

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

2015

INTERIM REPORT



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

<http://www.youjimilk.com>

HIGHLIGHTS

	For the six months ended June 30,		Change (%)
	2015 (Unaudited) (RMB'000)	2014 (Unaudited)	
Revenue	1,383,627	905,629	+52.8%
Profit for the period	460,902	355,657	+29.6%
Profit before fair value adjustment of biological assets	427,517	345,641	+23.7%
Profit attributable to owners of the parent	333,609	279,090	+19.5%

The Group's revenue increased by 52.8% from RMB905.6 million for the same period in 2014 to RMB1,383.6 million for the six months ended June 30, 2015.

The Group's profit increased by 29.6% from RMB355.7 million for the same period in 2014 to RMB460.9 million for the six months ended June 30, 2015.

The Group's profit before fair value adjustment of biological assets increased by 23.7% from RMB345.6 million for the same period in 2014 to RMB427.5 million for the six months ended June 30, 2015.

The Group's profit attributable to owners of the parent increased by 19.5% from RMB279.1 million for the same period in 2014 to RMB333.6 million for the six months ended June 30, 2015.

The Directors do not recommend the payment of interim dividend for the six months ended June 30, 2015 (six months ended June 30, 2014: Nil).

MARKET REVIEW

With the internationalization of the PRC market and continual improvement of people's living standards, consumer awareness for food safety and quality has gradually increased. The concept of a "green" and "organic" lifestyle has been prevalent and is becoming a preferred choice of lifestyle, as manifested by the fact that such lifestyle has gained more and more popularity among consumers, and that the organic food is entering into the mainstream distribution channel and occupying high-end consumer market.

Benefiting from the rapid growth of demand for organic food, our core business has made great progress in the first half of 2015. We continue to maintain a competitive edge in the industry. Based on the volume of organic herd size and organic raw milk production, China Shengmu has been the largest organic dairy company in China, the only vertically integrated organic dairy company satisfying the European Union standards, the only dairy company providing branded organic dairy products processed from 100% raw milk supplied by self-owned organic farms with certification and the only large-scale desert-based dairy product company adopting a complete grass-to-glass organic production system. In the first half of 2015, China Shengmu was once again awarded China International Organic Food Expo Gold Medal (中國國際有機食品博覽會金獎) jointly by the China Green Food Development Center (中國綠色食品發展中心) and the NürnbergMesse Group for the fourth time. Throughout the years, China Shengmu has received unanimous approval at home and abroad, representing the highest quality of the PRC dairy.

BUSINESS REVIEW

The Group's businesses include dairy farming business and liquid milk business. All of the Group's raw milk used for the production of organic liquid milk products have been supplied by self-owned organic farms with certification in Ulanbuh desert. In the first half of 2015 ("2015 Interim Period"), the Group's revenue from both of its raw milk products and liquid milk products recorded a significant growth as compared to the first half of 2014 ("2014 Interim Period"). In particular, during the 2015 Interim Period, sales revenue from the liquid milk products recorded an increase of 177.0% from the 2014 Interim Period, its share of the Group's total revenue increased from 26.9% for the 2014 Interim Period to 48.8% for the 2015 Interim Period, and this illustrates the important breakthrough in the downstream product marketing of our Group's 'Complete Grass-to-Glass Organic Production System in Desert', as well as the development potentials of the said production system.

Herd Size and Production Volume

As of June 30, 2015, the Group had 20 organic dairy farms in operation, 1 organic dairy farm under construction (operation on Bayannur Farm No. 6 has been relocated to another farm) and 12 non-organic farms in operation. As at June 30, 2015, the herd size of the Group was 106,357 dairy cows (June 30, 2014: 79,253), of which 68,515 were organic dairy cows (June 30, 2014: 44,779).

Distribution Network

Given the increasing market demand and the Group's effective distribution network expansion, the Group's revenue increased significantly in the first half of 2015 as compared to the same period in 2014.

The Group's clients are mainly industrial customers and distributors. The Group sells its premium non-organic raw milk and a portion of its organic raw milk to a limited number of leading dairy companies in the PRC, and the Group has been increasingly processing raw milk into liquid milk and sell under the brand of "Shengmu 聖牧". During the 2015 Interim Period, the Group's market network coverage kept increasing. Currently, China Shengmu liquid milk products are distributed through points of sales over 400 cities in the PRC, including some newly developed market such as Tibet, Xinjiang, Hainan, etc., with network covering most of the first and second tier markets, and the widening coverage over the third and fourth tier cities.

During the 2015 Interim Period, the Group's Blue Ocean Strategy (藍海戰略) to develop large chain-community stores has been effectively implemented. In the first half of the year, our products have entered into over 30,000 large chain-community stores across the PRC market, increasing our liquid milk brand awareness among consumers effectively and contributing to the market sale of our liquid milk products to a large extent.

During the 2015 Interim Period, the Group's product differentiation strategy has also been effectively implemented. Given the uniqueness of China Shengmu's organic children's milk and organic yogurt products, of which no comparable products have been provided by other dairy companies by now, we focused on the marketing of these two products in the first half of the year, carrying out a variety of promotion activities such as "starting organic life from childhood" and recreational contests in kindergartens and primary schools. As a result, sales of organic children's milk and organic yogurt has increased during the 2015 Interim Period.

At the same time, we launched a variety of marketing management strategies for different products in light of their characteristics through different channels so as to fully capitalize each of their competitive edge, which was a meaningful trial for refined management of marketing channels.

FINANCIAL REVIEW

The Group continued to enjoy a rapid growth in the 2015 Interim Period. The Group recorded a revenue of RMB1,383.6 million in the 2015 Interim Period, representing an increase of 52.8% from RMB905.6 million in the 2014 Interim Period. Profit of the Group increased by 29.6% from RMB355.7 million in the 2014 Interim Period to RMB460.9 million in the 2015 Interim Period.

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

Revenue

	For the six months ended June 30,	
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	
Dairy farming business	708,893	662,058
Liquid milk business	674,734	243,571
Total	1,383,627	905,629

Unit: RMB in thousands, except percentages

For the six months ended June 30,	Dairy farming business				Liquid milk business				Total revenue
	Segment revenue	Inter -segment sales ⁽¹⁾	External sales	External sales as % of total revenue	Segment revenue	Inter -segment sales	External sales	External sales as % of total revenue	
2015 (Unaudited)	1,270,319	561,426	708,893	51.2%	674,734	—	674,734	48.8%	1,383,627
2014 (Unaudited)	785,042	122,984	662,058	73.1%	243,571	—	243,571	26.9%	905,629

(1) Represents self-produced organic raw milk sold to our internal liquid milk business.

