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

Annual Report 2015


ORGANIC YOGURT
圣牧
圣牧 全程有机
有机纯牛奶
ORGANIC MILK
圣牧 全程有机
有机低脂奶
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圣牧 全程有机
有机儿童奶
ORGANIC


ORGANIC MILK
圣牧 全程有机
沙漠有机·欧盟认证

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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. DONG Xianli
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. CUI Ruicheng
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

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

PRINCIPAL BANKERS

Bank of China Limited (Hohhot Zhongshan Branch)

China Construction Bank Corporation (Operation Department, Inner Mongolia Autonomous Region Branch)

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

China Minsheng Banking Corp., Ltd. (Hohhot Branch)

China Merchants Bank Co., Ltd (Hohhot Branch)

Agricultural Bank of China Limited (Tumotezuoqi Branch)

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

King & Wood Mallesons

As to Cayman Islands Law

Maples and Calder

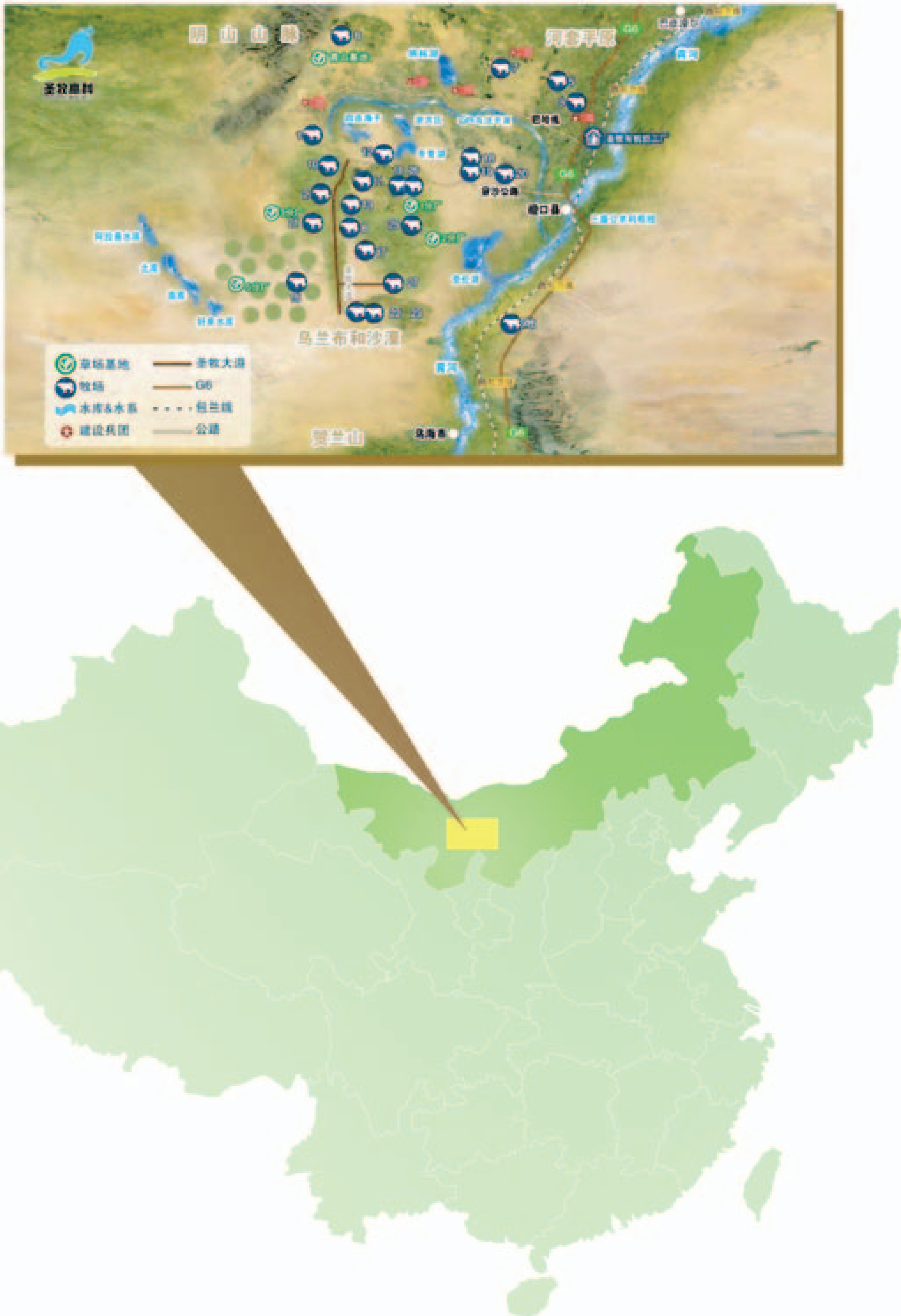
COMPLIANCE ADVISOR

TC Capital Asia Limited

WEBSITE

http://www.youjimilk.com

LOCATION MAP OF ORGANIC PRODUCTION BASE



YAO Tongshan
Chairman

Dear Shareholders,

I, hereby on behalf of the board of the Company (the "**Board**"), am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended December 31, 2015.

Faced by fierce competition in the dairy industry in China in 2015, China Shengmu maintained a rapid growth momentum by leveraging on its unique "desert-based grass-to-glass organic production model", innovative organic liquid milk product portfolio and sophisticated "product-orientated" marketing and sales channel building strategy.

Initiated by China Shengmu in China, the "desert-based grass-to-glass organic production model" provides the foundation for China Shengmu to produce quality organic products and is also necessary for China Shengmu to establish its sustainable ecological circle for farming. China Shengmu continued to implement its grass-to-glass organic quality control across the whole production process from farming of organic cows to production of organic liquid milk through developing organic environment, monitoring the growing of organic forage and establish self-owned dairy farms. In addition to protecting the environment, it facilitates the transformation of the desert into oasis and improves its ecological system. As the only vertically integrated organic dairy company in China that meets E.U. organic standards, China Shengmu is the only dairy company in China that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms and the only sizeable dairy company in China to operate a "desert-based grass-to-glass organic production model".

Shengmu's "desert-based grass-to-glass organic production model" becomes more and more improved and solid through our efforts for many years. Adapting to the current condition of the dairy industry market in China, Shengmu timely adjusted its layout of organic industrial chain and expanded its core business to the downstream industrial chain, achieving a breakthrough growth in the downstream liquid milk business leveraging on launching new liquid milk products, implementing market-oriented marketing strategy and innovative sales channel building strategy, driving the development of the upstream dairy farming business, hence achieving outstanding results by Shengmu Group in 2015.

"Establishing a Time-honoured Shengmu to Benefit People with Organic Products" is the core philosophy of corporate culture of Shengmu. To realize the dream of organic business, the mission of Shengmu is no longer just for a cup of good milk, but also for the flag on our shoulders to fight for realization of more beautiful "desert-based organic dream". The road Shengmu followed is "combining ecological environmental civilization with industries serving the country, combining food security production with organic lifestyle, combining industrial development with benefiting people, and combining social responsibility with corporate development". As a dreamer to develop organic business, I am proud of my choice, and all personnel in Shengmu are proud of our common ideal. In the future, we will continue to make the desert-based grass-to-glass organic production bigger and more prosperous, thus rewarding our shareholders and the investors with high achievement.

YAO Tongshan
March 30, 2016

MARKET REVIEW

In recent years, with the steady growth of the economy of the PRC, the living standards of the Chinese people have been continuously improved. Along with this trend comes higher expectation for overall food products quality and more attention to food safety and diet healthiness. Meanwhile, environmental pollution has become an increasingly serious problem in China, represented by the smog phenomenon, which has sparked extensive discussions on environmental protection among the public, and the "green ecofriendly life style" is pursued by more and more people. In such circumstances, organic food products from ecofriendly clean environments become more popular with a rapid increase in demand among the consumers. Organic food products are penetrating into mainstream sales channels and gradually gaining a dominating share in the high-end food market. Demand for high-quality milk products, as fast consumption products, has increased rapidly year by year as consumers are willing to pay a premium for high-quality dairy products. Such trend is, and will continue to be, the most direct and important driving factor for the future long-term continuous growth of the high-end organic liquid dairy product market. On the other hand, in view of the aging population, the Chinese government has announced to relax its family planning policy to allow couples to have two children in 2016. According to the forecast of the relevant authorities, the "one couple two children" policy is expected to bring about millions newborn population every year in the future. Accordingly, the market of the organic liquid milk products suitable for children is expected to expand substantially, with great potential for the growth of the market for nutritious, healthy and high quality liquid milk products for children.

