	37,360
Repayment of loans	120,180
Additional working capital and general corporate purposes	70,060
Total:	376,060

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in the related party transactions as set out in the notes to the financial statements and the transactions set out in the section headed "Connected Transactions and Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted since Listing Date up to December 31, 2014.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

The Company's connected transactions during the period from the Listing Date to December 31, 2014 are as follows:

On December 8, 2014, Shengmu Farming, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Liu Wenguang (an independent third party) and Shengmu Forage entered into the Capital Increase Agreement in relation to the further contribution of a total RMB60,020,000 to the registered capital of Shengmu Forage. Shengmu Farming made cash contribution of RMB6,094,000. After the completion of the Capital Increase Agreement, the registered capital of Shengmu Forage will be increased from RMB168,660,000 to RMB228,680,000. The percentage of equity interest held by the Group in Shengmu Forage will be increased from 8.60% to 9.01%. The aforesaid further capital contribution constitutes a connected transaction of the Company. Please refer to the Company's announcement dated December 8, 2014 for details (including the reason and benefits for the capital increase).

Continuing Connected Transactions

The Company's continuing connected transactions during the period from the Listing Date to December 31, 2014 are as follows:

1. On June 25, 2014, Shengmu Forage and Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("**Shengmu Holding**") entered into a framework agreement in relation to the purchase of forage by our Group from Shengmu Forage and its subsidiaries (including Alxa Shengmu High-tech Ecological Forage Co., Ltd. ("**Alxa Forage**")) ("**Forage Supply Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to the agreement, Shengmu Forage and its subsidiaries (including Alxa Forage) shall sell all the forage produced by it to us on an exclusive basis for a period from January 1, 2014 to December 31, 2016. The total annual amount of purchases made by our Group from Shengmu Forage and Alxa Forage under the Forage Supply Framework Agreement will not exceed RMB392 million, RMB630 million and RMB911 million for each of the years ending December 31, 2014, 2015 and 2016. The total annual amount of purchases for the year ended December 31, 2014 was RMB372.0 million. Reasons for and benefits of the transactions under the Forage Supply Framework Agreement are: Shengmu Forage and Alxa Forage grow organic forage without using any synthetic pesticides or synthetic fertilizers. All of the growing fields developed by Shengmu Forage and Alxa Forage meet the E.U. standards set by ECOCERT S.A. and are certified organic under the PRC standards by the COFCC. We believe these crops provide organic, nutritious feeds necessary for our dairy cows, allowing them to produce organic and nutritious milk. In addition, farms of Shengmu Forage and Alxa Forage in the Ulan Buh desert are in the proximity of our organic dairy farms. As such, it is commercially beneficial to our Group to continue to purchase forage from Shengmu Forage and Alxa Forage in view of their stable and reliable supply of good quality forage and the proximity of its forage farms to our dairy farms.

2. On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of organic raw milk by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang ("**Milk Supply Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to the agreement, organic raw milk of Shengmu Pangu and Shengmu Xiwang are subject to our centralized sales management. Both of them shall sell their organic raw milk to us on a priority basis to meet our requirement. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu Holding. The term of the agreement is January 1, 2014 to December 31, 2016. The total annual amount of purchases made by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement will not exceed RMB160 million, RMB250 million and RMB400 million for each of the years ending December 31, 2014, 2015 and 2016. The total annual amount of purchases of raw fresh milk for the year ending December 31, 2014 was RMB134.6 million. Reasons for and benefits of the transactions under the Milk Supply Framework Agreement are: we manage our sales of raw milk under a centralized system and Shengmu Dairy serves as the processing center of raw milk for all our subsidiaries. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized sales system.

3. On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of cows by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang ("**Framework Agreement for Sale and Purchase of Cows**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. The term of the agreement is January 1, 2014 to December 31, 2016. Under the Framework Agreement for Sale and Purchase of Cows, (I) the total annual amount of purchases made by our Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang will not exceed RMB33 million, RMB62 million and RMB61 million, and (II) the total sales made by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang will not exceed RMB65 million, RMB55 million and RMB75 million, for each of the

years ending December 31, 2014, 2015 and 2016. Under the Framework Agreement for Sale and Purchase of Cows above, the total purchase amount of cows of the Group (excluding Shengmu Pangu and Shengmu Xiwang) for the year ended December 31, 2014 was RMB15.2 million, while total sales revenue of the Group (excluding Shengmu Pangu and Shengmu Xiwang) amounted to RMB21.2 million. Reasons for and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are: we manage our dairy farming on a centralized basis. As subsidiaries of our Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized management.

4. On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement for a term from January 1, 2014 to December 31, 2016 in relation to the provision of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang ("**Financial Assistance Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to such agreement, our Group will provide financial assistances (in the form of guarantees) to Shengmu Pangu and Shengmu Xiwang on normal commercial terms. The term of the agreement is January 1, 2014 to December 31, 2016. The maximum daily balance of financial assistance to be provided by our Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang shall not exceed RMB60 million, RMB100 million and RMB120 million for each of the years ending December 31, 2014, 2015 and 2016. The maximum daily balance of financial assistance for the year ending December 31, 2014 was RMB40 million. Reasons for and benefits of the transactions under the Financial Assistance Framework Agreement are: it would be difficult for our newly established subsidiaries, including Shengmu Pangu and Shengmu Xiwang, to obtain commercial loans and borrowings without guarantees of our other established subsidiaries. Even if they could obtain such loans and borrowings on their own, they would incur higher finance costs on commercial loans and borrowings without guarantees given by our other established subsidiaries. As such, it is commercially beneficial to our Group to continue to provide financial assistances to Shengmu Pangu and Shengmu Xiwang, which will also lower our overall finance costs.

Our Directors (including our independent non-executive Directors) are of the view that the connected transactions and the continuing connected transactions referred to above are entered into on normal commercial terms which are fair and reasonable and in the interests of our Shareholders as a whole. The auditor's letter with respect to the continuing connected transactions has been submitted to the Stock Exchange in compliance with Rule 14A.56 and Rule 14A.57.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 33 to the financial statements. The related party transactions mainly comprise: (1) sale of products to certain entities which have been accounted for as associate of the Company as the Group holds interests in such entities. None of the connected person of the Company holds interests in or position with such entities, and such entities are not considered connected person under the Listing Rules; (2) purchase of forage from Shengmu Forage in accordance with the Forage Supply Framework Agreement as referred to in the section headed "Continuing Connected Transactions" above; and (3) payment of emoluments to key management of the Group. The arrangement whereby Shengmu Forage provided biowaste (i.e. cow dung) cleaning services to our organic dairy farms for free in return for our supply of such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free, is an exempt continuing connected transaction, details of which has been set out in the section headed "Continuing Connected Transaction" in the Prospectus. All the requirements under Chapter 14A have been complied with for the period from the Listing Date to December 31, 2014.

HUMAN RESOURCES

As of December 31, 2014, the Group had a total of 3,288 staff members. Total staff costs (including the emoluments of Directors and senior management) during the period was approximately RMB177.2 million (excluding equity-settled share option expenses) (2013: RMB106.7 million).

The Group believes that unremitting diligence of all employees is a crucial factor for rapid development and future success of the Group. The Group provides on-field education, training and other opportunities to management officers and employees for enhancing their skills and knowledge. In general, the Group will determine the remuneration of employees according to their respective performance, qualifications, position and experience. The Group has made contributions to the social insurance fund and housing provident fund for employees according to the relevant national and local laws and regulations in respect of social benefits.

In addition, the Group has approved and adopted the Pre-IPO Share Option Scheme and a share option scheme, The purpose of the aforesaid schemes is to attract, retain and provide incentives to the Directors, senior management and employees of the Group as well as other participants.

RETIREMENT BENEFIT PLANS

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

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT MEMBERS

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

For the year ended 31 December 2014, no emoluments were paid by our Group to any director of the Company or any of the five highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office. None of the directors has waived any emoluments for the year ended 31 December 2014.

For details of remuneration paid to the Directors and the five highest paid individuals which are required to be disclosed pursuant to Appendix 16 of the Listing Rules, please refer to Notes 8 and 9 to the financial statements.

SUFFICIENT PUBLIC FLOAT

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

AUDITORS

Ernst & Young has audited the financial statements for the year ended December 31, 2014. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Hong Kong, March 26, 2015

EXECUTIVE DIRECTORS

Mr. YAO Tongshan (姚同山), aged 58, is the founder of our Group, chairman of the Board, chief executive officer and executive Director of the Company. He is also the chairman of the nomination committee of the Company. He is primarily responsible for our Company's strategic planning and long term business planning, overall business, market development and operation management, annual budgets, business plan, and other significant matters arising from business operation. Mr. YAO was appointed to our Board in February 2014. For positions with other members of the Group, Mr. YAO is also the director of Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科牧業有 限公司) ("Shengmu Holding"), Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司) ("IMU-Shengmu Dairy"), Inner Mongolia Shengmu Holding Co. Ltd. ("Shengmu Farming"), Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (內蒙古聖牧高科奶業有限公司) ("Shengmu Dairy"), Shining Investment Industry Limited ("Shining Investment"), China Mengniu Investment Company Limited ("Mengniu Investment"), Saint Investment HK Limited ("Saint Investment"), Flourish Treasure Holdings Limited ("Flourish Treasure"), Horizon King Investments Limited ("Horizon King"), Fortune Globe Limited ("Fortune Globe"), Saint Investment (Cayman) Limited ("Saint Investment (Cayman)"), Credence Global Investments Limited ("Credence Global") and Elite Noble Investments Limited ("Elite Noble"). He has over 13 years of experience in the dairy industry, with extensive industry and management experiences. In March 2014, Mr. YAO was honored as one of the top 10 economic figures in Inner Mongolia (內蒙古經濟年度十大人物) of 2013 for his contribution to the development of local economy jointly by Inner Mongolia Daily (內蒙古日報社), Inner Mongolia Federation of Industry and Commerce (General Chamber of Commerce) (內蒙古自治區工商聯(總商會)) and Inner Mongolia Association of Entrepreneurs (內蒙古企業家聯合會).