In the 2015 Interim Period, the Group's revenue increased by 52.8% over the 2014 Interim Period, which was mainly attributable to the fact that the liquid milk business began to play a core driver role. In terms of revenue structure of each segment in the 2015 Interim Period, the sales percentage of liquid milk increased from 26.9% in the 2014 Interim Period to 48.8% in the 2015 Interim Period. In the 2015 Interim Period, in order to further increase the market share of the Company's organic liquid milk, the Company steadily and actively expanded marketing network and channels, implemented differentiated product promotion strategies and product-specific target management, while proactively reducing the selling price of liquid milk products. The Company's liquid milk business grew rapidly as a result of effective implementation of the above marketing strategies. The sales volume of organic liquid milk increased by 263.1% from 16,400 tonnes in the 2014 Interim Period to 59,550 tonnes in the 2015 Interim Period, and accordingly the revenue of liquid milk increased by 177.0% from RMB243.6 million in the 2014 Interim Period to RMB674.7 million in the 2015 Interim Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Dairy farming business

For the six months ended June 30,

	2015 (Unaudited)				2014 (Unaudited)			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	356,779	67,645	5,274	28.1%	337,913	60,330	5,601	43.0%
Inter-segment sales ⁽¹⁾	561,426	103,109	5,445	44.2%	122,984	21,356	5,759	15.7%
Subtotal	<u>918,205</u>	<u>170,754</u>	<u>5,377</u>	<u>72.3%</u>	<u>460,897</u>	<u>81,686</u>	<u>5,642</u>	<u>58.7%</u>
Premium non-organic raw milk	<u>352,114</u>	<u>80,697</u>	<u>4,363</u>	<u>27.7%</u>	<u>324,145</u>	<u>67,263</u>	<u>4,819</u>	<u>41.3%</u>
Dairy farming segment	<u>1,270,319</u>	<u>251,451</u>	<u>5,052</u>	<u>100.0%</u>	<u>785,042</u>	<u>148,949</u>	<u>5,271</u>	<u>100.0%</u>

(1) Represents self-produced organic raw milk sold to our internal liquid milk business.

The revenue of dairy farming segment increased by 61.8% from RMB785.0 million in the 2014 Interim Period to RMB1,270.3 million in the 2015 Interim Period. The increase was primarily due to significant increase in revenue from the sales of organic raw milk, which increased from RMB460.9 million in the 2014 Interim Period to RMB918.2 million in the 2015 Interim Period, representing an increase of 99.2%. For revenue from the sales of raw milk, the ratio of revenue from internal supply to organic liquid milk processing plants as within the dairy farming segment increased from 15.7% for the corresponding period last year to 44.2% for the current period.

LIQUID MILK BUSINESS

The Group's revenue from its liquid milk business increased by 177.0% from RMB243.6 million in the 2014 Interim Period to RMB674.7 million in the 2015 Interim Period. Revenue of liquid milk business as a percentage of total revenue of the Group significantly increased from 26.9% in the 2014 Interim Period to 48.8% in the 2015 Interim Period. The rapid development of liquid milk business was mainly due to further consumer recognition of high-end liquid milk under the grass-to-glass organic industry chain and the increase of market demands. Meanwhile, in order to further expand the market share of organic liquid milk products, the Group has taken the opportunity to leverage on cost advantages under the grass-to-glass organic industry chain to proactively lower the price of our liquid milk products. Driven by liquid milk business, revenue from organic business (including organic raw milk and organic liquid milk) as a percentage of total revenue of the Group increased from 64.2% in the 2014 Interim Period to 74.6% in the 2015 Interim Period.

	For the six months ended June 30,		
	2015	2014	Increase
	(Unaudited)	(Unaudited)	
Revenue (RMB'000)	674,734	243,571	177.0%
Sales volume (Tonnes)	59,550	16,400	263.1%
Average selling price (RMB/tonne)	11,331	14,852	-23.7%

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

Unit: RMB in thousands, except percentages

	For the six months ended June 30,			
	2015		2014	
	(Unaudited)		(Unaudited)	
	Amount	Percentage	Amount	Percentage
Premium non-organic raw milk	352,114	25.4%	324,145	35.8%
Organic products				
Organic raw milk	356,779	25.8%	337,913	37.3%
Organic liquid milk	674,734	48.8%	243,571	26.9%
Subtotal of organic products	1,031,513	74.6%	581,484	64.2%
Total	1,383,627	100.0%	905,629	100.0%

Cost of sales, gross profit and gross margin

	For the six months ended June 30,					
	2015 (Unaudited)			2014 (Unaudited)		
	Cost of sales Amount	Gross profit Amount	Gross margin %	Cost of Sales Amount	Gross profit Amount	Gross margin %
	(RMB in thousands, except percentages)					
Dairy farming business						
Organic raw milk						
Before elimination	474,303	443,902	48.3%	230,415	230,482	50.0%
After elimination ⁽¹⁾	187,897	168,882	47.3%	170,175	167,738	49.6%
Premium non-organic raw milk	218,052	134,062	38.1%	187,215	136,930	42.2%
Subtotal						
Before elimination	692,355	577,964	45.5%	417,630	367,412	46.8%
After elimination ⁽¹⁾	405,949	302,944	42.7%	357,390	304,668	46.0%
Liquid milk business						
Before elimination	530,047	144,687	21.4%	167,258	76,313	31.3%
After elimination ⁽²⁾	340,213	334,521	49.6%	104,514	139,057	57.1%
Total after elimination	746,162	637,465	46.1%	461,904	443,725	49.0%

- (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 plus (b) the volume of 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 (1) above.

The Group's cost of sales increased from RMB461.9 million in the 2014 Interim Period to RMB746.2 million in the 2015 Interim Period, gross profit increased from RMB443.7 million in the 2014 Interim Period to RMB637.5 million in the 2015 Interim Period, and gross margin slightly decreased from 49.0% in the 2014 Interim Period to 46.1% in the 2015 Interim Period.

In the 2015 Interim Period, the cost of sales of the Group increased by 61.5% as compared to the 2014 Interim Period. The increase of cost of sales was mainly due to the expansion of sales scale of the Group. In the 2015 Interim Period, gross profit of the Group increased by 43.7% as compared to the 2014 Interim Period. The increase in gross profit of the Group was lower than the increase in total revenue of the Group, primarily due to decrease in selling price of both raw milk and organic liquid milk of the Company in the 2015 Interim Period as compared to the corresponding period last year, while the Group recorded a relatively significant increase in terms of gross profit.

Overall, against the backdrop of industry situation, the consolidated gross margin of the Company decreased from 49.0% in the 2014 Interim Period to 46.1% in the 2015 Interim Period, primarily due to decrease in gross margin of both raw milk and liquid milk as compared to the corresponding period last year with relatively greater decrease in gross margin of liquid milk, which accounted for higher ratio of the total sales.

Other Income and Gains

Other income and gains mainly include bank interest income, government grants, foreign exchange differences (net) and others. In the 2015 Interim Period, other income and gains were RMB9.6 million, as compared to RMB9.2 million in the 2014 Interim Period.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily include logistics and transportation expenses, warehouse fees and employee remunerations. In the 2015 Interim Period, the selling and distribution expenses of the Group amounted to RMB119.8 million, representing a significant increase as compared to RMB33.9 million in the 2014 Interim Period, which was mainly due to significant increase in the sales volume of liquid milk business over the 2014 Interim Period. The logistics and transportation expenses sharply increased with significant increase in the sales volume. Meanwhile, to support further expansion of sales network, the Company increased its branch warehouses in some important transport hub areas to distribute products to the peripheral markets. Therefore, the warehouse fees also significantly increased during the current reporting period as compared to the 2014 Interim Period.