The Chinese government puts more attention on and proactively promotes the development of green ecofriendly industries, such as organic industry, in recent years. According to the "Proposal on the Formulation of the 13th Five-Year Plan on National Economic and Social Development" (the 13th Five-Year Plan) issued by the Central Committee of Chinese Communist Party on November 3, 2015, the Chinese government will support clean production and encourage the green, low-carbon and sustainable development. The Fifth Plenum of the 18th Chinese Communist Party Central Committee included "green development" as one of its five directions for the economic development in the "**13th Five-Year Plan**" for the first time. The development of organic food industry is an important part in the overall optimization and upgrading of industrial structure with the focus on "producing premium domestic products to benefit the people" pressed by the Chinese government, with a vision to fulfil the "China Dream". The organic food industry, as a representative of "green industries", has a great potential for future development and growth.

In August 2015, the first China Dairy 20 ("**D20**") Alliance Summit was grandly held at the Diaoyutai State Guesthouse in Beijing with a theme of Allow Prosperity for the China Dairy Industry Stemming from High-Quality and Safe Development. Mr. Wang Yang, the vice premier of the State Council of China, attended and addressed the summit. The "Beijing Declaration of the China Dairy 20 Alliance" (the "**Beijing Declaration**") was signed at the summit, whereby D20 undertakes to adhere to the principle of quality first, remain committed to brand building and enhancing overall competitiveness, uphold honesty, self-discipline and awareness of social responsibility and follow through the development strategy for an integrated industry. The Beijing Declaration reveals the Chinese government's plan and determination for the new development direction for the dairy industry in China: safe and high-quality products, complete production chain and green ecology, in response to the Chinese consumers' increasing demand for high-quality and safe dairy products. The safe, pollution-free and innovative "grass-to-glass organic production model" came under the spot light and received high recognition at the summit.

BUSINESS REVIEW

Faced by fierce competition in the dairy industry in China in 2015, China Shengmu maintained a rapid growth momentum and solidified its core competitiveness in the organic dairy industry in China by leveraging on its unique "desert-based grass-to-glass organic production model", innovative organic liquid milk product portfolio and sophisticated "product-orientated" marketing and sales channel building strategy. Revenue of China Shengmu for the year of 2015 amounted to RMB3.10 billion, representing an increase of 45.4% as compared to 2014. Liquid milk business, which is at the downstream of China Shengmu's production chain, recorded a breakthrough growth in revenue. Revenue from such business in 2015 amounted to RMB1.66 billion, representing an increase of 124.0% as compared to 2014. Such revenue accounted for 53.4% of the total revenue of the Company in 2015 and exceeded that of the upstream raw milk business for the first time. Driven by the increase in the revenue from the 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 69.0% in 2014 to 76.4% in 2015. It is expected that the percentage of the revenue from liquid milk business to the total revenue of China Shengmu will be substantially increased in the coming years. Its vertically integrated production chain covering planting, farming, processing and sales as well as its established "green, ecofriendly, recycling, low-carbon and sustainable" business structure will continue to make substantial contribution to the revenue and profit of China Shengmu.

China Shengmu currently operates the largest "desert-based grass-to-glass organic production model" in China. As the leading organic dairy company in China, it plays a dominant role in various areas in the industry. China Shengmu is the largest organic dairy company in China in 2015 in terms of the herd size of organic dairy cows and the production volume of organic raw milk. China Shengmu is the only vertically integrated organic dairy company in China that meets E.U. organic standards. It is also the only dairy company in China that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms and the only sizeable dairy company in China to operate a "desert-based grass-to-glass organic production model". In 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.

As the largest organic dairy company in China, China Shengmu is committed to reformation and innovation in the industry and considers "green, innovation and sustainability" as its core competiveness.

China Shengmu makes itself a trend-setter of the development direction for organic dairy industry in China through its positive research and development, innovation of management and technology standards and scientific planning of business model. Faced by the fierce competition in the dairy industry in China, Shengmu has become a renowned organic brand in the PRC market rapidly and yet steadily and obtained substantial market share and extensive recognition and popularity among consumers, relying on its pioneering spirit and innovation philosophy.

Creative and Unique Vertically Integrated "Desert-Based Grass-to-Glass Organic Production Model"

From its establishment, China Shengmu has deployed its unique vertically integrated "desert-based grass-to-glass organic production model" with scientific planning in Ulan Buh desert according to international standards. The green ecofriendly production model has become the core business philosophy of Shengmu, enabling it to provide consumers with premium quality and safe dairy products.

Initiated by China Shengmu in China, the "desert-based grass-to-glass organic production model" provides the foundation for China Shengmu to produce quality organic products and is also necessary for China Shengmu to establish its sustainable ecological circle for farming. Based on the theory of "sand-to-grass industry" initiated by Mr. Qian Xuesen, a renowned scientist, China Shengmu has transformed the barren land in the desert into oasis to grow economic crops. Such "green and sustainable development" in accordance with the principles of environmental economics has also generated economic benefits to China Shengmu.

In 2015, China Shengmu continued to implement its grass-to-glass organic quality control across the whole production process from farming of organic cows to production of organic liquid milk through developing organic environment, monitoring the growing of organic forage and establishing self-owned dairy farms. In addition, China Shengmu provides organic cow dung to 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**") as fertilizer. With such recycling model, a complete organic ecological circle is accomplished. This recycling model not only solve the problems relating to the disposal of biological waste, but also improve the quality of desert soil. It is an innovative initiative in the animal husbandry. In addition to protecting the environment, such complete organic ecological circle facilitates transforming of desert into oasis and improves its ecological system.

Farming Business

Organic Dairy Farming

As the key component of China Shengmu's "desert-based grass-to-glass organic production model", the Group stayed committed to organic dairy farming and organic raw milk production in 2015.

In 2015, the Group introduced internationally advanced feed management system and equipment, in conjunction with its feed formulae developed in-house and management model, to ensure the health of its organic cows. To promote cow health and ensure sufficient nourishment, China Shengmu uses different feed formulae developed in-house, employing the total mixed ration (TMR) concept based on the cow's development stage, lactation stage and milk yield. With the TMR watch system (TMRWATCH) and the employment of NDR near infrared spectrum instruments, based on its feed formulae developed in-house, the Group feed its cows with appropriately and meticulously mixed feeds. Every organic dairy cow of China Shengmu has a blue-tooth identification ear tag which facilitates the farm management personnel to better understand the real-time health status of every cow. The comprehensive monitoring and management system enables the management personnel of the farms to monitor the real-time status of herd and manage the farms in a meticulous and responsive way.

Herd Size and Production

As at December 31, 2015, the Group had 21 organic dairy farms in operation, 3 organic dairy farm under construction and 12 non-organic farms in operation. The organic and non-organic herd size of the Group have increased from 64,769 and 38,483 dairy cows as at December 31, 2014 to 72,843 and 38,552 dairy cows as at December 31, 2015, respectively.

	As at December 31,							
	2015				2014			
	Dairy farms	Calves and heifers	Milkable cows	Dairy Cows Subtotal	Dairy farms	Calves and heifers	Milkable cows	Dairy Cows Subtotal
Organic	21	30,049	42,794	72,843	19	30,768	34,001	64,769
Non-organic	12	14,556	23,996	38,552	12	17,452	21,031	38,483
Total	33	44,605	66,790	111,395	31	48,220	55,032	103,252

The Group produced 357,434 tonnes of organic raw milk and 179,866 tonnes of premium non-organic raw milk in 2015, and produced 210,519 tonnes of organic raw milk and 142,765 tonnes of premium non-organic raw milk in 2014. The production volume of organic liquid milk products which are 100% processed from raw milk produced by self-owned certified organic dairy farms increased from 62,280 tonnes in 2014 to 135,960 tonnes in 2015.