Mr. YAO was the chief financial officer and executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) which is listed on the Stock Exchange (stock code: 2319) from July 2008 to March 2010. Mr. YAO served as chief financial officer, financial vice president and director of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司) ("Inner Mongolia Mengniu"), a subsidiary of China Mengniu Dairy Company Limited, which is principally engaged in manufacturing of liquid milk, ice cream and other dairy products, between October 2001 and January 2010. Mr. YAO gained relevant finance and investment experience by serving as project manager (primarily responsible for identifying appropriate investment opportunities) of Inner Mongolia Investment Consultancy Company (內蒙古投資諮詢公司) (a subsidiary of China Construction Bank which is principally engaged in investment business) between July 1988 and January 1991; and as head of International credit department, manager of the credit department of China Construction Bank (Inner Mongolia branch) between January 1991 and July 1999. Mr. YAO was also the general manager (mainly responsible for providing finance and accounting advice) of Inner Mongolia Jingtong Investment Consultancy Company (內蒙古景通投資顧問公司) (principally engaged in providing finance advisory) from September 1999 to September 2001.

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

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

Mr. WU Jianye (武建鄴), aged 41, is the president and executive Director of the Company. He is primarily responsible for the management and operation of our Group such as the strategic management and implementing the key performance indicator of Shengmu Farming and Shengmu Dairy. Mr. WU was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. WU is also the director of Shengmu Holding, IMU-Shengmu Dairy and Shengmu Pangu. He has over 10 years of management experience in various different industries. Mr. WU joined our Group in September 2010 as an assistant to chief executive officer and was designated as the president of Shengmu Holding in August 2013.

Prior to joining our Group in September 2010, he was the chairman and president (mainly responsible for operational management) of Inner Mongolia Pangu Group Co., Ltd. (內蒙古盤古集團有限責任公司) (principally engaged in agricultural business) between May 2003 and August 2010. Mr. WU was the general manager (mainly responsible for overall management and sales) of Inner Mongolia Pangu Cashmere Co., Ltd (內蒙古盤古羊絨製品有限公司) (principally engaged in manufacture of cashmere).

Mr. WU graduated from the University of Inner Mongolia (內蒙古大學) in July 1995 and was awarded a college graduate certificate (專科) majoring in Chinese language and further obtained the bachelor's degree from University of Inner Mongolia (內蒙古大學) in January 2007 majoring in law (distance learning). Mr. WU also received his executive master of business administration in July 2009 from Tsinghua University in the PRC.

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

Ms. GAO Lingfeng (高凌鳳), aged 44, is the vice president and executive Director of the Company. She is primarily responsible for setting up and implementing key performance indicators for various business units, production chain's quality management and organic certification management. In addition, Ms. GAO is primarily responsible for the evaluation, improvement and monitoring of our quality control system, and oversees the Group's overall administrative operation and the coordination between various business departments, and is also principally responsible for overseeing the management of Shengmu Farming. Ms. GAO was appointed to our Board on March 26, 2014. For position with other members of the Group, Ms. GAO is also the director of Shengmu Holding, IMU-Shengmu Dairy, Shengmu Agriculture and Shengmu Farming. She has over 15 years of experience in the dairy industry and 16 years of management experience in production and product quality.

Ms. GAO joined our Group since its establishment in October 2009 as vice president of Shengmu Holding. Prior to joining our Group, Ms. GAO has held various management positions with Inner Mongolia Mengniu, including head of quality control department between October 1999 and April 2009.

Ms. GAO received her master of business administration from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) in January 2011.

Save as disclosed above, Ms. GAO did not hold directorships in any public listed companies in the last three years.

Mr. CUI Ruicheng (崔瑞成), aged 32, is the vice president, chief financial officer and executive Director of the Company. He is primarily responsible for the financial management of our Group. Mr. CUI was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding. He has over 10 years of experience in the dairy industry and financial management.

Mr. CUI joined our Group since its establishment in October 2009. He has served as the vice president (finance) and chief financial officer of Shengmu Holding since January 2014. Prior to joining our Group, Mr. CUI held various financial and accounting positions with Inner Mongolia Mengniu, including accountant and listing administrator between July 2003 and August 2006, and was the finance department head with Inner Mongolia Mengniu Shengwu Zhineng Company Limited (內蒙古蒙牛生物質能有限公司) between August 2006 and September 2009.

Mr. CUI passed the final exams (self-learning) with Inner Mongolia University of Finance and Economics (內蒙古財經大學) (formerly known as Inner Mongolia Finance and Economics College (內蒙古財經學院)) and was awarded a college graduate certificate (專科) in December 2005 and obtained the bachelor's degree from China University of Geosciences (中國地質大學) in July 2009 majoring in business administration (on-line study). Mr. CUI is a qualified accountant in the PRC since May 2006.

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

NON-EXECUTIVE DIRECTORS

Mr. WU Jingshui (吳景水), aged 49, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. WU is also the director of Shengmu Holding since April 2011. Mr. WU has extensive experience in financial management.

Mr. WU was the executive Director of China Mengniu Dairy Company Limited (中國蒙牛乳業 有限公司) which is listed on the Stock Exchange (stock code: 2319) from March 2010 to March 2014. Mr. WU is a vice president of Inner Mongolia Mengniu since April 2008. Before being appointed as the vice president of Inner Mongolia Mengniu, Mr. WU served as the deputy financial general manager of liquid milk division and the chief financial officer during his employment with Inner Mongolia Mengniu between November 1999 and April 2008. Mr. WU has been a non-executive director of Yashili International Holdings Ltd. (雅士利國際控股有限公司) which is listed on the Stock Exchange (stock code:1230) (principally engaged in production and sale of pediatric milk formula products and nutrition products) since July 2013. Mr. WU has been appointed a non-executive director of China Modern Dairy Holdings Limited (a company listed on Stock Exchange with stock code: 1117) since June 2014.

Mr. WU graduated from Inner Mongolia Light Industry Institute (內蒙古輕工業學校) majoring in industrial enterprises financial accounting in July 1986, and received a master's degree from Inner Mongolia Agricultural University (內蒙古農業大學) majoring in agriculture advancement in December 2009. He also received his master of business administration from China Europe International Business School (中歐國際工商學院) in the PRC in September 2010. He was also awarded the senior PRC accountant qualification by the Leading Group for Professional Title Reform of Huhhot (呼和浩特市職務改革領導小組) in December 2001.

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

Mr. FAN Xiang (范翔), aged 38, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. FAN is also the director of Shengmu Holding since December 2013. In addition to his role with our Company, Mr. FAN is currently the Chairman and General Manager of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd. (北京高盛寬街博華股權投資管理有限公司), a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (高盛集團有限公司) (collectively "Goldman Sachs") since January 2013. Prior to the relocation to Beijing in January 2013, Mr. FAN was with the Hong Kong principal investment area and the New York investment banking division of Goldman Sachs as managing director and executive director from August 2007 to December 2012. Mr. FAN was with KKR Asia Limited as an associate from March 2006 to July 2007.

Mr. FAN graduated with a bachelor's degree of arts from Yale University in the United States in May 1999 and received his master of business administration from the Wharton School, University of Pennsylvania in the United States in May 2004.

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

Mr. CUI Guiyong (崔桂勇), aged 52, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. He is also a member of the audit committee. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding since December 2013. In addition to his role with our Company, Mr. CUI is currently the managing director of Baring Private Equity Asia Limited since January 2012. Mr. CUI served as a managing director and subsequently a partner at HOPU Investment Management Co. Ltd. since May 2008. Prior to joining HOPU Investment Management Co., Ltd., he was an investment banker for 14 years, during which he served as the managing director of Morgan Stanley Asia Limited between April 2007 and April 2008, managing director of GIBA-Resources and Energy of HSBC Markets (Asia) Limited between March 2004 and April 2007, head of Investment Banking Division of ICEA Capital Limited from June 2002 to August 2003 and assumed various positions in N M Rothschild & Sons (Hong Kong) Limited from September 1994 to June 2002, including the position of the Chief Representative of China in its Beijing Office when he left the company in 2002.

Mr. CUI obtained his Doctor of Philosophy degree from the University of Oxford in the United Kingdom in May 1995, and Bachelor of Engineering and Master of Engineering degrees from the University of Science and Technology of Beijing (北京科技大學) in April 1982 and June 1987, respectively.

Mr. CUI served as a non-executive director of Winsway Coking Coal Holdings Limited which is listed on the Stock Exchange (stock code: 1733) from June 2010 to January 2012.

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

Mr. SUN Qian (孫謙), aged 41, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014 and he is a member of the remuneration committee. Mr. SUN currently is a partner of Sequoia Capital China.

Mr. SUN was a director of Bona Film Group Limited (principally engaged in film distribution business), a company listed on NASDAQ, from 2007 to 2011 and a director of 500.com Limited (principally engaged in online sports lottery services) since October 2013. Mr. SUN has been a non-executive director in Dongpeng Holdings Company Limited, a company listed on the Stock Exchange (stock code: 3386) since December 2013.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Kun Kau (黃灌球), aged 54, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014. He is a chairman of the remuneration committee and a member of nomination committee. Mr. WONG has more than 22 years of experience in investment banking and corporate finance. He is currently the founder and managing partner of Bull Capital Partners Ltd. ("Bull Capital"), a fund management company specializing in direct investment in the greater China region. Mr. WONG is a non-executive director of Sun. King Power Electronics Group Limited, a company listed on the Stock Exchange (stock code: 580) (principally engaged in trading and manufacturing of power electronic components) since May 2010. He is also the independent non-executive director of West China Cement Limited (principally engaged in manufacture and sale of cement and cement products) since July 2010, Anhui Conch Cement Company Limited ("Anhui Conch") (principally engaged in manufacture and sales of clinker and cement products) since May 2012 and Lifestyle Properties Development Limited (principally engaged in property development and property investment) since August 2013, all of which are listed on the Stock Exchange (stock code: 2233, stock code: 914 and stock code: 2183, respectively); Anhui Conch is additionally listed on The Shanghai Stock Exchange (stock code: 600585).

Mr. WONG received his bachelor's degree in social science of The University of Hong Kong in November 1982.

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

Mr. LI Changqing (李長青), aged 58, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014. He is a member of audit committee and remuneration committee.

Mr. LI is currently a professor and tutor of doctoral students and has been appointed as the director of the academic committee of Inner Mongolia University of Technology (內蒙古工業大學), since 2010. Mr. LI started his career with Inner Mongolia University of Technology (內蒙古工業大學) in 1982, and has held various positions including serving as the director of business management department, deputy director of management engineering department, dean of school of international business school and founding dean of the college of management between 1996 and 2010. Mr. LI also served as a vice chairman to the Inner Mongolia Academy of Management (內蒙古管理學會) since 2006 and a director to the Inner Mongolia Management Modernization Research Center (內蒙古管理現代化研究中心) since 2007.