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 RMB44.9 million and RMB40.5 million in the 2015 Interim Period and 2014 Interim Period, representing 3.2% and 4.5% of the revenue, respectively. Compared to the 2014 Interim Period, the relatively significant decrease in percentage of administrative expenses in the 2015 Interim Period of the revenue was mainly due to inclusion of the listing expenses of RMB13.8 million in the administrative expenses for the corresponding period last year. Excluding such listing expenses included in the administrative expenses for the corresponding period last year, the administrative expenses of the Group represented 3.2% and 2.9% of the revenue in the 2015 Interim Period and 2014 Interim Period respectively.

Finance Costs

The Group's finance costs for the 2015 Interim Period amounted to RMB47.4 million, which increased from RMB28.6 million for the 2014 Interim Period. The increase was primarily due to the increase in bank borrowings of the Group.

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 the 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 ousted and sold, its value decreases. The Group recorded net gains arising from changes in fair value less costs to sell of biological assets of RMB10.0 million in the 2014 Interim Period and RMB33.4 million in the 2015 Interim Period. The increase of net gains arising from changes in fair value less costs to sell of biological assets in the 2015 Interim Period as compared to the 2014 Interim Period was mainly due to: (1) significant increase in the number of milkable cows in herd size of the Group as compared with the corresponding period in last year from 44,619 milkable cows as at June 30, 2014 to 64,405 milkable cows as at June 30, 2015; (2) enhanced productivity of milkable cow.

Significant Investments

As of 30 June 2015, the Company did not hold any significant investment. For the financial performance of the associates during the six months ended 30 June 2015, please refer to the section headed “Share of Profits and Losses of Associates”.

Share of Profits and Losses of Associates

The Group’s associates include (a) the companies that were jointly established by the Group and the selected outstanding distributors in our key distribution cities to distribute the branded liquid milk products of the Group; 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 RMB7.7 million and RMB3.7 million in the 2015 Interim Period and 2014 Interim Period, respectively, which was mainly because the Company participated in the investment and establishment of sales companies in key distribution areas including Chongqing, Anhui, Sichuan and Guangdong during the current period, while the newly established sales associates were in their initial stage of market development and therefore recorded losses.

Income Tax Expense

The profits generated by the Group were entirely derived from its operations in the PRC. 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 raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as our relevant PRC subsidiaries complete filings with the relevant tax authorities as required. In accordance with “The Notice of Tax Policies Relating To the Implementation of the Western China Development Strategy” (Caishui [2011] No. 58) (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)), the Group’s taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax expenses of the Group were RMB0.2 million and RMB0.6 million in the 2015 Interim Period and 2014 Interim Period, respectively. Based on the proportion of our income tax expense in the profit before tax, the enterprise income tax rate of the Group in the 2015 Interim Period and 2014 Interim Period were 0.1% and 0.2% respectively.

Profit Attributable to Non-controlling Interest

Profit attributable to non-controlling interest primarily represented the profit for the current period in our dairy farms enjoyed by dairy farmers with whom we cooperate in managing its farms. Profit attributable to non-controlling interest in the 2015 Interim Period was RMB127.3 million, representing a significant increase over RMB76.6 million in the 2014 Interim Period, which was mainly due to the increase in profit for the period of non-wholly owned subsidiaries.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As of June 30, 2015, the total current assets of the Group were RMB2,338.9 million (as compared to RMB2,035.0 million as of December 31, 2014), primarily consisting of inventories of RMB646.3 million (as compared to RMB701.2 million as of December 31, 2014), trade and bills receivables of RMB632.6 million (as compared to RMB397.5 million as of December 31, 2014), prepayments, deposits and other receivables of RMB268.9 million (as compared to RMB185.2 million as of December 31, 2014) and cash and bank balances of RMB749.5 million (as compared to RMB734.7 million as of December 31, 2014).

Trade and bills receivables

Unit: RMB'000

	As at June 30, 2015	As at December 31, 2014
Trade receivables	632,958	393,443
Bills receivables	—	4,100
Impairment	(396)	—
Total	632,562	397,543

Trade and bills receivables of the Group increased significantly as compared to last year, primarily because the Group granted different credit lines and credit terms according to the business operation and recoverability of receivables of terminal supermarkets and department stores, and business operation and credit rating of distributors, so as to expand and solidify its shares in the organic liquid milk market.

The Group made a provision of RMB0.4 million for the impairment of trade receivables according to its impairment policy.

Prepayments, deposits and other receivables

The balances of the Group's prepayments, deposits and other receivables were RMB268.9 million and RMB185.2 million as of June 30, 2015 and December 31, 2014, respectively, primarily due to the corresponding increase in the prepayments as a result of the increased purchase by the Group from Shengmu Forage.

Current Liabilities

As of June 30, 2015, the total current liabilities of the Group amounted to RMB2,473.6 million (as compared to RMB2,086.1 million as of December 31, 2014), primarily consisting of trade and bills payables of RMB538.1 million (as compared to RMB424.0 million as of December 31, 2014), receipts in advance of RMB22.6 million (as compared to RMB32.4 million as of December 31, 2014), other payables and accruals of RMB296.4 million (as compared to RMB293.4 million as of December 31, 2014), interest-bearing bank and other borrowings of RMB1,616.1 million (as compared to RMB1,334.0 million as of December 31, 2014), and tax payables of RMB0.4 million (as compared to RMB2.3 million as of December 31, 2014).

Foreign Exchange Risk

The Group's businesses are principally located in mainland China and substantially all transactions are conducted in RMB. As at June 30, 2015, the Group did not have significant foreign currency exposure from its operations, except certain bank balances equivalent to approximately RMB4.9 million and RMB19.4 million which were denominated in United States dollars and Hong Kong dollars, respectively. As at June 30, 2015, the Group did not enter into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. 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, collateral is generally not required.

Charge on Assets

As of June 30, 2015, the Group has pledged deposits in an aggregate amount of approximately RMB41.6 million (as compared to RMB16.4 million as of December 31, 2014) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts.

Liquidity, Financial Resources and Capital Structure

In the first half of 2015, the Group generally finances its daily operations from internally generated cash flows, bank borrowings and other financing. As of June 30, 2015, the Group had (a) cash and bank balances of RMB749.5 million (as compared to RMB734.7 million as of December 31, 2014), and (b) interest-bearing bank borrowings and other borrowings of RMB1,753.1 million (as compared to RMB1,484.0 million as of December 31, 2014), which were denominated in Renminbi, and RMB137.0 million of which are repayable within five 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 37.1% as of June 30, 2015 (as compared to 34.9% as of December 31, 2014). The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates. During the six-month period ended June 30, 2015, the annual interest rate of bank loans is 5.60% to 7.14% (for the six-month period ended June 30, 2014: 6.00% to 6.60%).