Organic Forage Planting

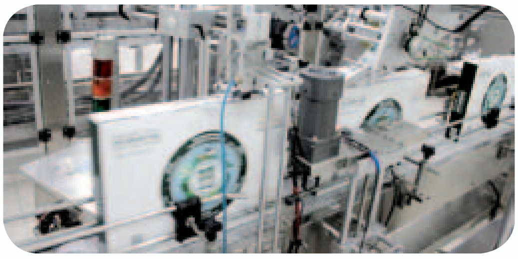
Organic forage is an essential raw material in organic dairy farming. Shengmu Forage has entered into a long-term strategic cooperation agreement with us, pursuant to which Shengmu Forage will exclusively supply organic forages to us. Shengmu Forage is primarily engaged in organic forage planting and processing. In 2015, on the basis of original greening soil, Shengmu Forage continued to use green organic cow dung to thicken humus layer of soil, so as to improve the fertility of original organic planting fields to make them more suitable for the growth of natural plants. China Shengmu has greened over 210 thousand mu of organic planting fields in total in the hinterland of Ulan Buh desert as of the year of 2015. With continuous production of organic forage and expanding of new planting fields, the greening areas in the hinterland of Ulan Buh desert has been enlarged significantly, with annual precipitation obviously increased, showing a remarkable achievement of desert control. On the other hand, in order to safeguard the organic planting environment in the desert and block the wind and sand encroachment, the Group has also continued to proceed sand fixation and afforestation in the hinterland of Ulan Buh desert and create plant zones for sand fixation and windbreaks, improving notably sand and dust weather in the local and surrounding regions.

Desert before improvement

Desert after improvement

Liquid Milk Business

In 2015, in order to meet the growing market demand for organic liquid milk products, the Group added new produciton lines of liquid milk to increase the production capacity of organic liquid milk products. A total of 6 production lines of organic yogurt were built and operated in the year, and so far there are an aggregate of 11 production lines of liquid milk operated by the Group, greatly enhancing the processing capacity of organic liquid milk products to meet the growing market demand for Shengmu organic liquid milk products. At the end of 2015, Shengmu's production capacity of organic liquid milk amounted to 800 tonnes per day, of which Shengmu's production capacity of organic yogurt was over 200 tonnes per day.



All the raw milk Shengmu used to produce liquid milk products was supplied internally by its organic dairy farms without using any preservatives, artificial coloring and artificial flavoring during the production process. Each of our organic liquid milk products is stamped with Certification and Accreditation Administration of the People's Republic of China ("CNCA") code to trace the production origin of every batch of products.

Organic Quality Control

In order to ensure the continuous improvement of Shengmu's "desert-based grass-to-glass production model" and its product quality control, the Company continued to implement stringent quality control in 2015 throughout the production process, ensuring each production step throughout the whole industrial chain to meet standards of organic products and safeguard the premium quality and safety of Shengmu organic liquid milk products.

In terms of organic quality control, the Company has adopted a combination of quality examination by internal staff, external institutions and sizeable customers to ensure strict and consistent implementation of "grass-to-glass" organic management system and has established stringent organic management system covering environment, growing, farming to production. In 2015, the Company's organic management center further enhanced the assessment system of its implementation of organic standards throughout the whole production chain. It conducted random, regular and retraceable inspection on each step throughout its "desert-based grass-to-glass production model". In addition, the Company's information evaluation center installed monitoring facilities for important areas of organic and non-organic dairy farms, through which it can monitor the dairy farm's operations in a timely manner to effectively monitor and evaluate the farming operations.

In order to ensure that each step throughout "desert-based grass-to-glass production model" to meet the organic certification standards, the Company records its data by keeping track of organic fields, organic cows and organic liquid milk products, establishing internal inspection team and the relevant management systems and improving database to implement real-time monitoring system to ensure that Shengmu's organic products are safe, reliable and worthy of its reputation.

Innovative Business Management Models and Unique Approach of Corporate Culture Construction

Innovative Business Model and Management System

The stringent organic standards of Shengmu dairy farms require not only sophisticated and meticulous management systems, but also a large number of management staff for its day-to-day operation. In order to achieve long-term development for both dairy farms and managerial team, in 2015, Shengmu adopted two cooperation models for dairy farm management which were considered relatively innovative in the industry. These models are performance guarantee model and joint equity model. Innovative business models not only facilitate to ensure that our dairy farms are managed by competent and experienced personnel in accordance with organic standards, but also motivate the management personnel of the dairy farms, breaking through technology and financing bottleneck to achieve a win-win situation for the dairy farms and management talents.

In 2015, in order to continue to enhance and further penetrate the whole industry production chain with organic standards and increase management efficiency of the Group, Shengmu delegated the vice president of the Company to be directly responsible for the management of the centralized procurement of the Group and effectively controlled and reduced the procurement cost of the production chain while ensuring and improving the quality raw materials which is the basis for the Group to produce premium quality and pollution-free organic liquid milk products.

In 2015, Shengmu conducted management system upgrade across the Group which was represented by the process optimization and re-establishment through cleaning up and re-establishing the management systems throughout the whole production chain focusing on the rational standardization, streamlining and refining of the management systems of the departments and subsidiaries of the Group and re-setting the key performance index for the key production procedures based on the factors, including function, lead and work progress. Through such refinement and upgrade of its management systems, the overall management quality of the Group was improved to achieve a more effective top-down implementation of its strategic plans and a consistent performance targets. Through such management system upgrade, the responsibilities of the mid-level management have been strengthened in order for them to take charge of work process of their respective departments and implement their management functions. Setting out clear definition of each function during such management system upgrade enables each staff to understand the overall process, his/her responsibility and performance target to increase his/her morale and proactivity. Through this management system upgrade, the overall working efficiency of the Group has been improved, enabling the Group to reach the standards of a world-class company in terms of management ability.

Construction of Corporate Culture

Shengmu has placed emphasis on the construction and implementation of its corporate culture since its incorporation. It educates its staff the spirit of Shengmu's unique corporate culture through their daily work and life. In 2015, Shengmu reviewed its manual of corporate culture, organized a team of speakers to promote its corporate culture and carried out various corporate culture training and promotion activities, including holding the training, lectures, seminar, quiz and writing contest on corporate culture to enable its staff to fully understand Shengmu's history, mission and the core philosophy of "Establishing a Time-honoured Shengmu to Benefit People with Organic Products" and motivate them to strive for the mission of Shengmu for an "Organic China".

Continuous Development of New Organic Liquid Milk Products to Enrich Organic Liquid Milk Product Portfolio

Given there is a relatively wide variety of dairy products and very fierce competition in the dairy market of China, consumers request for more upmarket, diversified and personalized products. Such demand offers the Chinese dairy industry opportunities and market growth potential to innovate production model under the "new economic norm" and accelerate technology improvement to produce more upmarket, diversified and personalized products. Since the launch of its first organic liquid milk product in 2012, Shengmu has always considered the development of new products as its core philosophy for the development of its downstream business. With proactive efforts in the research and development of products and keen understanding of the demand for more upmarket products, Shengmu launches organic liquid milk products every year which are the first of its kind in China. These products have gained extensive recognition and popularity among consumers after they are presented to the market, making Shengmu a trendsetter for the development direction of the organic dairy industry in China and a highly competitive and renowned brand in China market with a substantial market share.

In order to meet the demand for healthy, nutritious and upmarket dairy products, Shengmu developed and launched sea buckthorn flavoured organic fermented milk and children's organic yogurt products in 2015.

Shengmu's sea buckthorn flavoured organic fermented milk is currently the only flavoured fermented milk product in China. It is made of sea buckthorn, a fruit growing in desert containing rich vitamin C and power antioxidants and quality organic yogurt. Sea buckthorn contains 428 kinds of active nutritious elements in 14 categories, such as vitamin C, various kinds of microelements required by human body, fatty acids, organic acids, lipids and carotenes. It provides anti-oxidation protection, anti-aging and anti-fatigue functions, improves immunity system and intestinal function and facilitate injury recovery. Sea buckthorn was classified as a medicine in The Four Tantras (《四部醫典》), and considered a healthy food for royal families in Song dynasty and Yuan dynasty. Shengmu's sea buckthorn flavoured organic fermented milk is very well received by the market after its launch. This product is a combination of the sea buckthorn which has various health functions and Shengmu's pollution-free and nutritious organic yogurt and has a great potential for sales growth.

Through proactive implementation of its product-oriented marketing strategy, Shengmu further strengthened the market competitiveness and recognition of its organic liquid milk products and substantially increased its popularity and enhanced its brand reputation. Meanwhile, Shengmu has increased its production capacity to further consolidate its leading position in the organic dairy market by adding production lines for organic liquid milk products in 2015. As a result, Shengmu's organic dairy products portfolio covers whole milk, low-fat milk, organic yogurt, sea buckthorn flavoured fermented milk, children's milk and children's organic yogurt. It has developed and launched a total of four categories of organic liquid milk products, all of which are made of raw milk produced by self-owned organic dairy farms that has obtained organic certification of both E.U. and China Organic Food Certification Centre.