Mr. LI is widely recognized for his research and has received numerous awards in recognition of his exemplary work including Inner Mongolia outstanding talent award (內蒙古自治區傑出人才獎) by Inner Mongolia Autonomous Region Government in September 2012 and the first-class award of Inner Mongolia science and technology progress (內蒙古自治區科學技術進步一等獎) by Inner Mongolia Autonomous Region Government in January 2009, Wuyi-Worker Medal of the Autonomous Region (全區五一勞動獎章) by Inner Mongolia Autonomous Region General Worker Union (內蒙古自治區總工會) in April 2012 and received special allowance from the State Council in March 2009 in recognition of his outstanding contribution in the education sector.

Mr. LI graduated with a bachelor's degree in engineering from Inner Mongolia University of Technology (內蒙古工業大學) (formerly known as Inner Mongolia Engineering College (內蒙古工學院)) in January 1982, received a master's degree of engineering from Tianjin University (天津大學) in April 1995, and received his doctorate in management science from Huazhong University of Science and Technology (華中科技大學) in the PRC in June 2005.

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

Ms. GE Xiaoping (葛曉萍), aged 52, is an independent non-executive Director of the Company. She was appointed to our Board on June 18, 2014. She is the chairman of audit committee. Ms. GE has over 30 years of experience in auditing and accounting, she is a certified public accountant in PRC and certified public valuer in China.

Ms. GE is currently a partner and branch chief representative (Xiamen branch) for BDO China Shu Lun Pan Certified Public Accountants LLP ("BDO") (立信會計師事務所(特殊普通合夥)) since March 2010. Ms. GE was the accounting lecturer for the People's Liberation Army Necessities and Finance College (中國人民解放軍軍需財經高等專科學校) between June 1989 and January 1997, and she held various positions (including accountant) with Hubei Electronic Engines Factory (湖北電機廠) (principally engaged in manufacture of engines) between December 1980 and June 1989. Ms. GE was an independent director of Tsann Keun China Enterprise Co., Ltd. (廈門燦坤實業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 200512) between May 2008 and May 2014.

Ms. GE received numerous awards and appointments in recognition of her exemplary work including: a member of the eleventh and twelfth Xiamen Chinese People's Political Consultative Conference (廈門市政協第十一屆、十二屆委員) (with the appointment term from 2007 to 2016), Outstanding Member of the People's Political Consultative Conference (2010-2011) (2010-2011年度優秀政協委員)and the vice president of the Certified Public Accountant Association (Xiamen branch) since October 2013.

Ms. GE graduated from Zhongnan University of Economics and Law (中南財經政法大學) (formerly known as Zhongnan University of Economics (中南財經大學)) in the PRC majoring in financial accounting in July 1995.

Save as disclosed above, Ms. GE did not hold directorships in any public listed companies in the last three years.

Mr. YUAN Qing (袁清), aged 58, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014. He is a member of nomination committee. Mr. YUAN has over 26 years of experience in academic research, on the subject of grassland resources.

Mr. YUAN has been engaged in research work with the Institute of Grassland Research Chinese Academy of Agricultural Sciences (中國農業科學院草原研究所) since 1986. Mr. YUAN was the vice president of the China Grassland Society of Grassland Resources and Professional Committee (中國草學會草地資源與利用專業委員會) from September 2007 to October 2013, the head of resources and environmental research office in the Institute of Grassland Research of Chinese Academy of Agricultural Sciences (中國農業科學院草原研究所資源與環境研究室) from 2002 to 2005 and currently a member of the academic committee of the Institute of Grassland Research of Chinese Academy of Agricultural Sciences (中國農業科學院草原研究所學術委員會). Mr. YUAN served as the standing director and deputy general-secretary of China branch of the Association of Remote Sensing Applications, Environmental Remote Sensing (中國遙感應用協會環境遙感分會) from December 2006 to August 2013.

Mr. YUAN is widely recognized for his research work, and was recognized as the Young Expert with Outstanding Contribution (中青年有突出貢獻專家), by the PRC's Ministry of Agriculture (中華人民共和國農業部) in December 2001. Mr. YUAN was awarded the special allowance (特殊津貼) from the State Council in April 1999.

Mr. YUAN received his master's degree of agriculture from the Chinese Academy of Agricultural Sciences (中國農業科學院) in PRC in November 1986.

Mr. YUAN is an independent non-executive director of Inner Mongolia Hotision and Monsod Drought Resistance Greening Co., Ltd. (內蒙古和信園蒙草抗旱綠化股份有限公司) (principally engaged in garden landscape), a company listed on the Shenzhen Stock Exchange (stock code: 300355) since August 2010.

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

SENIOR MANAGEMENT

Mr. YAO Tongshan (姚同山), aged 58, is the founder of our Group, chairman, chief executive officer and executive Director of our Company. His biographical details are set out under the section "Executive Directors" above.

Mr. WU Jianye (武建鄴), aged 41, is the president and executive Director of our Company. His biographical details are set out under the section "Executive Directors" above.

Ms. GAO Lingfeng (高凌鳳), aged 44, is a vice president and executive Director of our Company. Her biographical details are set out under the section "Executive Directors" above.

Mr. CUI Ruicheng (崔瑞成), aged 32, is the vice-president, chief financial officer and executive Director of our Company. His biographical details are set out under the section "Executive Directors" above.

Mr. LI Yundong (李運動), aged 43, is vice president and joint company secretary of our Company since March 27, 2014. For position with other members of the Group, Mr. LI is also the director of Shengmu Agriculture, Shengmu Farming and Shengmu Liuhe. Mr. LI has over 15 years of experience in the dairy industry with extensive management experience.

Mr. LI joined our Group in October 2011, and served as the general manager (primarily responsible for overseeing daily operation) of Shengmu Farming, one of the members of our Group from October 2011 to August 2013 and the general manager (primarily responsible for overseeing daily operation) and board secretary (overseeing secretarial matters) of Shengmu Holding since August 2013. Prior to joining our Group, Mr. LI has held various management positions with Inner Mongolia Mengniu, including treasurer, head of finance department, vice-president (finance) of the ice cream business division, head of settlement department and deputy chief financial officer of the operation system from April 2000 to September 2011.

Mr. LI graduated with a bachelor's degree majoring in statistics from Inner Mongolia University of Finance and Economics (內蒙古財經大學) in July 1993 and received his master's degree in business management from Zhengzhou University (鄭州大學) in June 2009.

Mr. LI did not hold directorships in any public listed companies in the last three years.

Mr. AU Wai Keung (區偉強), aged 43, is a Joint Company Secretary of our Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 16 years of experience in the area of accounting. Currently, Mr. AU is a director, a shareholder and the founder of Arion & Associated Limited (亞利安會計事務所有限公司) , a corporate secretarial and accounting services provider in Hong Kong. He also served as the company secretary of Baofeng Modern International Holdings Company Limited (寶峰時尚國際控股有限公司) which is listed on the Stock Exchange (stock code: 1121) from January 2011 to January 2014, the company secretary of Honworld Group Limited (老恒和釀造有限公司) which is listed on the Stock Exchange (stock code: 2226) since December 2013, and the company secretary of SDM Group Holdings Limited which is listed on the Stock Exchange (stock code: 8363) since October 2014.

Mr. AU obtained a bachelor's degree of social sciences from the Chinese University of Hong Kong in December 1993 and a master's degree in business administration from the City University of Hong Kong in November 1999. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

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

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

CORPORATE GOVERNANCE PRACTICES

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

We have adopted, applied and complied with the code provisions contained in the Code on Corporate Governance Practices (the "Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") since the Listing Date to December 31, 2014, except for provision A2.1 of the Corporate Governance Code as disclosed below.

Pursuant to provision A2.1 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 and implementation 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.

BOARD OF DIRECTORS

The Board is the decision-making body of the Company, and is responsible for formulating overall strategies and policies of the Group and approving its implementation plans to ensure that the Group achieves its goal swiftly. During the period from the Listing Date to December 31, 2014, the responsibilities performed by the Board include: formulation of strategies of the Company; formulation of development goals, guidelines and policies and implementation plans of the Company; control of and assessment on the fulfillment of the Company's financial and operating goals; review and approval of annual financial budgets, final accounts plans, profit distribution plans and compensation plans of the Company; establishment of effective internal control systems for risks assessment; and review and approval of the Company's material contracts and transactions information disclosure, connected transactions and other matters required to be handled by the Board.

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

Delegation by the Board

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

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

Composition of the Board

During the period from the Listing Date to December 31, 2014, the Board comprised of twelve Directors, including four executive Directors (Mr. Yao Tongshan, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Cui Ruicheng); four non-executive Directors (Mr. Wu Jingshui, Mr. Fan Xiang, Mr. Cui Guiyong and Mr. Sun Qian); and four independent non-executive Directors (Mr. Wong Kun Kau, Mr. Li Changqing, Ms. Ge Xiaoping and Mr. Yuan Qing). The Chairman of the Board of the Company is Mr. Yao Tongshan.

Biographical details of the Directors are set out in the section headed “Directors and Senior Management” in the annual report.

As of the date of this report, the Company has maintained adequate liability insurances for the Directors.

Appointment, Re-election and Dismissal of Directors

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

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

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

Board Diversity Policy

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

Independent Non-executive Directors

The Company has complied with the requirement of appointing adequate number of independent non-executive Directors under Rule 3.10 of the Listing rules. Ms. Ge Xiaoping, one of the independent non-executive Directors of the Company has an experience of over 30 years in the auditing and accounting and is a PRC certified accountant.

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

Board Meeting

The Board convenes a meeting on a regular basis and at least four meetings each year. In 2014, the Board held five meetings at which the operating results, listing and investment issues of the Company were considered and discussed.

Attendance record is below:

Members	Meetings attended/ meetings held since respective appointment date	Attendance
Executive Directors		
Mr. Yao Tongshan	5/5	100%
Mr. Wu Jianye	4/4	100%
Ms. Gao Lingfeng	4/4	100%
Mr. Cui Ruicheng	4/4	100%
Non-executive Directors		
Mr. Wu Jingshui	4/4	100%
Mr. Fan Xiang	4/4	100%
Mr. Cui Guiyong	4/4	100%
Mr. Sun Qian	4/4	100%
Independent non-executive Directors		
Mr. Wong Kun Kau	3/3	100%
Mr. Li Changqing	3/3	100%
Ms. Ge Xiaoping	3/3	100%
Mr. Yuan Qing	3/3	100%

Note: Each Director has attended all the Board meetings which were held since their respective appointment date.