Capital Commitments

As of June 30, 2015, the Group's capital commitments amounted to RMB218.4 million (as compared to RMB243.0 million as of December 31, 2014), primarily relating to the construction and acquisition of plants and the purchase of machinery for the expansion of liquid milk production capacity. The Group has sufficient internal and financial resources to fund its capital expenditures.

Human Resources

As of June 30, 2015, the Group had a total of 3,574 employees (as compared to 2,489 employees as of June 30, 2014). Total staff costs for the 2015 Interim Period (including the emoluments of directors of the Company and senior management) amounted to RMB134.9 million (excluding equity-settled share option expenses) (as compared to RMB77.4 million in the 2014 Interim Period). The significant increase in total staff costs as compared to the corresponding period last year was mainly due to larger scale and increased number of employees of the Company.

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 of June 30, 2015, the Group did not have any material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries and associated companies during the 2015 Interim Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with capital commitments under the paragraph headed "Capital Commitments" herein and those disclosed in the Prospectus under the section headed "Future Plans and Use of Proceeds", as of the date of this report, 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 global leading organic dairy company. To achieve this goal, we will continue to expand the organic dairy farming operation and improve farming management to ensure product safety and quality, increase the production of and promotion investment in liquid milk, improve liquid milk processing capacity and expand premium organic product mix, establish a more extensive nationwide distribution network and fortify brand awareness.

Improving Liquid Milk Processing Capacity

The Group plans to further expand its "Shengmu 聖牧" liquid milk business, further improve its profitability and enrich its product mix. To achieve this goal, four yogurt production lines and one pure milk production line of our Group will come into operation to improve liquid milk processing capacity.

Enriching Premium Organic Product Mix

For the purpose of enriching product varieties to cater for different needs of consumers, the Group launched a 200ml boutique package and a 1L pure milk package in the first half of 2015. To expand the premium organic product mix, the Group plans to develop and launch organic flavored yogurt, organic children's yogurt, and on-site yogurt series in the second half of the year. Such product diversification strategy will further enhance the market share of China Shengmu organic milk products.

Establishing an Extensive Nationwide Distribution Network and Improving Brand Awareness

The Group will continue to implement its "Blue Ocean Strategy" to extend coverage network over community-store, with the goal of covering 100,000 community stores. In order to enhance consumer's awareness of our brand, we will organize a series of desert safaris for over 2,000 participants, whereby we can exhibit our "Complete Grass-to-Glass Organic Production System in Desert", providing consumers the opportunity to experience our entire organic milk production and management process in person. Meanwhile, we are committed to strengthening our brand promotion through advertising on internet, urban transportation and supermarket planar systems to improve the brand awareness of China Shengmu in an effective manner.

REPORT OF THE DIRECTORS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company has the pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2015. Save as stated otherwise in this interim report, the defined terms herein shall have the same meaning as in the Prospectus.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2015 Interim Period (the 2014 Interim Period: Nil).

USE OF PROCEEDS

The Company completed its initial public offering of 444,800,000 shares at the offer price of HK\$2.39 per share and dealings in the shares of the Company commenced on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on July 15, 2014 (the “**Listing Date**”). The net proceeds from the global offering amounted to approximately RMB801.2 million. Since the Listing Date and up to June 30, 2015, such net proceeds have been applied in accordance with the proposed applications as set out in “Future Plans and Use of Proceeds” in the Prospectus.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six-month period ended June 30, 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

EVENT AFTER THE REPORTING PERIOD

There is no significant event since June 30, 2015 and up to the date of this interim report.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, during the six-month period ended June 30, 2015, the Company has adopted, applied and complied with the code provisions contained in the Code except the code provision A.2.1 of the Code as disclosed below.

REPORT OF THE DIRECTORS

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. YAO Tongshan currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning 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.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established the Audit Committee in compliance with the Listing Rules. The Audit Committee has been established with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises Ms. GE Xiaoping, Mr. LI Changqing and Mr. CUI Guiyong, and is chaired by Ms. GE Xiaoping. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results for the 2015 Interim Period.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee in compliance with the Listing Rules. The Remuneration Committee has been established with written terms of reference in compliance with the Listing Rules. The Remuneration Committee comprises Mr. WONG Kun Kau, Mr. LI Changqing and Mr. SUN Qian and is chaired by Mr. WONG Kun Kau. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with written terms of reference in compliance with the Listing Rules. The Nomination Committee comprises Mr. YAO Tongshan, Mr. YUAN Qing and Mr. WONG Kun Kau, and is chaired by Mr. YAO Tongshan. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As of June 30, 2015, Mr. WU Jingshui, a non-executive Director, who was also the Vice President of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of China Mengniu Dairy Company Limited, a 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: 1117). Save as disclosed above and in the Prospectus, all Directors have confirmed that during the six-month period ended June 30, 2015, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with the Company's business.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

In addition to the non-exempt continuing connected transactions conducted pursuant to the Forage Supply Framework Agreement entered into with Shengmu Forage, Milk Supply Framework Agreement entered into with Bayannur Shengmu Pangu Farming Co., Ltd. and Bayannur Shengmu Xiwang Farming Co., Ltd., Framework Agreement for Sale and Purchase of Cows and Financial Assistance Framework Agreement (among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding) which were subsisting prior to the commencement of 2015 Interim Period and whose details were disclosed in the section headed "Report of the Directors - Connected Transactions and Continuing Connected Transactions" in the 2014 annual report of the Company, the Company and Shengmu Forage entered into the Financial Assistance Framework Agreement on June 4, 2015, pursuant to which the Group will provide financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage, and the daily maximum balance shall not exceed RMB300,000,000 for the each of the three years ending December 31, 2015, 2016 and 2017. As Shengmu Forage is a connected person of the Company, the entering into the above Financial Assistance Framework Agreement constitutes a non-exempt continuing connected transaction of the Company. For details please refer to the announcement of the Company dated June 4, 2015.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 21 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 "Report of the Directors – Connected Transactions and Continuing Connected Transactions" in the 2014 annual report of the Company; 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 during the 2015 Interim Period.

CHANGE OF DIRECTOR'S INFORMATION

Mr. Wong Kun Kau, the independent non-executive director of the Company, ceased to be a non-executive director of Sun.King Power Electronics Group Limited (a company listed on the Stock Exchange of Hong Kong Limited with the stock code of 580) as from July 2, 2015. Save as disclosed herein, 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 during the 2015 Interim Period.