Innovation of Sales Channels Development Strategy and the Marketing Strategy for Downstream Liquid Milk Products

Attributable to the growing market demand and effective expansion of its distribution network, the Group had a substantial growth in business in 2015 as compared to 2014.

Innovation of Sales Channels Development Strategy

In 2015, the Group has further expanded its market network coverage. Currently, the Group's liquid milk products are distributed through points of sales over 400 cities in the PRC, including some border areas such as Tibet, Xinjiang and Hainan, covering all the first and second tier markets and rapidly expanding to the third and fourth tier cities.

The Group's distributors in each region are experienced in the fast retailing industry, including the distribution and sales of dairy products. They have outstanding capability for developing sales channels and extensive experience in sales. Leveraging on the premium sales channels of its distributors in each region, the organic liquid milk products of Shengmu rapidly penetrated into both the modern and traditional sales channels. Through consistent and stringent brand marketing strategy and management and leveraging on its rapidly expanded market coverage across the country and continuously increased sales per store, the organic liquid milk products of Shengmu has become the no. 1 brand of organic dairy products in the PRC.

Faced by fierce competition in the dairy industry in China, innovation of marketing channels for downstream liquid milk products is the key aspect for Shengmu's sales channel development.

In early 2015, Shengmu adopted innovative "blue ocean" strategy to develop large chain community stores, aiming to further extend its points of sales to its target communities, provide its target consumers with full access to Shengmu products, reduce their purchasing time and the logistics cost and substantially improve customers' consumption experience. After a year's effective implementation, this strategy has made significant achievements at the end of 2015. Shengmu products have entered into over 85,000 large chain-community stores with independent promotional counters and good images across the country, which effectively enhanced the awareness of its liquid milk products among consumers and made substantial contribution to the increase in the sales of its liquid milk products. On the other hand, through such large number (over 85,000) of large chain-community stores with independent promotional counters and good images across the country, (i) its sales strategy for organic liquid milk products has been implemented consistently; (ii) its images of promotional counters has been consistently optimized; (iii) customers' consumption experience has been substantially improved; (iv) awareness and reputation among consumers of its liquid milk products has been effectively enhanced; and (v) a large number of consumers with high loyalty and an extensive and stable consumer population across the country have been rapidly developed in a short time period. Meanwhile, through active development of "blue ocean" markets, vicious competition in "red ocean" markets, which is typical in modern sales channels, has been avoided and sales cost has been saved. As a result, Shengmu has made noteworthy achievements in the sales of its organic liquid milk products.

In addition to further expand its traditional distribution network, Shengmu also proactively adopted diversified marketing models to accommodate customers' needs for online shopping. Leveraging on rapid development of internet and large number of internet users, Shengmu adopted online-to-offline (O2O) marketing model in order to integrate online and offline recourses with the support of selected distributors and the advantage of convenient online payment and efficient offline delivery. In 2015, Shengmu integrated all its online resources and cooperated with large renowned e-commerce platforms, such as Tmall.com (天貓), daojia.jd.com (京東到家), and online shopping platforms sponsored by banks, in order to provide extensive online shopping channels for its consumers. On the other hand, Shengmu independently developed "Shengmu Hui" (聖牧薈), an membership-based online shopping platform in order to facilitate consumers to obtain "real-time" information on products and events, accommodate customers' needs for online shopping and improve online service quality. Such marketing initiatives have achieved positive results.

Innovation of Marketing Strategy and Brand Promotion Strategy

In 2015, the Group's product-oriented marketing strategy has been effectively implemented. In view of the "first of its kind" advantage of its organic yogurt products, sea buckthorn flavored organic fermented milk, children's organic milk products and children's organic yogurt products in the PRC market, the Group focused on the marketing of such products in 2015 and carried out a variety of promotion activities, such as "starting organic life from childhood", and various recreational contests in kindergartens and primary schools. At the same time, the Group launched single product target market management strategy based on the sales effectiveness of different products at different sales channels in order to fully capitalize their different competitive edge. It was a meaningful attempt for more precise management of marketing channels.

In 2015, Shengmu continued its refined and precise marketing strategy and effectively established its image of "No. 1 organic milk" through opening standardized large chain-community stores, launching large nation-wide "product-experience" promotion activities and hosting the "Shengmu Organic Journey for Ten Thousand People", with the support from broadcasting advertisements through online, offline and media (including TV) channels. Such comprehensive and extensive brand promotion campaigns have substantially enhanced the brand recognition and awareness among a wide-range of consumers and facilitated Shengmu to build a unique and distinct brand image in the industry and among the media and customers. Such measures have laid a solid foundation for the expansion of Shengmu's market coverage across the country and its leap-forward development.

In 2015, Shengmu hosted the large scale event of "Shengmu Organic Journey" and accommodated over 10,000 visitors, including consumers, investors, media and students in primary and middle schools, at its production base in Ulan Buh desert to gain personal experience of its "grass-to-glass organic production model" in order to promote the concepts of organic, green and ecofriendly. Shengmu's organic production base was also designated as a "social practice education base for students in primary and middle schools" to facilitate them to understand green, organic and sustainable industry model. Through "Shengmu Organic Journey", in addition to the visitors' better knowledge of the "desert-based grass-to-glass organic production model" of Shengmu, the understanding of and confidence in the Group's products by the market has been enhanced and the brand awareness and reputation of Shengmu has been increased.

Shengmu participated in the "Shanghai International Organic Food & Green Food Expo" and promoted the organic lifestyle and concept by inviting visitors and industry participants to taste its organic liquid milk products and making presentation of its "desert-based grass-to-glass organic production model". Shengmu was awarded the Golden Medal at the Expo for the fourth time. Shengmu continued to put advertisements on the trains of in Beijing subway to promote the concept of "desert-based grass-to-glass organic production model" and educating the consumers its organic and competitive edge. Shengmu sponsored a major sport event - "2015 Yellow River Estuary (Dongying) International Marathon Activity". The healthy, organic, green and ecofriendly liquid milk products fit right in with the healthy and vigorous marathon activities. Such joint effort to promote healthy lifestyle has been awarded with extensive recognition and praise from international and domestic athletes and consumers. Shengmu also re-launched a series of advertisements on Channel 12 of China Central Television to achieve better publicity. The Group has earned trust and recognition among customers in general and attracted more PRC consumers to understand its "desert-based grass-to-glass organic production mode" and experience the healthy and happy organic lifestyle. Adopting a "product-focused extensive marketing" approach, Shengmu also cooperated with its distributors in each region to launch advertisement through different means (such as on buses and light boxes) across the country to proactively promote its organic liquid milk products and such efforts have achieved noticeable effect.

FINANCIAL REVIEW

The Group recorded a revenue of RMB3,100.7 million in 2015, representing an increase of 45.4% from RMB2,132.4 million in 2014. The profit attributable to owners of the parent increased by 12.6% from RMB711.2 million in 2014 to RMB800.7 million in 2015. The revenue from the liquid milk products exceeded that from the upstream raw milk products for the first time and such revenue as a percentage of the total revenue of the Group increased from 34.7% in 2014 to 53.4% in 2015.

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

Revenue

Unit: RMB in thousands, except percentages

	Dairy farming business				Liquid milk business				
For the year ended December 31,	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	Total revenue
2015	**2,521,395**	**1,076,373**	**1,445,022**	**46.6%**	**1,655,689**	**–**	**1,655,689**	**53.4%**	**3,100,711**
2014	1,810,035	416,918	1,393,117	65.3%	739,311	–	739,311	34.7%	2,132,428

(1) Represents self-produced organic raw milk sold to the Group's internal liquid milk business.

In 2015, the Group's revenue increased significantly by 45.4% as compared to 2014, mainly driven by the increase in the liquid milk business. Faced by fierce competition in the dairy industry in China in 2015, the Group achieved a breakthrough growth in the downstream liquid milk business leveraging on its unique "desert-based grass-to-glass organic production model", reasonably increasing its production capacity, launching new liquid milk products, implementing market-oriented marketing strategy and innovative sales channel building strategy and reducing the selling price of liquid milk products. In terms of segment revenue, the revenue from liquid milk business as a percentage of the total revenue of the Group increased from 34.7% in 2014 to 53.4% in 2015, exceeding that of upstream raw milk products for the first time. The sales volume of organic liquid milk increased by 183.4% from 51,248 tonnes in 2014 to 145,214 tonnes in 2015 and accordingly, the revenue of liquid milk increased by 124.0% from RMB739.3 million in 2014 to RMB1,655.7 million in 2015.