Director Training

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

The Company encourages and supports all the Directors (i.e. Mr. YAO Tongshan, Mr. WU Jianye, Ms. GAO Lingfeng, Mr. CUI Ruicheng, Mr. WU Jingshui, Mr. FAN Xiang, Mr. CUI Guiyong, Mr. SUN Qian, Mr. WONG Kun Kau, Mr. LI Changqing, Ms. GE Xiaoping and Mr. YUAN Qing) to receive training and encourages their continuous professional development, so as to develop and keep abreast of their knowledge and skills better and serve the Company more efficiently. The Company offers training opportunities for all the Directors from time to time. During the year, the legal advisors of the Company have provided training on those issues required to be known about listing for all Directors. In addition, professional training was organised by the Company for the independent non-executive Directors in November 2014.

BOARD COMMITTEES

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

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members. As at December 31, 2014, the Remuneration Committee comprised 2 independent non-executive Directors (Mr. WONG Kun Kau and Mr. LI Changqing) and 1 non-executive Director (Mr. SUN Qian) and was chaired by Mr. WONG Kun Kau.

According to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee convenes at least 1 meeting in each year. In 2014, the Remuneration Committee convened a total of 1 meeting, whereby the overall remuneration policy and structure for Company's Directors and senior management members and proposals on the establishment of standard and transparent procedures for the formulation of remuneration policies were reviewed.

NOMINATION COMMITTEE

The Company established the Nomination Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. As at December 31, 2014, the Nomination Committee comprised 2 independent non-executive Directors (Mr. YUAN Qing and Mr. WONG Kun Kau) and 1 executive Director (Mr. YAO Tongshan) and was chaired by Mr. YAO Tongshan.

According to the terms of reference of the Nomination Committee of the Company, the Nomination Committee convenes at least 1 meeting in each year. In 2014, the Nomination Committee convened a total of 1 meeting, whereby the members discussed the structure and composition of the Board of the Company, advised on the proposed changes to the Board for the purpose of the Company's corporate strategies and assessed the independence of independent non-executive Directors.

AUDIT COMMITTEE

The Company established the Audit Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. As at December 31, 2014, the Audit Committee comprised 2 independent non-executive Directors (Ms. GE Xiaoping and Mr. LI Changqing) and 1 non-executive Director (Mr. CUI Guiyong) and was chaired by Ms. GE Xiaoping.

According to the terms of reference of the Audit Committee of the Company, the Audit Committee convenes at least 2 meetings in each year. In 2014, the Audit Committee convened a total of 2 meetings, whereat the members discussed various matters, including the interim results announcement and interim results report of the Company and its subsidiaries for the interim period of 2014 and the 2014 annual audit plan, with Ernst & Young, the external auditor.

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

	Number of attendances/meetings		
Directors	Remuneration Committee	Nomination Committee	Audit Committee
YAO Tongshan		1/1	
GE Xiaoping			2/2
WONG Kun Kau	1/1	1/1	
LI Changqing	1/1		2/2
YUAN Qing		1/1	
CUI Guiyong			2/2
SUN Qian	1/1		

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the period from the Listing Date to December 31, 2014.

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

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

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

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2014 is set out in the "Independent Auditors' Report" contained in this annual report.

INTERNAL CONTROL

The Board is responsible for monitoring our internal control system and reviewing its effectiveness. We have implemented relevant necessary internal procedures in accordance with applicable laws and regulations of the PRC and Hong Kong. Internal control can provide necessary adjustment, restriction, assessment and control measures for the economics, efficiency and effectiveness of the implementation of the Company's operational goals, to ensure the complete integrity of assets, the correctness and reasonableness of accounting data and compliance with relevant laws, regulations and rules.

During the year, the Board took measures to improve its risk management function. Such measures mainly include: (1) the Board established and improved the Company's internal control rules and ensured their reasonableness and effective implementation; (2) the Company's management team, including general managers of subsidiaries and department heads, convened quarterly internal meetings of the Group to check the accomplishment of works for the current quarter and plan operational works for the next quarter. Such meetings are instrumental in coordinating, communicating and supervising the implementation of various operational objectives; (3) the Company established the internal audit department, which reports directly to the Chairman of the Board and monitors and assesses the Company's risks; (4) TC Capital Asia Limited was engaged as our external compliance advisor with effect from the Listing Date, so as to provide compliance advice and suggestions on continual compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

Based on the assessment by the Audit Department, senior management members and the internal audit department, we did not identify any material internal control flaw or deficit as at December 31, 2014.

COMPANY SECRETARIES

Mr. LI Yundong (李運動), one of our joint company secretaries, is a full-time employee of the Company. Mr. LI does not possess the qualification as stipulated in Rule 3.28 of the Listing Rules. We have appointed and engaged Mr. AU Wai Keung (區偉強), who possesses the qualification required under Rule 3.28, to act as another joint company secretary. Mr. CUI Ruicheng, the executive director and chief financial officer of the Company, is the usual contact person to liaise with Mr. AU.

Mr. AU Wai Keung (區偉強) and Mr. LI Yundong (李運動) cooperate with each other to jointly discharge the duties and responsibilities of company secretaries. Meanwhile, Mr. LI Yundong (李運動) joins relevant training and familiarizes himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

As at December 31, 2014, Mr. LI and Mr. AU, who are the Company's joint company secretaries, confirmed that they had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules by taking at least 15 hours of relevant professional training.

EXTERNAL AUDITOR AND ITS EMOLUMENTS

The Group's external auditor is Ernst & Young, which also acted as the Company's reporting accountant in relation to the initial public offering. For the year ended December 31, 2014, the emoluments paid or payable for the audit and non-audit services provided by Ernst & Young was as follows:

	Amount (RMB)
Audit Services	2,050,000
Review Services	700,000
Serving as the reporting accountants for the company's Initial Public Offering	4,827,000
Total	7,577,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or senior management by email at zgsm@smorganic.cn.

PROCEDURES FOR THE CONVENING OF EXTRAORDINARY GENERAL MEETINGS BY SHAREHOLDERS

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

CONSTITUTIONAL DOCUMENTS

During the period from the Listing Date to December 31, 2014, there was no change in or amendment to the Company's constitutional documents.

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Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 55 to 127, which comprise the consolidated and company statements of financial position as at December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Company Ordinance (cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
March 26, 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended December 31, 2014

	Notes	2014	2013
		RMB'000	RMB'000
REVENUE	5	2,132,428	1,143,709
Cost of sales		(1,062,620)	(653,284)
Gross profit		1,069,808	490,425
Gain arising from changes in fair value less costs to sell of biological assets	19	87,098	9,484
Other income and gains	5	28,405	6,868
Selling and distribution expenses		(128,111)	(71,821)
Administrative expenses		(101,733)	(25,436)
Finance costs	7	(60,272)	(32,821)
Share of profits and losses of associates		(7,651)	(1,349)
PROFIT BEFORE TAX	6	887,544	375,350
Income tax expense	10	(3,736)	(852)
PROFIT FOR THE YEAR		883,808	374,498
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		2,779	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		886,587	374,498
Profit attributable to:			
Owners of the parent	11	711,228	327,309
Non-controlling interests		172,580	47,189
		883,808	374,498
Total comprehensive income attributable to:			
Owners of the parent		714,007	327,309
Non-controlling interests		172,580	47,189
		886,587	374,498
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		RMB0.118	RMB0.075
Diluted		RMB0.116	RMB0.075

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2014

	Notes	December 31, 2014	December 31, 2013
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,657,827	922,764
Prepaid land lease payments	15	5,252	3,381
Other intangible assets	16	15,969	14,192
Investments in associates	18	28,160	17,727
Available-for-sale investments		980	-
Biological assets	19	2,720,126	1,510,160
Prepayments for property, plant and equipment and biological assets	21	26,985	9,043
Deferred tax assets	20	910	187
Total non-current assets		4,456,209	2,477,454
CURRENT ASSETS			
Inventories	22	701,183	335,218
Trade and bills receivables	23	397,543	63,470
Prepayments, deposits and other receivables	21	185,175	94,377
Pledged deposits	24	16,431	15,030
Cash and cash equivalents	24	734,703	127,059
Total current assets		2,035,035	635,154
CURRENT LIABILITIES			
Trade and bills payables	25	423,963	191,037
Receipts in advance		32,440	82,481
Other payables and accruals	26	293,443	198,565
Interest-bearing bank and other borrowings	27	1,334,000	932,000
Tax payable		2,299	633
Total current liabilities		2,086,145	1,404,716
NET CURRENT LIABILITIES		(51,110)	(769,562)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,405,099	1,707,892
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	150,000	—
Total non-current liabilities		150,000	—
Net assets		4,255,099	1,707,892

	Notes	December 31, 2014 RMB'000	December 31, 2013 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital: nominal value	28	50	—
Reserves	29	3,721,848	1,494,160
		3,721,898	1,494,160
Non-controlling interests		533,201	213,732
Total equity		4,255,099	1,707,892

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2014

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2013	—	—	641,138	—	54,653	—	471,060	1,166,851	51,618	1,218,469
Profit for the year	—	—	—	—	—	—	327,309	327,309	47,189	374,498
Total comprehensive income for the year	—	—	—	—	—	—	327,309	327,309	47,189	374,498
Capital injection	—	—	—	—	—	—	—	—	114,925	114,925
Transfer from retained profits	—	—	—	—	37,560	—	(37,560)	—	—	—
At December 31, 2013	—	—	641,138	—	92,213[+]	—	760,809[+]	1,494,160	213,732	1,707,892
At January 1, 2014	—	—	641,138	—	92,213	—	760,809	1,494,160	213,732	1,707,892
Profit for the year	—	—	—	—	—	—	711,228	711,228	172,580	883,808
Other comprehensive income:										
Exchange differences on translation of foreign operations	—	—	—	—	—	2,779	—	2,779	—	2,779
Total comprehensive income for the year	—	—	—	—	—	2,779	711,228	714,007	172,580	886,587
Reorganisation*	1	946,811	(265,768)	—	—	—	—	681,044	—	681,044
Issue of shares	4	843,459	—	—	—	—	—	843,463	—	843,463
Share issue expenses	—	(32,458)	—	—	—	—	—	(32,458)	—	(32,458)
Transfer from share premium account to share capital	45	(45)	—	—	—	—	—	—	—	—
Equity-settled share option arrangements	—	—	—	23,396	—	—	—	23,396	—	23,396
Capital injection	—	—	—	—	—	—	—	—	151,850	151,850
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	(6,675)	(6,675)
Loss on acquisition of non-controlling interests	—	—	(1,714)	—	—	—	—	(1,714)	1,714	—
Transfer from retained profits	—	—	—	—	94,558	—	(94,558)	—	—	—
At December 31, 2014	50	1,757,767	373,656	23,396[+]	186,771[+]	2,779[+]	1,377,479[+]	3,721,898	533,201	4,255,099

* Since December 2013, the Group has undertaken a reorganisation (the "Reorganisation") in anticipation of an initial public offering of the Shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("IPO"). The Reorganisation 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.