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

So far as is known to any Director or chief executive of the Company, as of June 30, 2015, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
YAO Tongshan (姚同山)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	70,419,200	1.11%
WU Jianye (武建毅)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	64,876,800	1.02%
GAO Lingfeng (高凌鳳)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%
CUI Ruicheng (崔瑞成)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,594,221,600	56.56%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%

(1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, the Ultimate Controlling Shareholders 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 Investment Limited ("World Shining"). As a result of the acting-in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the share capital of the Company. World Shining is owned as to 87.44% by the Ultimate Controlling Shareholders as a group of persons acting in concert. On May 13, 2015, 611,620,800 shares (representing approximately 9.63% of the issued shares of the Company) in the share capital of the Company held by World Shining were charged by it to an independent third party, as security for a loan provided by the said independent third party to it. The aforesaid charge does not fall within the scope of Rule 13.17 of the Listing Rules. For details, please refer to the announcement of the Company dated May 13, 2015.

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

(ii) Long position in the shares of associated corporation

Name	Name of associated company	Percentage of interest
YAO Tongshan (姚同山)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	1.73%
WU Jianye (武建艱)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司)	45.00%
	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	8.15%
GAO Lingfeng (高凌鳳)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	17.34%

Save as disclosed above and to the best knowledge of the Directors, as of June 30, 2015, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations which were required to be 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 June 30, 2015, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 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%

REPORT OF THE DIRECTORS

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
GUO Yunfeng (郭運鳳) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
WANG Zhizhong (王志忠) ⁽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%
YANG Yaping (楊亞萍) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
TENG Jie (騰傑) ⁽¹⁰⁾	Interests of spouse	3,594,221,600	56.56%
LU Shunyi (蘆順義) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,594,221,600	56.56%
ZHAO Lizhen (趙麗珍) ⁽¹¹⁾	Interests of spouse	3,594,221,600	56.56%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
WANG Zhen (王鎮) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	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%
Greenbelt Global Limited	Beneficial Owner	395,235,200	6.22%
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200	6.22%
Baring Private Equity Asia GP V, L.P.	Interest of a controlled corporation	395,235,200	6.22%
The Baring Asia Private Equity Fund V, L.P.	Interest of a controlled corporation	395,235,200	6.22%
Salata Jean	Interest of a controlled corporation	395,235,200	6.22%

REPORT OF THE DIRECTORS

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000	5.95%
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000	5.95%
SC China Holding Limited	Interest of a controlled corporation	378,320,000	5.95%
Sequoia Capital 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 (as defined in the Prospectus) (other than Mr. YAO Tongshan) shall support Mr. YAO Tongshan's decisions in relation to the operation and management of the Group by exercising their voting rights at the meetings of the shareholders of the member companies of the Group in accordance with the decision of Mr. YAO upon completion of the Reorganization. For more details, please refer to the section on "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, the Ultimate Controlling Shareholders together control 56.56% interest in the issued share capital of the Company through World Shining. As a result of the acting-in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 56.56% interest in the issued share capital of the Company. On May 13, 2015, 611,620,800 shares (representing approximately 9.63% of the issued shares of the Company) in the share capital of the Company held by World Shining were charged by it to an independent third party, as security for a loan provided by the said independent third party to it. The aforesaid charge does not fall within the scope of Rule 13.17 of the Listing Rules. For details please refer to the announcement of the Company dated May 13, 2015.
- (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
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司)	30.0%
WANG Jinliang (王金良)	Otog Shengmu Xintai Farming Co., Ltd. (鄂托克旗聖牧欣泰牧業有限公司)	45.0%
CHEN Qingjun (陳慶軍)	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.0%
LI Yongqiang (李永強)	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.0%
LI Yundong (李運動)	Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司)	35.0%
WANG Qiang (王強)	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.0%
WANG Zhen (王鎮)	Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司)	17.5%
SUN Xiyao (孫喜耀)	Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司)	17.5%
LI Ruijun (李瑞軍)	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.0%
YANG Bin (楊斌)	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	35.0%
WANG Lixin (汪立新)	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.0%
CHANG Zhibo (常志拔)	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	15.5%
HOU Liubin (侯留斌)	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.0%
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司),	35.0%
REN Junming (任俊明)	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	35.0%
YU Gong (于工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	35.0%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as of June 30, 2015, 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. The table below sets out the particulars of changes of share options granted under the Pre-IPO Share Option Scheme for the period between January 1, 2015 and the date of this interim report:

Name or category of participant	Number of Options (Note 1)				As at the date of the interim report	Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share option (HK\$)
	As at January 1, 2015	Vested during the period (Note 2)	Exercised during the period	Lapsed/Cancelled during the period				
Directors of the Company								
YAO Tongshan	70,419,200	70,419,200	Nil	Nil	70,419,200	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
WU Jianye	64,876,800	64,876,800	Nil	Nil	64,876,800	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
GAO Lingfeng	31,992,000	31,992,000	Nil	Nil	31,992,000	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
CUI Ruicheng	31,992,000	31,992,000	Nil	Nil	31,992,000	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
Directors of subsidiaries of the Company not mentioned above	135,219,000	122,868,600	Nil	12,350,400 (Note 3)	122,868,600	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
Senior management of our Company								
Li Yundong (Joint Company Secretary of the Company)	37,795,200	37,795,200	Nil	Nil	37,795,200	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
Other grantees who are employees of the Group	128,317,000	124,671,400	Nil	3,645,600 (Note 3)	124,671,400	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
Other 6 grantees who are employees of Shengmu Forage	3,868,800	3,868,800	Nil	Nil	3,868,800	April 30, 2014	May 4, 2015 – November 4, 2015 (Note 2)	HK\$1.56
Total:	504,480,000 options eligible to subscribe for 504,480,000 shares of the Company	488,484,000 options eligible to subscribe for 488,484,000 shares of the Company	Nil	Total of 15,996,000 share options (with rights to subscribe for 15,996,000 shares of the Company) have lapsed (Note 3)	488,484,000 options eligible to subscribe for 488,484,000 shares of the Company			

REPORT OF THE DIRECTORS

Note 1: 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. As of the date of this interim report, there were 8 grantees who have left employment with the Group and 15,996,000 options they held to subscribe for 15,996,000 Shares had lapsed. As of the date of this interim report, a total of 181 grantees held a total of 488,484,000 options granted under the Pre-IPO Share Option Scheme to subscribe for 488,484,000 shares representing (i) approximately 7.68% of the Company's issued share capital as of the date of this interim report (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme); and (ii) approximately 7.14% of the Company's issued share capital as of the date of this interim report, assuming that all options currently in force which have been granted and vested under the Pre-IPO Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme. Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The subscription price per share of each option granted under the Pre-IPO Share Option Scheme is HK\$1.56.

Note 2: The board of the Company has passed board resolutions confirming that the vesting conditions have been satisfied, hence a total of 488,484,000 subsisting options granted under the Pre-IPO Share Option Scheme were fully vested to relevant grantees on May 4, 2015, being the first business day after the expiration of Waiting Period on April 30, 2015. As of the date of this interim report, none of such options was exercised. Accordingly, there were 488,484,000 outstanding options to subscribe for 488,484,000 shares of the Company as at the date of this interim report.

Note 3: A total of 15,996,000 options to subscribe for a total of 15,996,000 Shares had lapsed as certain grantees ceased to be employees of the Group.