Dairy Farming Business

	For the year ended December 31,							
	2015				2014			
	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	712,677	139,290	5,116	28.3%	731,806	132,906	5,506	40.5%
Inter-segment sales[(1)]	1,076,373	202,352	5,319	42.7%	416,918	72,586	5,744	23.0%
Subtotal	1,789,050	341,642	5,237	71.0%	1,148,724	205,492	5,590	63.5%
Premium non-organic raw milk	732,345	173,026	4,233	29.0%	661,311	139,204	4,751	36.5%
Dairy farming segment	2,521,395	514,668	4,899	100.0%	1,810,035	344,696	5,251	100.0%

(1) Represents self-produced organic raw milk sold to the Group's internal liquid milk business.

The revenue from dairy farming segment increased by 39.3% from RMB1,810.0 million in 2014 to RMB2,521.4 million in 2015. The increase was primarily attributable to the significant increase in revenue from the sales of organic raw milk which increased from RMB1,148.7 million in 2014 to RMB1,789.1 million in 2015, representing an increase of 55.7%. The revenue from internal sales of raw milk to organic liquid milk processing plants as a percentage of the total revenue of the Group from the dairy farming segment increased from 23.0% in 2014 to 42.7% in 2015.

Liquid Milk Business

The Group's revenue from its liquid milk business increased by 124.0% from RMB739.3 million in 2014 to RMB1,655.7 million in 2015. Revenue of liquid milk business as a percentage of total revenue of the Group significantly increased from 34.7% in 2014 to 53.4% in 2015. The core driver of the continuingly rapid growth of the Group's liquid milk business is innovation. The Group has proactively developed new organic liquid milk products to enrich its organic liquid milk product portfolio. Its high-quality liquid milk produced under the "grass-to-glass organic production model" has gained more extensive recognition by consumers, reflecting in the increase in the market demand. Meanwhile, in order to further expand the market share of organic liquid milk products, the Group has adopted innovative strategies for the building of sales channel and marketing promotion for downstream liquid milk products and by leveraging on cost advantages under the "grass-to-glass organic production model", take initiatives to reduce the price of the liquid milk products when appropriate. Driven by the increase in the revenue from the 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 69.0% in 2014 to 76.4% in 2015.

	For the year ended December 31,		
	2015	2014	Increase
Revenue (RMB'000)	1,655,689	739,311	124.0%
Sales volume (Tonnes)	145,214	51,248	183.4%
Average selling price (RMB/Tonne)	11,402	14,426	-21.0%

REVENUE FROM ORGANIC/NON-ORGANIC BUSINESS AND THEIR PERCENTAGE TO THE TOTAL REVENUE

Unit: RMB in thousands, except percentages

	For the year ended December 31,			
	2015		2014	
	Amount	Percentage	Amount	Percentage
Premium non-organic raw milk	732,345	23.6%	661,311	31.0%
Organic products				
Organic raw milk	712,677	23.0%	731,806	34.3%
Organic liquid milk	1,655,689	53.4%	739,311	34.7%
Subtotal of organic products	2,368,366	76.4%	1,471,117	69.0%
Total	3,100,711	100.0%	2,132,428	100.0%

Cost of Sales, Gross Profit and Gross Margin

	For the year ended December 31,					
	2015			2014		
	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	902,814	886,236	49.5%	575,446	573,278	49.9%
After elimination(1)	368,084	344,593	48.4%	372,181	359,625	49.1%
Premium non-organic raw milk	456,719	275,626	37.6%	385,062	276,249	41.8%
Subtotal						
Before elimination	1,359,533	1,161,862	46.1%	960,508	849,527	46.9%
After elimination (1)	824,803	620,219	42.9%	757,243	635,874	45.6%
Liquid milk business						
Before elimination	1,267,411	388,278	23.5%	481,685	257,626	34.8%
After elimination(2)	798,365	857,324	51.8%	305,377	433,934	58.7%
Total	1,623,168	1,477,543	47.7%	1,062,620	1,069,808	50.2%

Notes:

(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 RMB1,062.6 million in 2014 to RMB1,623.2 million in 2015. Its gross profit increased from RMB1,069.8 million in 2014 to RMB1,447.5 million in 2015, and the gross margin slightly decreased from 50.2% in 2014 to 47.7% in 2015.

In 2015, the cost of sales of the Group increased by 52.8% as compared to 2014. The increase of cost of sales was mainly due to the expansion of sales scale of the Group. Driven by the positive impact on the overall work efficiency and effectiveness of the Group by the enhancement of its management systems through optimizing and reconstructing the relevant processes throughout the Group in 2015, the percentage of increase in the cost of sales was lower than that in its sales volume. In 2015, the gross profit of the Group increased by 38.1% as compared to 2014. The percentage of increase in gross profit of the Group was lower than that in its total revenue, primarily due to the decrease in the selling prices of both raw milk products and organic liquid milk products in 2015 as compared to 2014. Nonetheless, the Group maintained a relatively substantial increase in gross profit.

Overall, affected by the unfavourable conditions in the industry, the consolidated gross margin of the Company decreased from 50.2% in 2014 to 47.7% in 2015. Such decrease was primarily due to the decrease in gross margin of both raw milk products and liquid milk products as compared to 2014. The gross margin of liquid milk decreased more than that of raw milk products while the sales of liquid milk products accounted for a higher percentage of the total revenue.

OTHER INCOME AND GAINS

The Group's other income and gains increased from RMB28.4 million in 2014 to RMB47.4 million in 2015, mainly due to the increase in the government grants and bank interest income.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily include logistics and transportation expenses, warehouse fees and the relevant employees' remunerations. In 2015, the selling and distribution expenses of the Group amounted to RMB265.5 million, representing a substantial increase as compared to RMB128.1 million in 2014. Such increase was mainly due to the substantial increase in the sales volume of liquid milk business as compared to 2014. The logistics and transportation expenses increased is in line with the increase in the sales volume. To support the expansion of sales network, the Group continued to set up warehouses in certain important transport hubs to distribute products to the peripheral markets and as a result, the warehouse fees increased in 2015 as compared to 2014.

ADMINISTRATIVE EXPENSES

The Group's 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 RMB107.5 million and RMB101.7 million in 2015 and 2014, representing 3.5% and 4.8% of the revenue, respectively. The substantial decrease of administrative expenses as a percentage of the revenue in 2015 as compared to 2014 was mainly due to the inclusion of the listing expenses of RMB22.6 million in the administrative expenses for 2014. Excluding such listing expenses included in the administrative expenses for 2014, the administrative expenses of the Group represented 3.5% and 3.7% of the revenue in 2015 and 2014 respectively.

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 RMB52.7 million in 2015 and RMB87.1 million in 2014.

The changes in fair value less costs to sell of biological assets in 2015 decreased as compared to 2014. However, the Group still recorded a net gain, mainly due to the net gain arising from changes in fair value less costs to sell of biological assets associated with organic dairy cows was higher than the net losses arising from changes in fair value less costs to sell of biological assets associated with non-organic dairy cows. The net gain arising from changes in fair value less costs to sell of biological assets associated with organic dairy cows was mainly attributable to the rapid increase in the proportion of milkable cows in the herd size in the Group's new organic dairy farms and keeping relatively younger milkable cows in the new dairy farms.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

The associates mainly include (a) the companies that were jointly established by the Group and the outstanding distributors in our key distribution cities to distribute the branded liquid milk products of the Group; and (b) Shengmu Forage, in which the Group invested and held minority interests. The Group recorded share of losses of associates of RMB18.0 million and RMB7.7 million in 2015 and 2014, respectively, mainly due to the loss of the distribution companies in which the Group invested during the relevant years. Such companies were set up in the Group's key distribution areas, including Chongqing, Anhui, Sichuan and Guangdong. Such associated companies incurred losses because they were still in their initial stage of developing the market.

INCOME TAX EXPENSE

According to the Enterprise Income Tax Law of the PRC ("**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax.