[+] These reserve accounts comprise the consolidated reserves of RMB1,590,425,000 (2013: RMB853,022,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2014

	Notes	2014	2013
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		887,544	375,350
Adjustments for:			
Gain arising from changes in fair value less costs to sell of biological assets	19	(87,098)	(9,484)
Interest income	5	(6,016)	(490)
Finance costs	7	60,272	32,821
Share of profits and losses of associates		7,651	1,349
Depreciation	14	58,953	28,003
Amortisation of prepaid land lease payments	15	97	71
Amortisation of other intangible assets	16	988	829
Loss on disposal of items of property, plant and equipment		137	—
Equity-settled share option expenses	30	23,396	—
Share issue expenses		22,654	—
Foreign exchange differences, net		(395)	—
		968,183	428,449
Increase in inventories		(365,965)	(130,975)
Increase in trade and bills receivables		(334,073)	(38,960)
Increase in prepayments, deposits and other receivables		(83,241)	(55,428)
Increase in pledged deposits		(1,401)	(8,233)
Increase in trade and bills payables		232,926	58,886
(Decrease)/increase in receipts in advance		(50,041)	64,954
Increase in accruals and other payables		57,075	45,040
Cash generated from operations		423,463	363,733
Interest received		6,016	490
Income taxes paid		(2,793)	(593)
Net cash flows from operating activities		426,686	363,630

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2014

	Notes	2014	2013
		RMB'000	RMB'000
Net cash flows from operating activities		426,686	363,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(760,620)	(442,479)
Additions to prepaid land lease payments	15	(2,008)	—
Additions to other intangible assets	16	(2,765)	(555)
Purchases of biological assets		(744,274)	(316,532)
Payments for breeding heifers and calves		(562,998)	(332,842)
Proceeds from disposal of biological assets		176,589	159,609
Proceeds from disposal of items of property, plant and equipment		535	—
Acquisition of associates		(18,084)	(1,500)
Acquisition of available-for-sale investments		(980)	—
Net cash flows used in investing activities		(1,914,605)	(934,299)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	843,463	—
Share issue expenses		(53,492)	—
Capital injection by investors		681,044	—
Capital injection by non-controlling interests		151,850	114,925
Acquisition of non-controlling interests		(2,000)	—
New bank loans		1,574,000	944,000
New other loans		2,850	15,830
Repayment of bank loans		(1,022,000)	(336,000)
Repayment of other loans		(20,470)	(38,205)
Interest paid		(60,077)	(32,660)
Net cash flows from financing activities		2,095,168	667,890
NET INCREASE IN CASH AND CASH EQUIVALENTS		607,249	97,221
Cash and cash equivalents at beginning of year		127,059	29,838
Effect of foreign exchange rate changes, net		395	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	734,703	127,059

STATEMENT OF FINANCIAL POSITION

December 31, 2014

	Notes	December 31, 2014	December 31, 2013
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Other intangible assets		69	—
Investments in subsidiaries	17	146,680	—
Due from subsidiaries	17	2,821,126	
Total non-current assets		2,967,875	—
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	1,627	—
Cash and cash equivalents	24	24,358	—
Total current assets		25,985	—
CURRENT LIABILITIES			
Other payables and accruals	26	3,306	—
Total current liabilities		3,306	—
NET CURRENT ASSETS		22,679	—
TOTAL ASSETS LESS CURRENT LIABILITIES		2,990,554	—
Net assets		2,990,554	—
EQUITY			
Share capital: nominal value	28	50	—
Reserves	29	2,990,504	—
Total equity		2,990,554	—

1. CORPORATE INFORMATION

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

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is World Shining Investment Limited, which is incorporated in the British Virgin Island.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation completed on March 26, 2014, the Company became the direct/indirect holding company of the companies now comprising the Group. As the Reorganisation only involved inserting new holding entities at the top of an existing company and has not resulted in any change of economic substance, the financial information for the year ended December 31, 2014 has been presented as a continuation of the existing company using the pooling of interest method.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are prepared as if the current group structure had been in existence throughout the year. The consolidated statement of financial position as at December 31, 2013, presents the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at that date.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

2.2 BASIS OF PREPARATION – continued

Basis of consolidation – continued

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

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

Going concern

The Group had net current liabilities of RMB51,110,000 as of December 31, 2014 (2013: RMB769,562,000). 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, unused commercial paper of RMB200 million granted by National Association of Financial Market Institutional Investors with expiry date on January 13, 2016 and bank facilities of RMB879 million granted to the Group subsequent to December 31, 2014 with expiry dates not earlier than December 31, 2015, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the 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 financial statements do not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendment to IFRS 2 included in Annual *Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in Annual *Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in Annual *Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in Annual *Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying Consolidation Exception*[3]
Amendments to IAS 1	*Disclosure Initiative*[3]

1 Effective from July 1, 2014.

2 The Group has early adopted the Amendments to IAS 16 and IAS 41, but the effective date of the amendments itself is effective for annual periods beginning on or after January 1, 2016.

3 Effective for annual periods beginning on or after January 1, 2016.

Other than explained below regarding the impact of the Amendments to IAS 16 and IAS 41, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendment has had no significant financial effect on these financial statements.

2.4 NEW AND REVISED IFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[2]

1 Effective for annual periods beginning on or after July 1, 2014
2 Effective for annual periods beginning on or after January 1, 2016
3 Effective for annual periods beginning on or after January 1, 2017
4 Effective for annual periods beginning on or after January 1, 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after January 1, 2016 and therefore is not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Group's results of operations and financial position.

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending December 31, 2015. The Group is in the process of making an assessment of the impact of these changes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are stated at cost less any impairment losses.

Investments in associates and joint ventures

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

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

The Groups' investments in associates and joint ventures are stated in the consolidated statement of financial position at the Groups' share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates and joint ventures – continued

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

The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5.

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations and goodwill – continued

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of non-financial assets – continued

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Biological assets

Biological assets comprise dairy cows, including milkable cows, and heifers and calves which are raised by the Group for the purposes of producing raw milk.

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

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

Agricultural produce

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

Non-current assets and disposal groups held for sale

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets (other than goodwill)

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

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

Technical know-how

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

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments and other financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss as other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments and other financial assets – continued

Available-for-sale financial investments – continued

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of financial assets – continued

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of financial assets – continued

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial liabilities – continued

Financial liabilities at amortised cost

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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

Income tax

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Income tax – continued

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Grants relating to biological assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants – continued

Other grants

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

(c) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payments – continued

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

Other employee benefits

Pension scheme

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

Termination benefits

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

Foreign currencies

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiary. As at December 31, 2014, the deferred tax liabilities arising thereon amounted to nil (2013: Nil).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Estimation uncertainty

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

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at each year end adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 19 to the financial statements.

Impairment of receivables

Management assesses doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. Management bases the estimates on the assessment of recoverability of individual receivable balance, customer creditworthiness, and historical write-off experience. If the financial condition of the debtors was to deteriorate, actual write-offs would be higher than estimated.

Impairment of non-financial assets (other than goodwill)

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

Depreciation

Property, plant and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. Management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4. 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 organic ultra-heat treated liquid milk and organic yogurt.

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 the dairy farming segment relative to other entities that operate within the diary farming industry.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION – continued

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.

Year ended December 31, 2014	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	1,393,117	739,311	2,132,428
Intersegment sales	416,918	—	416,918
	1,810,035	739,311	2,549,346
Reconciliation:			
Elimination of intersegment sales			(416,918)
Revenue			2,132,428
Segment results	752,063	123,733	875,796
Reconciliation:			
Elimination of intersegment results			(37,345)
Gain arising from changes in fair value less costs to sell of biological assets			87,098
Corporate and other unallocated expenses			(41,741)
Profit for the year			883,808
Segment assets	5,870,719	701,917	6,572,636
Reconciliation:			
Elimination of intersegment receivables			(217,494)
Corporate and other unallocated assets			136,102
Total assets			6,491,244
Segment liabilities	1,960,303	490,019	2,450,322
Reconciliation:			
Elimination of intersegment payables			(217,494)
Corporate and other unallocated liabilities			3,317
Total liabilities			2,236,145
Other segment information:			
Share of profits and losses of associates	548	(8,199)	(7,651)
Segment bank interest income	4,905	45	4,950
Corporate and other unallocated bank interest income			1,066
Total bank interest income			6,016
Finance costs	54,043	6,229	60,272
Income tax expenses	—	3,736	3,736
Other non-cash expenses	11,081	1,322	12,403
Corporate and other unallocated other non-cash expenses			10,993
Total other non-cash expenses			23,396
Depreciation and amortisation	46,458	13,580	60,038
Investments in associates	21,688	6,472	28,160
Segment capital expenditure*	1,880,635	85,915	1,966,550
Corporate and other unallocated capital expenditure			69
Total capital expenditure			1,966,619

4. OPERATING SEGMENT INFORMATION – continued

Year ended December 31, 2013	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	840,747	302,962	1,143,709
Intersegment sales	131,561	—	131,561
	972,308	302,962	1,275,270
Reconciliation:			
Elimination of intersegment sales			(131,561)
Revenue			1,143,709
Segment results	330,511	34,503	365,014
Reconciliation:			
Gain arising from changes in fair value less costs to sell of biological assets			9,484
Profit for the year			374,498
Segment assets	2,912,182	242,784	3,154,966
Reconciliation:			
Elimination of intersegment receivables			(42,358)
Total assets			3,112,608
Segment liabilities	1,250,354	196,720	1,447,074
Reconciliation:			
Elimination of intersegment payables			(42,358)
Total liabilities			1,404,716
Other segment information:			
Share of profits and losses of associates	(47)	(1,302)	(1,349)
Bank interest income	454	36	490
Finance costs	30,976	1,845	32,821
Income tax expenses	—	852	852
Depreciation and amortisation	21,502	7,401	28,903
Investments in associates	15,046	2,681	17,727
Capital expenditure*	1,022,051	112,288	1,134,945

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, other intangible assets and biological assets.