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

Share Option Scheme

On June 18, 2014, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group.

The Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the Listing Date, being a total of 635,440,000 Shares.

No share options have been granted by the Company under the Share Option Scheme, as such, no options have been exercised, cancelled or have lapsed since adoption date of the Share Option Scheme and up to the date of this interim report.

The details of a summary of the terms of the Share Option Scheme, have been set out in the section headed "Appendix IV: Statutory and General Information – E. Share Option Scheme" of the Prospectus.

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

Hong Kong, August 28, 2015

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated statement of financial position of China Shengmu Organic Milk Limited (the “Company”) and its subsidiaries (the “Group”) as of June 30, 2015 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Certified Public Accountants

Hong Kong
August 28, 2015

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

	Notes	For the six-month period ended	
		June 30, 2015	June 30, 2014
		(unaudited) RMB'000	(unaudited) RMB'000
REVENUE	4	1,383,627	905,629
Cost of sales		<u>(746,162)</u>	<u>(461,904)</u>
Gross profit		637,465	443,725
Gain arising from changes in fair value less costs to sell of biological assets		33,385	10,016
Other income and gains	4	9,634	9,235
Selling and distribution expenses		(119,841)	(33,899)
Administrative expenses		(44,891)	(40,490)
Finance costs	6	(47,439)	(28,609)
Share of profits and losses of associates		(7,671)	(3,706)
Gain on disposal of a subsidiary		<u>472</u>	<u>—</u>
PROFIT BEFORE TAX	5	461,114	356,272
Income tax expense	7	<u>(212)</u>	<u>(615)</u>
PROFIT FOR THE PERIOD		<u>460,902</u>	<u>355,657</u>
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		<u>32</u>	<u>3,613</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>460,934</u>	<u>359,270</u>

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

	Notes	For the six-month period ended	
		June 30, 2015	June 30, 2014
		(unaudited) RMB'000	(unaudited) RMB'000
Profit attributable to:			
Owners of the parent		333,609	279,090
Non-controlling interests		<u>127,293</u>	<u>76,567</u>
		<u>460,902</u>	<u>355,657</u>
Total comprehensive income attributable to:			
Owners of the parent		333,641	282,703
Non-controlling interests		<u>127,293</u>	<u>76,567</u>
		<u>460,934</u>	<u>359,270</u>
Earnings per share attributable to ordinary equity holders of the parent:			
– Basic	8	<u>RMB0.053</u>	<u>RMB0.049</u>
– Diluted		<u>RMB0.052</u>	<u>RMB0.049</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at	
		June 30,	December 31,
		2015	2014
		(unaudited)	(audited)
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,927,526	1,657,827
Prepaid land lease payments		5,196	5,252
Other intangible assets		15,979	15,969
Investments in associates		34,941	28,160
Available-for-sale investments		1,404	980
Biological assets	11	2,992,481	2,720,126
Prepayments for property, plant and equipment and biological assets	13	19,701	26,985
Deferred tax assets		1,077	910
Total non-current assets		<u>4,998,305</u>	<u>4,456,209</u>
CURRENT ASSETS			
Inventories		646,316	701,183
Trade and bills receivables	12	632,562	397,543
Prepayments, deposits and other receivables	13	268,945	185,175
Pledged deposits	14	41,577	16,431
Cash and bank balances	14	749,475	734,703
Total current assets		<u>2,338,875</u>	<u>2,035,035</u>
CURRENT LIABILITIES			
Trade and bills payables	15	538,141	423,963
Receipts in advance		22,619	32,440
Other payables and accruals	16	296,368	293,443
Interest-bearing bank and other borrowings	17	1,616,052	1,334,000
Tax payable		382	2,299
Total current liabilities		<u>2,473,562</u>	<u>2,086,145</u>
NET CURRENT LIABILITIES		<u>(134,687)</u>	<u>(51,110)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,863,618</u>	<u>4,405,099</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		137,000	150,000
Total non-current liabilities		<u>137,000</u>	<u>150,000</u>
Net assets		<u>4,726,618</u>	<u>4,255,099</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital: nominal value	18	50	50
Reserves		4,066,275	3,721,848
		<u>4,066,325</u>	<u>3,721,898</u>
Non-controlling interests		<u>660,293</u>	<u>533,201</u>
Total equity		<u>4,726,618</u>	<u>4,255,099</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the parent

	Share capital	Share premium account	Contributed surplus	Share option reserve	Reserve funds	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	50	1,757,767	373,656	23,396	186,771	2,779	1,377,479	3,721,898	533,201	4,255,099
Profit for the period	—	—	—	—	—	—	333,609	333,609	127,293	460,902
Other comprehensive income	—	—	—	—	—	32	—	32	—	32
Total comprehensive income	—	—	—	—	—	32	333,609	333,641	127,293	460,934
Equity-settled share option arrangement	—	—	—	10,585	—	—	—	10,585	—	10,585
Gain arising from purchase of non-controlling interests	—	—	201	—	—	—	—	201	(201)	—
At June 30, 2015 (unaudited)	<u>50</u>	<u>1,757,767#</u>	<u>373,857#</u>	<u>33,981#</u>	<u>186,771#</u>	<u>2,811#</u>	<u>1,711,088#</u>	<u>4,066,325</u>	<u>660,293</u>	<u>4,726,618</u>
At January 1, 2014	—	—	641,138	—	92,213	—	760,809	1,494,160	213,732	1,707,892
Profit for the period	—	—	—	—	—	—	279,090	279,090	76,567	355,657
Other comprehensive Income	—	—	—	—	—	3,613	—	3,613	—	3,613
Total comprehensive income	—	—	—	—	—	3,613	279,090	282,703	76,567	359,270
Equity-settled share option arrangement	—	—	—	5,895	—	—	—	5,895	—	5,895
Reorganisation*	1	946,811	(265,768)	—	—	—	—	681,044	64,035	745,079
Purchase of non-controlling interests	—	—	—	—	—	—	—	—	(6,675)	(6,675)
Gain arising from purchase of non-controlling interests	—	—	7,447	—	—	—	—	7,447	(7,447)	—
At June 30, 2014 (unaudited)	<u>1</u>	<u>946,811#</u>	<u>382,817#</u>	<u>5,895#</u>	<u>92,213#</u>	<u>3,613#</u>	<u>1,039,899#</u>	<u>2,471,249</u>	<u>340,212</u>	<u>2,811,461</u>