In accordance with "The Notice of Tax Policies Relating To the Implementation of the Western China Development Strategy" jointly issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Group's taxable income arising from 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 RMB4.6 million and RMB3.7 million in 2015 and 2014, respectively. Based on the percentage of the income tax expense of the profit before tax, the effective enterprise income tax rate of the Group was 0.4% in both 2015 and 2014.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit attributable to non-controlling interests mainly represents the non controlling equity interests of the Group's farms held by dairy farmers with whom the Group cooperates in managing its farms. Profit attributable to non-controlling interest in 2015 was RMB282.6 million, representing a substantial increase over RMB172.6 million in 2014, mainly due to the increase in the profit of non-wholly owned subsidiaries for the year.

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at December 31, 2015, the total current assets of the Group were RMB4,010.3 million (as compared to RMB2,035.0 million as at December 31, 2014), primarily consisting of inventories of RMB824.5 million (as compared to RMB701.2 million as at December 31, 2014), trade and bills receivables of RMB915.3 million (as compared to RMB397.5 million as at December 31, 2014), prepayments, deposits and other receivables of RMB468.5 million (as compared to RMB185.2 million as at December 31, 2014) and cash and bank balances of RMB1,731.8 million (as compared to RMB734.7 million as at December 31, 2014).

Cash and Bank Balance and Significatnt Fund Raising Activities

The cash and bank balance has increased from RMB734.7 million as at December 31, 2014 to RMB1,731.8 million as at December 31, 2015, mainly due to the proceeds from the issue of domestic corporate bonds by Inner Mongolia Shengmu High-tech Farming Co., Ltd., an indirect wholly-owned subsidiary of the Company in December 2015. Please refer to the announcement of the Company dated 29 December 2015 for details.

Trade and bills receivables

Unit: RMB in thousands, except percentages

	As at December 31, 2015	As at December 31, 2014
Trade receivables	915,181	393,443
Bills receivables	500	4,100
Impairment	(369)	—
Total	915,312	397,543

Aging	As at December 31, 2015		As at December 31, 2014	
	Amount	Percentage	Amount	Percentage
Within 6 months	851,948	93.1%	383,265	96.4%
7 to 12 months	60,042	6.5%	13,688	3.4%
Over 1 year	3,322	0.4%	590	0.2%
Total	915,312	100.0%	397,543	100.0%

Trade and bills receivables of the Group increased substantially as compared to last year, primarily because the Group increased credit limits and credit terms to distributors based on the recovery days of the receivables from terminal supermarkets and department stores in order to increase its market share and enhance its position in the organic liquid milk market. As at December 31, 2015, the aging of approximately 93.1% of trade and bills receivables was within 6 months.

The Group made a provision of RMB369,000 for the impairment of trade receivables during the current year, which was included in the deduction of other income and gains.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's aggregate amount of prepayments, deposits and other receivables were RMB468.5 million and RMB185.2 million as at December 31, 2015 and December 31, 2014, respectively, primarily due to the increase in the prepayments as a result of the increased purchase by the Group from Shengmu Forage and other forage suppliers.

CURRENT LIABILITIES

As at December 31, 2015, the total current liabilities of the Group amounted to RMB2,975.6 million (as compared to RMB2,086.1 million as at December 31, 2014), primarily consisting of trade and bills payables of RMB1,018.1 million (as compared to RMB424.0 million as at December 31, 2014), receipts in advance of RMB17.3 million (as compared to RMB32.4 million as at December 31, 2014), other payables and accruals of RMB338.3 million (as compared to RMB293.4 million as at December 31, 2014), interest-bearing bank and other borrowings of RMB1,599.9 million (as compared to RMB1,334.0 million as at December 31, 2014), and income tax payable of RMB2.0 million (as compared to RMB2.3 million as at 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 December 31, 2015, the Group did not have significant foreign currency exposure from its operations, except certain bank balances equivalent to approximately RMB1.1 million and RMB14.0 million which were denominated in United States dollars and Hong Kong dollars, respectively. In 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. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

CHARGE ON ASSETS

As at December 31, 2015, the Group has pledged deposits in an aggregate amount of approximately RMB70.3 million (as compared to RMB16.4 million as at 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 2015, the Group generally finances its daily operations from internally generated cash flows, capital raised and bank and other borrowings. As at December 31, 2015, the Group had (a) cash and bank balances of RMB1,731.8 million (as compared to RMB734.7 million as at December 31, 2014), and (b) interest-bearing bank and other borrowings of RMB2,716.9 million (as compared to RMB1,484.0 million as at December 31, 2014), which were denominated in Renminbi, and RMB1,117.0 million of which are repayable within one to five years while the other remaining interest-bearing bank and other borrowings are repayable within one year. The gearing ratio (calculated as total debt (total interest bearing bank and other borrowings) divided by total capital) was 50.6% as at December 31, 2015 (as compared to 34.9% as at December 31, 2014). The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates. During the year ended December 31, 2015, the annual interest rate of bank and other borrowings is 4.48% to 7.14% (for the year ended December 31, 2014: 5.88% to 7.04%). In 2015, as approved by China Securities Regulatory Committee, the Group might issue long-term corporate bonds in the amount of RMB1.6 billion, and the Group completed of issue of corporate bonds of RMB1.0 billion at the interest rate of 4.48% during the year, deducting interest costs of bank and other borrowings paid while optimizing the structure of debts.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's operations were in compliance in all material repects with currently applicable national and local environmental protection laws and regulations in the PRC during the year.

CAPITAL COMMITMENTS

As at December 31, 2015, the Group's capital commitments amounted to RMB201.2 million (as compared to RMB243.0 million as at 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 at December 31, 2015, the Group had a total of 3,713 employees (as compared to 3,288 employees as at December 31, 2014). Total staff costs for 2015 (including the emoluments of directors and senior management of the Company) amounted to RMB258.7 million (excluding equity-settled share option expenses) (as compared to RMB177.2 million in 2014). 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 and increased average salary of the Company.

Contingent Liabilities

As at December 31, 2015, except for those disclosed in the financial statements, 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 in 2015.

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", the Group does not have any plan for material investments or acquisition of capital assets.

OUTLOOK

The Group's long-term objective is to become a leading organic dairy company in the world.

Expand the Organic Dairy Farming Operation and Ensure Product Safety and Quality

In 2016, the Group will continue to complete the construction of three organic dairy farms which are under construction. The Group also intends to increase its organic herd size primarily through breeding by cows at its own dairy farms. The Group will continue to invest in quality control and product safety, promote herd's health conditions, increase milk yield and enhance operation efficiency to achieve long-term growth.

Implement Technology Innovation and Develop New Organic Liquid Milk Products

The Group plans to further expand its brand liquid milk business in 2016 to further improve its profitability. To achieve this, the Group will continue to develop new organic liquid milk products to enrich its organic liquid milk product portfolio to satisfy the increasing market demand.

The Group plans to implement technology innovation, develop and launch machines which can produce fresh low-temperature organic yogurt by adding active lactobacillus on site at the sales outlets, to capture the consumers' demand for fresh organic dairy products from places of public entertainment, restaurants and canteens and office areas. In addition to attracting consumers' purchases, such personalized business models and diversified operation methods can enhance the recognition of Shengmu brand and raise its reputation among consumers. The Group will continue to develop new products to enrich the liquid milk product portfolio through leveraging its increasing organic raw milk production, sharing its existing and new processing capacity, marketing and distribution platforms, as well as benefiting from the increasingly recognized brand.

Continue to Develop Innovative Marketing Channels, Build More Extensive Nationwide Distribution Network and Strengthen Brand Recognition

In 2016, the Group plans to continue to implement "blue ocean" strategy to consolidate and develop its marketing channels and establish an aggregate of 100,000 premium large chain-community stores across the country. It will continue to consolidate and develop its "key account (KA)" distribution channels by increasing sales volume per store. The Group plans to further develop its "blue ocean" strategy by establishing 6,500 large chain-community stores in 2016 with sales volume and image comparable with KA stores. Furthermore, the Group will continue to develop its "Organic Club" wechat store, adopt flexible distribution models, fill market niche and strengthen sales channels to reach a wider customer base.

The Group also intends to enhance "Shengmu" brand recognition and solidify its high-end image in the target markets through (i) developing and implementing a uniform marketing strategy and coordinating nationwide advertising and marketing campaigns (including online advertising) to promote organic milk and its brand, (ii) promoting and establishment Shengmu large chain-community flagship stores which, in addition to their sales function, will serve to educate the customers regarding its "desert-based grass-to-glass organic production model" and the benefits of its organic milk and promote its brand, and (iii) continuing to host large-scale "Shengmu Organic Journey" to demonstrate Shengmu's "desert-based grass-to-glass organic production model" and enable the consumers to have a personal experience of such green, organic, ecofriendly "grass-to-glass" model.