4. OPERATING SEGMENT INFORMATION – continued

Geographical information

All external sales of the Group during the year are contributed by customers located in the PRC.

Over 90% of the Group's non-current assets are located in the PRC.

Information about major customers

During the year, the below customers of the Group's dairy farming segment individually contributed to more than 10% of the Group's total revenue:

	2014	2013
	RMB'000	RMB'000
Entity A	973,679	666,599
Entity B	323,498	163,083

5. 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:

	Note	2014	2013
		RMB'000	RMB'000
Revenue			
– Sales of raw milk		1,393,117	840,747
– Sales of liquid milk products		739,311	302,962
		2,132,428	1,143,709
Other income and gains			
– Government grants	(i)	16,204	5,454
– Bank interest income		6,016	490
– Foreign exchange differences, net		6,167	—
– Others		18	924
		28,405	6,868
		2,160,833	1,150,577

Note:

(i) These government grants are unconditional government grants received by the Group as rewards for the Group's contribution to local economy and for the purpose of supporting the Group to purchase dairy cows. There are no unfilled conditions or contingencies attaching to these grants.

6. PROFIT BEFORE TAX

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

	2014 RMB'000	2013 RMB'000
Cost of inventories sold:		
– Plantation and breeding costs to produce raw milk	960,508	583,846
– Production costs for liquid milk products	102,112	69,438
	1,062,620	653,284
Gain arising from changes in fair value less costs to sell of biological assets	(87,098)	(9,484)
Depreciation of items of property, plant and equipment	58,953	28,003
Amortisation of prepaid land lease payments	97	71
Amortisation of other intangible assets	988	829
Research and development costs	3,591	1,185
Minimum lease payments under operating leases:		
–Plant and machinery	3,310	3,310
–Land and buildings	5,622	6,331
	8,932	9,641
Foreign exchange differences, net	(6,167)	—
Auditors' remuneration	2,750	66
Employee benefit expense (including directors' and chief executive officer's remuneration):		
Wages, salaries, bonuses and allowances	161,694	98,109
Other social insurances and benefits	8,391	4,315
Pension scheme contributions	7,073	4,284
Equity-settled share option expenses	23,396	—
	200,554	106,708

7. FINANCE COSTS

Group	2014	2013
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	68,798	32,821
Less: Interest capitalised	(8,526)	—
	60,272	32,821

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the year ended December 31, 2014 ranged between 6.00% and 6.72%.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014	2013
	RMB'000	RMB'000
Fees	239	—
Other emoluments:		
Salaries, allowances and benefits in kind	854	—
Pension scheme contributions	32	—
	886	—
	1,125	—

As the Company was incorporated on December 11, 2013 and has not commenced any business or operation apart from the Reoganisation, it did not appoint any director, chief executive or independent non-executive director for the year ended December 31, 2013.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year ended December 31, 2014.

As of December 31, 2014, certain directors were granted share options in respect of their services to the Group under the Pre-IPO Share Option Scheme, further details of which are set out in note 30 to the financial statements. In accordance with IFRS 2, share option benefits represent the fair value at the grant date of the share options issued under the share option scheme of the Company amortised to the consolidated statement of profit or loss during the year disregarding whether the options have been vested/exercised or not. During the year, the share option benefits relating to the share options granted to Mr. YAO Tongshan, Mr. WU Jianye, Ms. GAO Lingfeng and Mr. CUI Ruicheng were approximately RMB3,272,000 (2013: nil), RMB3,014,000 (2013: nil), RMB1,486,000 (2013: nil) and RMB1,486,000 (2013: nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION – continued

(a) *Independent non-executive directors*

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

	2014	2013
	RMB'000	RMB'000
Mr. LI Changqing	42	—
Ms.GE Xiaoping	42	—
Mr. YUAN Qing	42	—
Mr. WONG Kun Kau	33	—
	159	—

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

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
2014				
Executive directors:				
Mr. YAO Tongshan				
(also the chief executive)	20	227	9	256
Mr. WU Jianye	20	213	5	238
Ms. GAO Lingfeng	20	207	9	236
Mr. CUI Ruicheng	20	207	9	236
	80	854	32	966
Non-executive directors:				
Mr. WU Jingshui	—	—	—	—
Mr. FAN Xiang	—	—	—	—
Mr. CUI Guiyong	—	—	—	—
Mr. SUN Qian	—	—	—	—
	80	854	32	966

9. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration for the year of the five (2013: five) highest paid employees (neither a director nor chief executive of the Company) are as follows:

	2014	2013
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,476	1,500
Pension scheme contributions	37	27
	1,513	1,527

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

Number of employees	2014	2013
Nil to HK$1,000,000	5	5
HK$1,000,001 to HK$1,500,000	—	—
HK$1,500,001 to HK$2,000,000	—	—
	5	5

10. INCOME TAX EXPENSE

Group	2014	2013
	RMB'000	RMB'000
Current – PRC	4,459	1,039
Deferred (note 20)	(723)	(187)
	3,736	852

10. INCOME TAX EXPENSE – continued

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

	2014	2013
	RMB'000	RMB'000
Profit before tax	887,544	375,350
Tax at the statutory tax rate (note (i))	221,886	93,838
Income not subject to tax (note (ii))	(217,232)	(92,501)
Lower tax rate for specific provinces (note (iii))	(2,699)	(693)
Expenses not deductible for tax, net (note (iv))	2,093	208
Adjustments in respect of current tax of previous periods	(312)	—
Tax charge at the Groups' effective rate of 0.4% and 0.2%	3,736	852

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Hong Kong profits tax has not been provided as there are no assessable profits arising in Hong Kong during the year. Entities in the PRC are generally subject to the PRC enterprise income tax rate of 25% for the year ended December 31, 2014 (2013: 25%).

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

(iii) In accordance with "The notice of tax policies relating to the implementation of the Western China Development Strategy" (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Group's taxable income arising from the processing of non-primary agricultural products is subject to a preferential tax rate of 15% from 2013 to 2020.

(iv) Non-deductible expenses are mainly the entertainment expenses charged over the tax limit.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Of the Group's profit attributable to owners of the parent of RMB711,228,000 (2013: RMB327,309,000), a loss of RMB44,827,000 (2013: Nil) has been dealt with in the financial statements of the Company (note 29(b)).

No profit or loss was dealt with in the financial statements of the Company for the year ended December 31, 2013 as the Company was incorporated on December 11, 2013 and has not carried on any business since the date of incorporation save for the Reorganisation.

12. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended December 31, 2014 (2013: Nil).

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

The calculation of the basic earnings per share amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 6,018,136,320 (2013: 4,338,170,000) in issue during the year.

The diluted earnings per share amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares used in the calculation of the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

	Number of shares	
	2014	2013
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**6,018,136,320**	4,338,170,000
Effect of dilution of share options	**114,264,051**	—
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**6,132,400,371**	4,338,170,000

14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2014						
At December 31, 2013 and at January 1, 2014						
Cost	408,380	193,650	10,856	5,325	346,920	965,131
Accumulated depreciation	(19,247)	(19,388)	(2,097)	(1,635)	—	(42,367)
Net carrying amount	389,133	174,262	8,759	3,690	346,920	922,764
At January 1, 2014, net of accumulated depreciation	389,133	174,262	8,759	3,690	346,920	922,764
Additions	4,892	128,157	10,256	2,607	648,776	794,688
Transfers	492,812	105,215	275	—	(598,302)	—
Disposals	(74)	(453)	(145)	—	—	(672)
Depreciation provided for the year	(26,833)	(28,371)	(2,545)	(1,204)	—	(58,953)
At December 31, 2014, net of accumulated depreciation	859,930	378,810	16,600	5,093	397,394	1,657,827
At December 31, 2014						
Cost	906,007	426,305	21,202	7,932	397,394	1,758,840
Accumulated depreciation	(46,077)	(47,495)	(4,602)	(2,839)	—	(101,013)
Net carrying amount	859,930	378,810	16,600	5,093	397,394	1,657,827

14. PROPERTY, PLANT AND EQUIPMENT – continued

Group	Buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2013						
At December 31, 2012 and at January 1, 2013						
Cost	142,814	114,680	5,964	3,833	197,347	464,638
Accumulated depreciation	(7,081)	(5,595)	(854)	(859)	—	(14,389)
Net carrying amount	135,733	109,085	5,110	2,974	197,347	450,249
At January 1, 2013, net of accumulated depreciation	135,733	109,085	5,110	2,974	197,347	450,249
Additions	26,234	71,877	4,222	1,492	396,764	500,589
Transfers	239,369	7,112	710	—	(247,191)	—
Disposals	(35)	(15)	(21)	—	—	(71)
Depreciation provided for the year	(12,168)	(13,797)	(1,262)	(776)	—	(28,003)
At December 31, 2013, net of accumulated depreciation	389,133	174,262	8,759	3,690	346,920	922,764
At December 31, 2013						
Cost	408,380	193,650	10,856	5,325	346,920	965,131
Accumulated depreciation	(19,247)	(19,388)	(2,097)	(1,635)	—	(42,367)
Net carrying amount	389,133	174,262	8,759	3,690	346,920	922,764

15. PREPAID LAND LEASE PAYMENTS

Group	2014	2013
	RMB'000	RMB'000
Carrying amount at beginning of the year	3,452	3,523
Additions	2,008	—
Recognised during the year	(97)	(71)
Carrying amount at end of the year	5,363	3,452
Current portion included in prepayments, deposits and other receivables	(111)	(71)
Non-current portion	5,252	3,381

The leasehold land is situated in Mainland China and is held under a long-term lease.