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

These reserve accounts comprise the consolidated reserves of RMB4,066,275,000 (June 30, 2014: RMB2,471,248,000) in the interim consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2015	June 30, 2014
	(unaudited) RMB'000	(unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	461,114	356,272
Adjustments for:		
Gain arising from change in fair value less costs to sell of biological assets	(33,385)	(10,016)
Interest income	(6,791)	(1,125)
Finance costs	47,439	28,609
Share of profits and losses of associates	7,671	3,706
Loss on disposal of a subsidiary	118	—
Depreciation	47,398	24,923
Amortisation of prepaid land lease payments	55	42
Amortisation of other intangible assets	614	462
Loss on disposal of items of property, plant and equipment	9	—
Share option expense	10,585	5,895
Foreign exchange differences, net	(394)	(7,453)
	534,433	401,315
Increase in inventories	54,867	95,412
Increase in trade and bills receivables	(235,019)	(110,030)
Increase in prepayments, deposits and other receivables	(36,347)	(111,813)
(Increase)/decrease in pledged deposits	(25,147)	6,037
Increase/(decrease) in trade and bills payables	114,177	(16,310)
Decrease in accruals and other payables	(17,042)	(6,579)
Cash generated from operations	389,922	258,032
Interest received	6,791	1,125
Income tax paid	(2,296)	(364)
Net cash flows from operating activities	394,417	258,793

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2015	June 30, 2014
	(unaudited) RMB'000	(unaudited) RMB'000
Net cash flows from operating activities	<u>394,417</u>	<u>258,793</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(303,767)	(300,431)
Additions to prepaid land lease payments	—	(1,950)
Additions to other intangible assets	(624)	(1,054)
Purchases of biological assets	(28,772)	(339,377)
Payments for breeding calves and heifers	(306,131)	(220,943)
Proceeds from disposal of biological assets	55,794	80,841
Proceeds from disposal of property, plant and equipment	252	44
Acquisition of associates	(14,570)	(5,600)
Acquisition of available-for-sale investments	(423)	—
Purchases of time deposits with original maturity of more than three months	<u>(238,924)</u>	<u>—</u>
Net cash flows used in investing activities	<u>(837,165)</u>	<u>(788,470)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue expenses	(1,620)	—
Capital injection by investors	—	686,493
Capital injection by non-controlling interests	—	64,035
Acquisition of non-controlling interests	(1,335)	—
New bank loans	908,733	405,000
New other loans	—	2,850
Repayment of bank loans	(639,681)	(393,000)
Repayment of other loans	—	(20,470)
Interest paid	<u>(47,896)</u>	<u>(27,770)</u>
Net cash flows from financing activities	<u>218,201</u>	<u>717,138</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(224,547)</u>	<u>187,461</u>
Cash and cash equivalents at beginning of period	734,703	127,059
Effect of foreign exchange rate changes, net	395	11,066
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>510,551</u></u>	<u><u>325,586</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended June 30, 2015 (the "Interim Period") have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2014.

Going concern

The Group had net current liabilities of RMB134,687,000 and RMB51,110,000 as of June 30, 2015 and December 31, 2014, respectively. In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations, and the bank facilities of RMB748,948,000 granted by banks with expiry dates not earlier than June 30, 2016, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due in 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 interim condensed consolidated financial statements have been prepared on a going concern basis.

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

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

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2014, except for the adoption of new standards and interpretations effective as of January 1, 2015. These new standards and amendments do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statement of the Group.

The new standards and amendments are listed below:

- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions*
- Annual Improvements 2010-2012 Cycle
- Annual Improvements 2011-2013 Cycle

3. OPERATING SEGMENT INFORMATION

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

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

3. OPERATING SEGMENT INFORMATION (continued)

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

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

For the six-month period ended June 30, 2015 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	708,893	674,734	1,383,627
Intersegment sales	561,426	—	561,426
	1,270,319	674,734	1,945,053
<i>Reconciliation:</i>			
Elimination of intersegment sales			(561,426)
Revenue			1,383,627
Segment results	498,296	26,112	524,408
<i>Reconciliation:</i>			
Elimination of intersegment results			(85,187)
Gain arising from changes in fair value less costs to sell of biological assets			33,385
Corporate and other unallocated expenses			(11,704)
Profit for the period			460,902
As at June 30, 2015 (unaudited)			
Segment assets	6,511,047	1,261,718	7,772,765
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(568,224)
Corporate and other unallocated assets			132,639
Total assets			7,337,180
Segment liabilities	2,168,238	1,008,895	3,177,133
<i>Reconciliation:</i>			
Elimination of intersegment payables			(568,224)
Corporate and other unallocated liabilities			1,653
Total liabilities			2,610,562

3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended June 30, 2014 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	662,058	243,571	905,629
Intersegment sales	122,984	—	122,984
	785,042	243,571	1,028,613
<i>Reconciliation:</i>			
Elimination of intersegment sales			(122,984)
			905,629
Segment results	295,447	50,194	345,641
<i>Reconciliation</i>			
Gain arising from changes in fair value less costs to sell of biological assets			10,016
Profit for the period			355,657
As at December 31, 2014 (audited)			
Segment assets	5,870,719	701,917	6,572,636
<i>Reconciliation:</i>			
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
<i>Reconciliation:</i>			
Elimination of intersegment payables			(217,494)
Corporate and other unallocated liabilities			3,317
Total liabilities			2,236,145

4. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six-month period ended June 30,	
	2015	2014
	(unaudited) RMB'000	(unaudited) RMB'000
Revenue		
– Sales of raw milk	708,893	662,058
– Sales of liquid milk products	674,734	243,571
	<u>1,383,627</u>	<u>905,629</u>
Other income and gains		
– Government grants	55	200
– Bank interest income	6,791	1,125
– Foreign exchange differences, net	16	7,453
– Others	2,772	457
	<u>9,634</u>	<u>9,235</u>
	<u>1,393,261</u>	<u>914,864</u>

5. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2015	2014
	(unaudited) RMB'000	(unaudited) RMB'000
Cost of inventories sold	746,162	461,904
Changes in fair value less costs to sell of biological assets	(33,385)	(10,016)
Depreciation of items of property, plant and equipment	47,398	24,923
Amortisation of prepaid land lease payments	55	42
Amortisation of other intangible assets	614	462
Employee benefits expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	119,936	70,789
Other social insurances and benefits	7,989	3,648
Pension scheme contribution	6,936	2,917
Equity-settled share option expenses	10,585	5,895
	<u>145,446</u>	<u>83,249</u>

6. FINANCE COSTS

	For the six-month period ended June 30,	
	2015	2014
	(unaudited) RMB'000	(unaudited) RMB'000
Interest on bank loans wholly repayable within five years	<u>47,439</u>	<u>28,609</u>

7. INCOME TAX EXPENSE

	For the six-month period ended June 30,	
	2015	2014
	(unaudited) RMB'000	(unaudited) RMB'000
Current	379	1,210
Deferred	<u>(167)</u>	<u>(595)</u>
	<u>212</u>	<u>615</u>

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

The calculation of basic earnings per share for the six-month period ended June 30, 2015 is based on the profit attributable to ordinary equity holders of the Company of RMB333,609,000 (for the six-month period ended June 30, 2014: RMB279,090,000) and the weighted average of 6,354,400,000 (for the six-month period ended June 30, 2014: 5,709,250,000) ordinary shares of the Company in issue during the period.