REPORT OF THE DIRECTORS

The Board has the pleasure in submitting its annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2015. Save as stated otherwise in this report, the defined terms herein shall have the same meaning as in the prospectus ("the **Prospectus**") dated June 30, 2014.

PRINCIPAL BUSINESSES

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

For details of the principal subsidiaries of the Group, please refer to Note 1 to the financial statements.

The Group's income is mainly derived from its business activities in the PRC. For operating segment information of the Group for the year ended December 31, 2015, please refer to Note 4 to the financial statements.

RESULTS

The Group's consolidated results for the year ended December 31, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income in the financial statement.

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

For details of the changes in the properties, plant and equipment of the Group during the year, please refer to Note 13 to the financial statements.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of final dividend for the year ended December 31, 2015 (2014: Nil).

DISTRIBUTABLE RESERVES

The Company's distributable reserves amounted to RMB3,014.7 million as at December 31, 2015. For details of the changes in the Company's reserves in 2015, please refer to Note 38 to the financial statements.

SHARE CAPITAL

For details of the changes in the Company's share capital in 2015, please refer to the consolidated statement of changes in equity in the financial statement and Note 27 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

On January 27, 2016 (after trading hours), World Shining Investment Limited ("**World Shining**"), the controlling shareholder of the Company has entered into a sale and purchase agreement with Nong You Co., Ltd., an independent third party. For details of the sale and purchase agreement, please refer to the announcements of the Company dated January 28, 2016, January 29, 2016, January 31, 2016, February 1, 2016 and February 2, 2016, respectively.

On February 19, 2016, Mr. Wu Jingshui, a non-executive Director of the Company, has resigned as a non-executive Director of the Company.

On February 19, 2016, Mr. Dong Xianli, was appointed as a non-executive Director of the Company. For details in respect of change of directors, please refer to the announcement of the Company dated February 19, 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

From January 1, 2015 to December 31, 2015, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on June 28, 2016. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from June 24, 2016 to June 28, 2016, both days inclusive. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00p.m. on June 23, 2016.

The notice of annual general meeting and related circular will be despatched to the shareholders in due course.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2015, the five largest customers of the Group in aggregate accounted for 56.3% of the Group's total income and the largest customer accounted for 37.2% of the Group's total income. In 2015, the five largest suppliers of the Group accounted for 36.5% of the Group's total amount of purchases and the largest supplier accounted for 16.1% of the Group's total amount of purchases.

In 2015, to the knowledge of the Directors, except for Shengmu Forage, an associate of the Company, none of any of shareholders or any of Directors or any of their close associates who owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers of the Group.

In 2015, we did not experience any material disputes with our customers or suppliers.

DIRECTORS

During the year ended December 31, 2015, the Company's Directors were as follows:

Executive Directors

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

Non-executive Directors

Mr. WU Jingshui (appointed on March 26, 2014 and resigned on February 19, 2016)
Mr. FAN Xiang (appointed on March 26, 2014)
Mr. CUI Guiyong (appointed on March 26, 2014)
Mr. SUN Qian (appointed on March 26, 2014)
Mr. DONG Xianli (appointed on February 19, 2016)

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT MEMBERS

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

DIRECTORS' SERVICE CONTRACTS

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

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. WONG Kun Kau, an independent non-executive Director of the Company, has ceased to act as a non-executive director of Sun King Power Electronics Group Limited, a listed company on the Stock Exchange (stock code: 580) since July 2, 2015 and has been appointed as an independent non-executive director of REF Holdings Limited, a listed company on the Stock Exchange (stock code: 8177), which principally engaged in financial printing services since September 24, 2015. Save as disclosed herein, as of December 31, 2015, there was no change to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of December 31, 2015, Mr. WU Jingshui, a non-executive Director of the Company, 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）("**Inner Mongolia Mengniu**"), 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, all Directors have confirmed that during the year ended December 31, 2015 and as of the date of this report, they and their close associates have not engaged in or hold any interest in any business which is or may be, directly or indirectly, in competition with our business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the criteria sets out in Rule 3.13 of the Listing Rules, the Company considers that Mr. WONG Kun Kau, Ms. GE Xiaoping, Mr. LI Changqing and Mr. YUAN Qing are independent parties and has received from them written confirmations on their independence.

NON-COMPETITION UNDERTAKING

The Company's Ultimate Controlling Shareholders (as defined under the Prospectus) and World Shining (together the "**Covenantors**") have entered into a deed of non-competition (the "**Non-competition Deed**") (as set out in the section headed "Relationship with Controlling Shareholders" in the Prospectus) in favor of us. Pursuant to the Non-competition Deed, the Covenantors have undertaken to us that they would not, and that their associates (except any member of our Group) would not, during the restricted period set out in the "Non-competition Deed", engage in or be interested in any business which is or may be in competition with our existing core business (the "**Restricted Business**") except for the business currently carried out by Xinjiang Shenghe Dairy Company Limited (新疆盛和乳業有限公司) ("**Non-competition Undertaking**"). All independent non-executive Directors of the Company have reviewed the matters relating to the implementation of the Non-competition Undertaking and consider that the Covenantors have complied with the terms of the Non-competition Undertaking during the year ended December 31, 2015.

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

During the period from June 4, 2015 to December 31, 2017, the Group provides financial assistance in the form of guarantees for external borrowing of Shengmu Forage, a connected person of the Company (as defined under the Listing Rules), the details of which are set out in the announcement of the Company dated June 4, 2015.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended December 31, 2015 and as of the date of this report, there was no material acquisition or disposal of subsidiaries or associated companies of the Company by the Group.

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

So far as is known to any Director or chief executive of the Company, as of December 31, 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 any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be immediately notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
YAO Tongshan (姚同山)	Interests held jointly with another; interest of a controlled corporation(1)	3,769,389,600	59.31%
	Beneficial Owner(2)	70,419,200	1.11%
WU Jianye (武建鄴)	Interests held jointly with another; interest of a controlled corporation(1)	3,769,389,600	59.31%
	Beneficial Owner(2)	64,876,800	1.02%
GAO Lingfeng (高凌鳳)	Interests held jointly with another; interest of a controlled corporation(1)	3,769,389,600	59.31%
	Beneficial Owner(2)	31,992,000	0.50%
CUI Ruicheng (崔瑞成)	Interests held jointly with another; interest of a controlled corporation(1)	3,769,389,600	59.31%
	Beneficial Owner(2)	31,992,000	0.50%

Notes:

(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, World Shining, the Controlling Shareholders, controls 59.31% interest in the share capital of the Company . As a result of the acting in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 59.31% 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 corporation	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 (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司) ("**Shengmu Pangu**")	45.00%
	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 December 31, 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 immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as of December 31, 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 or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
World Shining(1)	Beneficial Owner	3,769,389,600	59.31%
SHI Jianhong (史建宏)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
ZHU Jianhua (朱建華)(2)	Interests of spouse	3,769,389,600	59.31%
WANG Fuzhu (王福柱)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
HOU Bo (侯波)(3)	Interests of spouse	3,769,389,600	59.31%
ZHANG Junli (張軍力)(4)	Interests of spouse	3,769,389,600	59.31%
GUO Yunfeng (郭運鳳)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
WANG Zhizhong (王志忠)(5)	Interests of spouse	3,769,389,600	59.31%
QIN Yuan (秦源)(6)	Interests of spouse	3,769,389,600	59.31%
WANG Zhenxi (王振喜)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
WANG Ning (王寧)(7)	Interests of spouse	3,769,389,600	59.31%
YUN Zhongping (雲中平)(8)	Interests of spouse	3,769,389,600	59.31%
YUN Jindong (雲金東)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
GUO Haimei (郭海梅)(9)	Interests of spouse	3,769,389,600	59.31%
YANG Yaping (楊亞萍)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
TENG Jie (騰傑)(10)	Interests of spouse	3,769,389,600	59.31%
LU Shunyi (蘆順義)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
ZHAO Lizhen (趙麗珍)(11)	Interests of spouse	3,769,389,600	59.31%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage of interest
WANG Zhen (王鎮)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
	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	3,769,389,600	59.31%
YANG Feng (楊峰)(12)	Interests of spouse	3,769,389,600	59.31%
ZHANG Junke (張俊科)(1)	Interests held jointly with another person; interest of a controlled corporation	3,769,389,600	59.31%
ZHENG Yueqin (鄭月琴)(13)	Interests of spouse	3,769,389,600	59.31%
LI Liying (李麗英)(14)	Interests of spouse	3,769,389,600	59.31%
Greenbelt Global Limited	Beneficial Owner	395,235,200	6.22%
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200	6.22%
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	395,235,200	6.22%
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	395,235,200	6.22%
Salata Jean	Interest of a controlled corporation	395,235,200	6.22%
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000	5.95%
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000	5.95%
SC China Holding Limited	Interest of a controlled corporation	378,320,000	5.95%
Sequoia Capital 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%