16. OTHER INTANGIBLE ASSETS

Group	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
December 31, 2014			
Cost at January 1, 2014, net of accumulated amortisation	13,129	1,063	14,192
Additions	—	2,765	2,765
Amortisation provided during the year	(750)	(238)	(988)
At December 31, 2014	12,379	3,590	15,969
At December 31, 2014			
Cost	15,004	4,020	19,024
Accumulated amortisation	(2,625)	(430)	(3,055)
Net carrying amount	12,379	3,590	15,969
At December 31, 2013			
Cost	15,004	1,255	16,259
Accumulated amortisation	(1,875)	(192)	(2,067)
Net carrying amount	13,129	1,063	14,192

16. OTHER INTANGIBLE ASSETS – continued

Group	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
December 31, 2013			
Cost at January 1, 2013, net of accumulated amortisation	13,875	591	14,466
Additions	4	551	555
Amortisation provided during the year	(750)	(79)	(829)
At December 31, 2013	13,129	1,063	14,192
At December 31, 2013			
Cost	15,004	1,255	16,259
Accumulated amortisation	(1,875)	(192)	(2,067)
Net carrying amount	13,129	1,063	14,192
At December 31, 2012			
Cost	15,000	704	15,704
Accumulated amortisation	(1,125)	(113)	(1,238)
Net carrying amount	13,875	591	14,466

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	146,680	—
Loans to subsidiaries	2,821,126	—
	2,967,806	—

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as part of the Company's investments in its subsidiaries.

17. INVESTMENTS IN SUBSIDIARIES – continued

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech Farming Co., Ltd.# (note (i))	PRC October 18, 2009	RMB 738,700,000	—	100	Production and distribution of raw milk
內蒙古聖牧控股有限公司 Inner Mongolia Shengmu Holding Co., Ltd.# (note (i))	PRC January 21, 2010	RMB 280,000,000	—	100	Production and distribution of raw milk
內蒙古聖牧高科奶業有限公司 Inner Mongolia Shengmu High-tech Dairy Co., Ltd.#	PRC July 29, 2011	RMB 100,000,000	—	100	Production and distribution of dairy products
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd. ("Shengmu Pangu")#	PRC June 15, 2012	RMB 80,000,000	—	55	Production and distribution of raw milk

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

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

Notes:

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

17. INVESTMENTS IN SUBSIDIARIES – continued

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

	2014	2013
Percentage of equity interest held by non-controlling interests	45%	45%
Profit for the year allocated to non-controlling interests	43,732	27,284
Dividends paid to non-controlling interests of Shengmu Pangu	—	—
Accumulated balances of non-controlling interests at the end of reporting period	111,026	60,094

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

	2014	2013
	RMB'000	RMB'000
Revenue	208,876	68,094
Profit for the year	109,809	60,632
Total comprehensive income for the year	109,809	60,632
Current assets	148,418	61,981
Biological assets	193,758	122,577
Other non-current assets	88,599	63,279
Current liabilities	(81,422)	(114,274)
Non-current liabilities	(90,000)	—
Net cash flows (used in)/from operating activities	(35,947)	39,074
Net cash flows used in investing activities	(87,593)	(89,673)
Net cash flows from financing activities	121,689	54,678
Net (decrease)/increase in cash and cash equivalents	(1,851)	4,079

18. INVESTMENTS IN ASSOCIATES

	2014	2013
	RMB'000	RMB'000
Share of net assets	28,160	17,727

The Group's trade receivable and payable balances with the associates are disclosed in note 23 to the financial statements.

Particulars of the principal associates are as follows:

Name	Registered capital	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal activities
Shengmu Hi-Tech (Beijing) Trade Co., Ltd.*	RMB11,380,000	PRC	31.63%	Distribution of dairy products
Bayannur Shengmu High-tech Ecological Forage Co., Ltd.* (note (a))	RMB228,680,000	PRC	9.01%	Grass planting

* Not audited by Ernst & Young, Hong Kong or another member of the Ernst & Young global network.

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

Note:

(a) Although the Group only holds a 9.01% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at December 31, 2014, Shengmu Forage has been accounted for as an associate of the Group as the Group has had more than 20% effective voting power in Shengmu Forage since the Group disposed of its majority interest in Shengmu Forage in December 2011. Shengmu Forage, which is considered a material associate of the Group, is a strategic partner of the Group and is engaged in grass planting. Investment in Shengmu Forage is accounted for using the equity method.

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

18. INVESTMENTS IN ASSOCIATES – continued

The following table illustrates the summarised financial information of Shengmu Forage adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements::

	2014	2013
	RMB'000	RMB'000
Current assets	119,210	103,391
Non-current assets	313,489	209,632
Current liabilities	(202,504)	(138,014)
Net assets	230,195	175,009
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	9.01%	8.60%
Group's share of net assets of the associate, excluding goodwill	20,741	15,046
Goodwill included in investment	947	—
Carrying amount of the investment	21,688	15,046
Revenue	339,218	111,791
Profit for the year	7,407	3,062
Total comprehensive income for the year	7,407	3,062
Dividend received	—	—

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

	2014	2013
	RMB'000	RMB'000
Share of the associates' loss for the year	(8,199)	(1,302)
Share of the associates' total comprehensive loss	(8,199)	(1,302)
Aggregate carrying amount of the Group's investments in the associates	6,472	2,681

All the above associates have been accounted for using the equity method in these financial statements. The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associates exceeded the Group's interests in the associates. The amounts of the Group's unrecognized share of losses of these associates for the current year and cumulatively were RMB3,472,000 (2013: nil) and RMB3,472,000 (2013: nil), respectively.

19. BIOLOGICAL ASSETS

(A) *Nature of activities*

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

The quantity of dairy cows owned by the Group at December 31, 2014 is shown below. The Group's dairy cows include milkable cows, heifers and calves. Heifers and calves held at December 31, 2014 are dairy cows that have not had their first calves.

	2014	2013
	Head	Head
Dairy cows		
Milkable cows	55,032	35,850
Heifers and calves	48,220	24,607
Total dairy cows	103,252	60,457

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

The Group is exposed to a number of risks related to its biological assets. In addition to the financial risk disclosed in note 36, the Group is exposed to the following operation risks:

(i) Regulatory and environmental risks

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

(ii) Climate, disease and other natural risks

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

19. BIOLOGICAL ASSETS – continued

(B) *Value of biological assets*

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

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
December 31, 2014			
At January 1, 2014	424,699	1,085,461	1,510,160
Increase due to purchase	707,825	27,419	735,244
Increase due to raising (feeding costs and others)	562,998	—	562,998
Transfer	(724,498)	724,498	—
Decrease due to sales	(58,912)	(116,462)	(175,374)
Gain arising from changes in fair value less costs to sell	32,918	54,180	87,098
At December 31, 2014	945,030	1,775,096	2,720,126

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
December 31, 2013			
At January 1, 2013	353,443	676,098	1,029,541
Increase due to purchase	164,862	134,785	299,647
Increase due to raising (feeding costs and others)	332,841	—	332,841
Transfer	(303,538)	303,538	—
Decrease due to sales	(41,583)	(119,770)	(161,353)
Gain/(loss) arising from changes in fair value less costs to sell	(81,326)	90,810	9,484
At December 31, 2013	424,699	1,085,461	1,510,160

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 professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the valuation of biological assets.

19. BIOLOGICAL ASSETS – continued

(C) Fair value hierarchy

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

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

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

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

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2014	—	—	2,720,126	2,720,126
As at December 31, 2013	—	—	1,510,160	1,510,160

19. BIOLOGICAL ASSETS – continued

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

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Heifers and calves	The fair value of the heifers purchased within six months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest heifers, the fair value of 14 months of age heifers is determined by referring to the market price of the actively traded market. The fair values of the heifers older than 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers younger than 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the calves or heifers from the respective specific ages to 14 months old and the margins that would be required by a raiser.	Average market price of the heifers of 14 months old: RMB20,020 to RMB20,392 for the year of 2014 (2013: RMB17,291 to RMB19,054)	The estimated fair value increases when the market price increases.

19. BIOLOGICAL ASSETS – continued

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year end will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or completion of all lactation periods. The estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.
	the calf interval (including dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days).This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for lactation period ranges from 8.8 tonnes to 10.3 tonnes for the year of 2014 (2013: 7.1 tonnes to 9.0 tonnes) depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated future local market prices for raw milk per tonne for the year of 2014 range from RMB4.760 to RMB5.220 per tonne (2013: RMB4.650 to RMB5.200 per tonne).	The estimated fair value increases when the estimated future local market price for raw milk increases.
		The discount rates is 14.00% for the year of 2014 (2013: 14.50%), respectively calculated by using the capital asset pricing model.	The estimated fair value decreases when the discount rate increases.

19. BIOLOGICAL ASSETS – continued

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

	2014	2013
	Tonne	Tonne
Raw milk	353,284	207,405

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

	2014	2013
	RMB'000	RMB'000
Raw milk	1,790,584	961,151

20. DEFERRED TAX

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

Group	2014	2013
	RMB'000	RMB'000
At January, 1	187	—
Credited to profit or loss during the year	723	187
At December, 31	910	187

The principal components of the Group's deferred tax are as follows:

	2014	2013
	RMB'000	RMB'000
Accrued expenses	910	187

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

At December 31, 2014, no (2013: Nil) deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,419,220,000 at December 31, 2014 (2013: RMB760,809,000).

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	175,449	83,822	1,627	—
Deposits and other receivables	24,436	15,413	—	—
Prepaid expenses	12,275	4,185	—	—
	212,160	103,420	1,627	—
Non-current prepayments	(26,985)	(9,043)	—	—
Current portion	185,175	94,377	1,627	—

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. INVENTORIES

Group	2014	2013
	RMB'000	RMB'000
Raw materials	605,893	319,525
Finished goods	68,919	832
Consumables	26,371	14,861
	701,183	335,218

23. TRADE AND BILLS RECEIVABLES

Group	2014	2013
	RMB'000	RMB'000
Trade receivables	393,443	61,360
Bills receivable	4,100	2,110
Impairment	—	—
	397,543	63,470

The Group normally allows a credit limit or offer to its customers credit terms which are 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 and bills receivables are non-interest-bearing.

23. TRADE AND BILLS RECEIVABLES – continued

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

Group	2014	2013
	RMB'000	RMB'000
Within 3 months	336,882	63,470
4 to 6 months	46,383	—
7 months to 1 year	13,688	—
Over 1 year	590	—
	397,543	63,470

No impairment of trade and bills receivables for the year ended December 31, 2014 (2013: Nil) was provided.