The diluted earnings per share amount is calculated by dividing the profit for the period 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 For the six-month period ended June 30,	
	2015	2014
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	6,354,400,000	5,709,250,000
Effect of dilution of share options	<u>120,256,554</u>	<u>—</u>
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u><u>6,474,656,554</u></u>	<u><u>5,709,250,000</u></u>

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six-month period ended 30 June 2015 (for the six-month period ended 30 June 2014: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	For the six-month period ended June 30,	
	2015	2014
	(unaudited) RMB'000	(unaudited) RMB'000
Carrying amount at 1 January	1,657,827	922,764
Additions	317,358	279,987
Disposals	(261)	(44)
Depreciation provided for the period	<u>(47,398)</u>	<u>(24,923)</u>
Carrying amount at 30 June	<u><u>1,927,526</u></u>	<u><u>1,177,784</u></u>

11. BIOLOGICAL ASSETS

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

(A) *Quantity of biological assets*

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

	June 30, 2015	December 31, 2014
	(unaudited) Head	(audited) Head
Dairy cows		
Milkable cows	64,405	55,032
Heifers and calves	41,952	48,220
Total dairy cows	<u>106,357</u>	<u>103,252</u>

(B) *Value of biological assets*

The value of Group's biological assets as at June 30, 2015 and December 31, 2014 is as follows:

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Milkable cows	2,175,028	1,775,096
Heifers and calves	817,453	945,030
Total value of dairy cows	<u>2,992,481</u>	<u>2,720,126</u>

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

The valuation techniques and principal valuation assumptions used in the determination of the fair value of dairy cows are the same as those set out in the Group's 2014 annual report.

12. TRADE AND BILLS RECEIVABLES

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Trade and bills receivables	632,958	397,543
Impairment	(396)	—
	<u>632,562</u>	<u>397,543</u>

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

An aged analysis of the trade receivables as at June 30, 2015 and December 31, 2014, based on the invoice dates and net of provision, is as follows:

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Within 3 months	452,317	336,882
3 to 6 months	134,903	46,383
6 months to 1 year	41,781	13,688
Over 1 year	3,561	590
	<u>632,562</u>	<u>397,543</u>

During the Period, the Group provided for an impairment of RMB396,000 for trade receivables, which was included in the reduction of other income and gains.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Prepayments	223,182	175,449
Deposits and other receivables	50,732	24,436
Prepaid expenses	14,732	12,275
	<u>288,646</u>	<u>212,160</u>
Non-current prepayments	(19,701)	(26,985)
Current portion	<u>268,945</u>	<u>185,175</u>

14. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Cash and cash equivalents	510,551	734,703
Time deposits with original maturity of more than 3 months	238,924	—
Pledged deposits	41,577	16,431
	<u>791,052</u>	<u>751,134</u>
Less: Pledged deposits	(41,577)	(16,431)
Cash and bank balances	<u>749,475</u>	<u>734,703</u>

15. TRADE AND BILLS PAYABLES

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

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
1 to 3 months	503,466	406,785
4 to 6 months	18,064	13,224
7 to 12 months	10,252	2,470
1 to 2 years	5,267	1,451
2 to 3 years	1,092	33
3 years and more	—	—
	<u>538,141</u>	<u>423,963</u>

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

16. OTHER PAYABLES AND ACCRUALS

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Advances from related parties	—	4,675
Payables for acquisition of property, plant and equipment	136,375	122,135
Payables for purchase of dairy cows	13,329	27,009
Payables for third parties' deposits	21,141	30,267
Payables for purchase of transportation services	33,906	26,058
Salary and welfare payables	29,850	25,776
Payables for taxes other than corporate income tax	4,760	5,775
Others	57,007	51,748
	<u>296,368</u>	<u>293,443</u>

Other payables are non-interest-bearing.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Current		
Bank and other borrowings loans - unsecured	<u>1,616,052</u>	<u>1,334,000</u>
Non-current		
Bank and other borrowings - unsecured	<u>137,000</u>	<u>150,000</u>
	<u>1,753,052</u>	<u>1,484,000</u>

Notes:

- (i) The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates. During the six-month period ended June 30, 2015, the annual interest rate of bank loans is 5.60% to 7.14% (for the six-month period ended June 30, 2014: 6.00% to 6.60%).
- (ii) During the six-month period ended June 30, 2015, the Group repaid bank loans of RMB639,681,000 (for the six-month period ended June 30, 2014: RMB393,000,000) and obtained new bank loans of RMB908,733,000 (for the six-month period ended June 30, 2014: RMB405,000,000) to finance the Group's operation.

18. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As of June 30, 2015 and December 31, 2014, the Company has authorized share capital of HK\$300,000, divided into 30,000,000,000 shares with a par value of HK\$0.00001 each.

As at June 30, 2015 and December 31, 2014, the Company's share capital was HK\$63,544, with 6,354,400,000 shares in issuance.

19. PRE-IPO SHARE OPTION SCHEME

During the Period, the Group recognized share option expenses of RMB10,585,000 (the six-month period ended June 30, 2014: RMB5,895,000), which was included in administration expenses.

20. COMMITMENTS

The Group had the following capital commitments as at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Contracted, but not provided for:		
Land and buildings	205,709	240,683
Plant and machinery	12,698	2,507
	<u>218,407</u>	<u>243,190</u>

21. RELATED PARTY DISCLOSURES

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

	Note	For the six-month period ended June 30,	
		2015	2014
		(unaudited) RMB'000	(unaudited) RMB'000
Associates:			
Sales of products	(i)	234,492	30,740
Purchase of raw materials	(i)	44,603	44,355

Note:

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

- (B) Other transactions with related parties:

During the six-month period ended June 30, 2015 and 2014, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") provided biowaste (i.e., cow dung) cleaning services to the dairy farms of the Group for free. Such services include collecting and cleaning unprocessed biowaste from the farms. In return, Shengmu Forage collected free unprocessed biowaste from the farms.

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

	For the six-month period ended June 30,	
	2015	2014
	(unaudited) RMB'000	(unaudited) RMB'000
Salaries, allowances and benefits in kind	860	569
Pension scheme contribution	24	18
	<u>884</u>	<u>587</u>

21. RELATED PARTY DISCLOSURES (continued)

(D) Outstanding balances with related parties

	June 30, 2015	December 31, 2014
	(unaudited) RMB'000	(audited) RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	225,346	72,244
– Trade and bills payables	(19,722)	(5,440)
– Prepayments, deposits and other receivables	148,026	68,108
– Other payables and accruals	<u>(319)</u>	<u>(201)</u>

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

22. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS

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

	June 30, 2015		December 31, 2014	
	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	<u>1,753,052</u>	<u>1,770,172</u>	<u>1,484,000</u>	<u>1,494,217</u>

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

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

22. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS (continued)

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 six-month period ended June 30, 2015.

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	June 30, 2015	December 31, 2014
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank and other borrowings	<u>1,770,172</u>	<u>1,494,217</u>

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

The unaudited interim condensed consolidated financial statements have been authorized for issuance by the board of directors on August 28, 2015.