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

Group	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	397,543	63,470

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	734,703	127,059	24,358	—
Pledged deposits	16,431	15,030	—	—
Cash and bank balances	751,134	142,089	24,358	—

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS – continued

At December 31, 2014, cash and bank balances of the Group denominated in RMB amounted to approximately RMB691,135,000 (2013: RMB142,088,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE AND BILLS PAYABLES

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

Group	2014	2013
	RMB'000	RMB'000
1 to 3 months	406,785	187,939
4 to 6 months	13,224	510
7 to 12 months	2,470	2,112
1 to 2 years	1,451	359
2 to 3 years	33	117
	423,963	191,037

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from related parties	4,675	7,609	1,686	—
Payables for acquisition of property, plant and equipment	122,135	87,416	—	—
Payables for purchase of dairy cows	27,009	18,959	—	—
Payables for third parties' deposits	30,267	20,194	—	—
Payables for purchase of transportation services	26,058	8,217	—	—
Salary and welfare payables	25,776	20,060	—	—
Others	57,523	36,110	1,620	—
	293,443	198,565	3,306	—

Other payables are non-interest-bearing and have an average term of 90 days.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2014			2013		
	Effective contract rate (%)	Maturity	RMB'000	Effective contract rate (%)	Maturity	RMB'000
Current						
Bank and other borrowings – unsecured	5.88-6.72	2015	1,334,000	6.00	2014	782,000
Bank borrowings – secured	6.00-6.60		—	6.00	2014	150,000
			1,334,000			932,000
Non-current						
Bank and other borrowings – unsecured	6.72-7.04	2019	150,000			—
			1,484,000			932,000

	2014	2013
	RMB'000	RMB'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year or on demand	1,334,000	932,000
In the third to fifth years, inclusive	150,000	—
	1,484,000	932,000

Notes:

(i) The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates.

(ii) As at December 31, 2013 and 2014, the Group's interest-bearing bank and other borrowings were secured as follows:

	2014	2013
	RMB'000	RMB'000
Guaranteed by certain shareholders*	—	150,000
Unguaranteed and unsecured	1,484,000	782,000
	1,484,000	932,000

* 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.

28. ISSUED CAPITAL

Shares

	2014	2013
	RMB'000	RMB'000
Authorised:		
Ordinary shares of HK$0.00001 each (2013: HK$1 each)	236	236
Issued and fully paid:		
HK$63,544 (2013: HK$1) ordinary shares	50	—

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital	Share premium account	Total
		RMB'000	RMB'000	RMB'000
Reorganisation	143,839,020	1	946,811	946,812
Issue of shares	444,800,000	4	843,459	843,463
Share issue expenses	—	—	(32,458)	(32,458)
Transfer from share premium account to share capital	5,765,760,980	45	(45)	—
At December 31, 2014	6,354,400,000	50	1,757,767	1,757,817

29. RESERVES

(a) Group

(i) Movements in components of equity

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

(ii) Contributed surplus

The Group's contributed surplus represents the issued capital and share premium of the subsidiaries of the Company before the completion of the Reorganisation.

(iii) Reserve fund

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

29. RESERVES – continued

(b) Company

	Share premium account	Share option reserve	Accumulated losses	Foreign currency translation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loss for the period	—	—	(44,827)	—	(44,827)
Other comprehensive income	—	—	—	(13,002)	(13,002)
Total comprehensive income for the year	—	—	(44,827)	(13,002)	(57,829)
Equity-settled share option arrangement	—	23,396	—	—	23,396
Issue of shares	3,057,440	—	—	—	3,057,440
Share issue expenses	(32,458)	—	—	—	(32,458)
Transfer from share premium account to share capital	(45)	—	—	—	(45)
At December 31, 2014	3,024,937	23,396	(44,827)	(13,002)	2,990,504

30. PRE-IPO SHARE OPTION SCHEME

The Company has approved and adopted a pre-IPO share option scheme pursuant to the resolutions of the shareholders passed on April 30, 2014 (the "Pre-IPO Share Option Scheme"). 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. The Pre-IPO Share Option Scheme became effective on April 30, 2014 and, unless otherwise cancelled or amended, will remain in force for 4 years from that date.

Prior to the listing date of the Company on The Main Board of The Stock Exchange of Hong Kong Limited (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 December 31, 2014 (excluding any options granted under the Pre-IPO Share Option Scheme 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 December 31, 2014, assuming that all options granted under the Pre-IPO Share Option Scheme have been exercised. 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.

30. SHARE OPTION SCHEME – continued

The offer of a grant of share options may be acceptable within 5 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option will only be vested if and when the pre-set performance targets of the Group, the Company the grantee belongs to are achieved. An option granted under the Pre-IPO Share Scheme shall lapse immediately if the grantee ceased employment with the Group or Shengmu Forage. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one year and ends on a date which is not later than six months from the date of the vesting date.

The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK$1.56.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Exercise price	Number of options
	HK$ per share	
At January 1, 2014	—	—
Granted during the year	1.56	504,480,000
At December 31, 2014		504,480,000

The fair value of the share options granted during the year was HK$44,561,000 (HK$0.0883 each), of which the Group recognised a share option expense of HK$29,707,000 (equivalent to RMB23,396,000) during the year ended December 31, 2014 (2013: Nil).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2014
Expected dividend yield (%)	—
Expected volatility (%)	39.79
Risk-free interest rate (%)	0.21
Option's life (year)	1.5
Weighted average share price (HK$ per share)	1.10

30. SHARE OPTION SCHEME – continued

The expected volatility reflects the assumption that the historical volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 504,480,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 504,480,000 additional ordinary shares of the Company and additional share capital of HK$5,045 and share premium of HK$786,983,755 (before issue expenses).

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases from third parties certain office properties and dairy farms, including buildings and equipment under operating lease arrangements.

At each year end, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group	2014	2013
	RMB'000	RMB'000
Within one year	19,304	8,949
In the second to fifth years, inclusive	18,117	24,859
	37,421	33,808

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at each year end:

Group	2014	2013
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	240,683	48,501
Plant and machinery	2,507	37,641
	243,190	86,142

33. RELATED PARTY DISCLOSURES

(A) In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with its associates and other related parties.

Name	Note	2014	2013
		RMB'000	RMB'000
Associates:			
Sales of products	(i)	106,688	7,998
Purchase of raw materials*	(i)	371,972	111,791

Note:

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

* The related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(B) Other transactions with related parties:

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

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

	2014	2013
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,318	570
Pension scheme contributions	40	25
	1,358	595

Further details of directors' and the chief executive officer's emoluments are included in note 8 to the financial statements.

33. RELATED PARTY DISCLOSURES – continued

(D) Outstanding balances with related parties

	2014	2013
	RMB'000	RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	72,244	1,386
– Trade and bills payables	(5,440)	(2,963)
– Prepayments, deposits and other receivables	68,108	57,501
– Other payables and accruals	(201)	—
Amounts owed by/(owed to) certain shareholders included in:		
– Other payables and accruals	—	(6,880)

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Financial assets

Group	2014	2013
	RMB'000	RMB'000
Loans and receivables:		
Trade and bills receivables	397,543	63,470
Financial assets included in prepayments, deposits and other receivables	22,041	15,413
Pledged deposits	16,431	15,030
Cash and cash equivalents	734,703	127,059
	1,170,718	220,972
Available-for-sale investments	980	—

34. FINANCIAL INSTRUMENTS BY CATEGORY – continued

Financial liabilities

Group	2014	2013
	RMB'000	RMB'000
Financial liabilities at amortised cost:		
Trade and bills payables	423,963	191,037
Financial liabilities included in other payables and accruals	261,004	214,179
Interest-bearing bank and other borrowings	1,484,000	932,000
	2,168,967	1,337,216

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Group	Carrying amounts As at December 31,		Fair values As at December 31,	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	1,484,000	932,000	1,494,217	932,000

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.

The Group did not have any financial assets or liabilities measured at fair value for the year ended December 31, 2014 (2013: Nil).

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

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

Group	Fair value measurement using significant unobservable inputs (Level 3)	
	2014	2013
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank and other borrowings	1,494,217	932,000

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, pledged deposits, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on cash and cash equivalents, and pledged bank deposits. Management considers that these bank balances are not sensitive to fluctuations in interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in note 27.

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at December 31, 2014, cash and bank balances of approximately RMB38,292,000 (2013: 1,000) and RMB21,706,000 (2013: Nil) were denominated in United States dollars ("USD") and Hong Kong dollars ("HK$"), respectively. The fluctuations of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk – continued

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in rate	Increase/ (decrease) in profit before tax
	%	RMB'000
2014		
If RMB strengthens against US$	5%	(85,074)
If RMB weakens against US$	(5%)	85,074
2013		
If RMB strengthens against US$	5%	—
If RMB weakens against US$	(5%)	—

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Credit risk of the Group's other financial assets, which comprise cash and bank balances, and other receivables, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed as at 31 December 2014. The Group has a concentration of credit risk as 51% of the total trade and bills receivables as at December 31, 2013 were due from the Group's top two customers. In 2013, the Group's two top customers were both in the milk processing industry in the PRC and are listed on the Main Board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 23 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and projected cash flows from operations.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments.

	On demand	Less than 1 year	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2014				
Trade and bills payables	423,963	—	—	423,963
Financial liabilities included in other payables and accruals	261,004	—	—	261,004
Interest-bearing bank and other borrowings	—	1,384,070	198,751	1,582,821
	684,967	1,384,070	198,751	2,267,788
2013				
Trade and bills payables	191,037	—	—	191,037
Financial liabilities included in other payables and accruals	174,821	—	—	174,821
Interest-bearing bank and other borrowings	—	962,850	—	962,850
	365,858	962,850	—	1,328,708

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes interest-bearing borrowings. Total capital is calculated as equity as shown in the consolidated statement of financial position. The Group's policy is to maintain a healthy gearing ratio. The gearing ratios at the end of the reporting periods were as follows:

	2014	2013
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	1,484,000	932,000
Total equity	4,255,099	1,707,892
Gearing ratio	34.9%	54.6%

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 26, 2015.

FINANCIAL SUMMARY

Below is the summary of audited financial statement for the relevant years:

RMB'000	For the year ended December 31,			
	2014	2013	2012	2011
Revenue	2,132,428	1,143,709	700,763	389,417
Profit for the year	883,808	374,498	198,903	223,241
Profits attributable to the owners of the parent	711,228	327,309	195,782	223,268
Earnings per share attributable to ordinary equity holders of the parent				
Basic	RMB 0.118	RMB0.075	—	—
Diluted	RMB 0.116	RMB0.075	—	—

	As of December 31,			
	2014	2013	2012	2011
Total assets	6,491,244	3,112,608	1,816,728	1,181,170
Total liabilities	2,236,145	1,404,716	598,259	305,904
Net assets	4,255,099	1,707,892	1,218,469	875,266
Equity attributable to ordinary equity holders of the parent:	3,721,898	1,494,160	1,166,851	855,569