Notes:

(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 on "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, World Shining, the Controlling Shareholders, controls 59.31% interest in the issued share capital of the Company. As a result of the acting-in-concert agreement, each of the Ultimate Controlling Shareholders is deemed to be interested in such 59.31% 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)	30.00%
WANG Jinliang (王金良)	Otog Shengmu Xintai Farming Co., Ltd. (鄂托克旗聖牧欣泰牧業有限公司)	45.00%
CHEN Qingjun (陳慶軍)	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.00%
LI Yongqiang (李永強)	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.00%
DING Gaohuai (丁高懷)	Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司)	35.00%
WANG Qiang (王強)	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.00%
WANG Zhen (王鎮)	Bayannur Shengmu Xiwang Farming Co., Ltd. ("**Shengmu Xiwang**") (巴彥淖爾市聖牧希望牧業有限責任公司)	17.50%
SUN Xiyao (孫喜耀)	Bayannur Shengmu Xiwang Farming Co., Ltd. (巴彥淖爾市聖牧希望牧業有限責任公司)	17.50%
LI Ruijun (李瑞軍)	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.00%
YUAN Lun (院輪)	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	35.00%
WANG Lixin (汪立新)	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.00%
CHANG Zhiba (常志拔)	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	15.50%
HOU Liubin (侯留斌)	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.00%
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	35.00%
REN 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)	35.00%
YU Gong (于工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	35.00%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as of December 31, 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 compensation through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. Participants of the Pre-IPO Share Option Scheme include (a) the executive Directors, (b) senior management of the Group, (c) management of the subsidiaries of the Company, and (d) management of Shengmu Forage.

The Pre-IPO Share Option Scheme provides that, within two (2) years (being the period from May 4, 2015 to May 4, 2017) after the Vesting Date, a grantee shall not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrants, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over (either directly or indirectly, conditionally or unconditionally) any Shares which have been issued to him/her pursuant to his/her exercise of any option granted to and vested on him/her under the Pre-IPO Share Option Scheme.

According to the Pre-IPO Share Option Scheme, options granted (and vested on the Vesting Date) must be exercised by the relevant grantee within six (6) months after the Vesting Date. Options not exercised within such six (6) months shall lapse immediately afterwards.

As the options to subscribe for 488,484,000 Shares were fully vested to 181 grantees on the Vesting Date (i.e. May 4, 2015), they will lapse if not being exercised on or before November 4, 2015.

Pursuant to a resolution approved by the Shareholders at the extraordinary general meeting on November 3, 2015, the Pre-IPO Share Option Scheme was amended as follows:

(1) All the Shares issued pursuant to the exercise of options during the Amended Exercise Period (as defined hereunder) would not be subject to any restriction applicable during the Lock-up Period (being the period from May 4, 2015 to May 4, 2017) provided under the Pre-IPO Share Option Scheme. Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the options during the Amended Exercise Period (as defined hereunder).

(2) The exercise period provided under the Pre-IPO Share Option Scheme (from May 4, 2015 to November 4, 2015) was varied to the "Amended Exercise Period" in the following manner:

Amended Exercise Period	Maximum percentage of options exercisable during the respective Amended Exercise Period
from May 4, 2016 to May 4, 2017	50% of the options vested
from November 4, 2016 to May 4, 2017	50% of the options vested

If the grantee ceases employment with the Group or Shengmu Forage before May 4, 2016, 100% of the options held by him/her shall lapse immediately, and if the grantee ceases employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2016, 50% of the options held by him/her shall lapse immediately.

Apart from the above amendments, the other terms of the Pre-IPO Share Option Scheme remain the same.

The table below sets out the particulars of changes of options granted under the Pre-IPO Share Option Scheme from January 1, 2015 to December 31, 2015:

Name or category of participant	As at January 1, 2015	Number of options [1] Exercised during the period	Lapsed/ Cancelled during the period	As at December 31, 2015	Date of grant of options	Exercise period of options (both dates inclusive)	Exercise price of options (HK$)
Directors of the Company							
YAO Tongshan	70,419,200	Nil	Nil	70,419,200	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
WU Jianye	64,876,800	Nil	Nil	64,876,800	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
GAO Lingfeng	31,992,000	Nil	Nil	31,992,000	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
CUI Ruicheng	31,992,000	Nil	Nil	31,992,000	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
Directors of subsidiaries of the Company not mentioned above	135,219,000	Nil	12,350,400[3]	122,868,600	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
Senior management of the Company							
Li Yundong (Joint Company ex- Secretary of the Company) (Resigned)	37,795,200	Nil	37,795,200[3]	Nil	April 30, 2014	—	—
Other grantees who are employees of the Group	128,317,000	Nil	4,836,000[3]	123,481,000	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
Other 6 grantees who are employees of Shengmu Forage	3,868,800	Nil	Nil	3,868,800	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50%[2]	HK$1.56
Total:	504,480,000 options eligible to subscribe for 504,480,000 shares of the Company	Nil	Total of 54,981,600 options (with rights to subscribe for 54,981,600 shares of the Company) have lapsed[3]	449,498,400 options eligible to subscribe for 449,498,400 shares of the Company			

Notes:

(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 report, there were 10 grantees who have left employment with the Group and 54,981,600 options they held to subscribe for 54,981,600 Shares had lapsed. As of the date of this report, a total of 179 grantees held a total of 449,498,400 options granted under the Pre-IPO Share Option Scheme to subscribe for 449,498,400 shares representing (i) approximately 7.07% of the Company's issued share capital as of the date of this 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 6.61% of the Company's issued share capital as of the date of this 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.

(2) The Board of the Company has passed board resolutions confirming that the vesting conditions have been satisfied, hence 488,484,000 options out of all 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), exercisable from April 30, 2015 to November 4, 2015. According to an ordinary resolution approved by the Shareholders at the extraordinary general meeting on November 3, 2015, the exercise period of options under the Pre-IPO Share Option Scheme was amend as follows: grantees are entitled to exercise 50% of their vested options from May 4, 2016 to May 4, 2017 and 50% from November 4, 2016 to May 4, 2017 respectively. All the Shares issued pursuant to the exercise of options during the exercise period would not be subject to any restriction currently applicable during the Lock-up Period. Grantees are entitled to sell or otherwise dispose of any interest in the Shares after they exercise the options during the exercise period.

(3) A total of 54,981,600 options to subscribe for a total of 54,981,600 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 30 to the 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 compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group.

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

No option has been granted by the Company under the Share Option Scheme since the adoption date of the Share Option Scheme and up to the date of this report. A summary of the terms of the Share Option Scheme has been set out in the section headed "Appendix IV: Statutory and General Information – E. Share Option Scheme" of the Prospectus.

Use of Net Proceeds from the Global Offering

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

As of December 31, 2015, the net proceeds were applied as follows:

	Funds utilized as of December 31, 2015 RMB'000
Constructing six additional organic dairy farms	182,525
Acquiring dairy cows domestically and from overseas	145,644
Sales and marketing activities and expansion of distribution network	40,102
Expanding the Group's liquid milk production capacity	120,306
Repayment of loans	120,306
Additional working capital and general corporate purposes	80,204
Total:	689,087

CONTRACT OF SIGNIFICANCE WITH DIRECTORS AND CONTROLLING SHAREHOLDERS

Save the related party transactions as set out in the Note 33 to the financial statements and as disclosed in the section headed "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted during the year ended December 31, 2015.

CONTINUING CONNECTED TRANSACTIONS

The Company's continuing connected transactions during the year of 2015 are as follows:

1. On June 25, 2014, Shengmu Forage and Inner Mongolia Shengmu High-tech Farming Co., Ltd. ("**Shengmu Holding**") entered into a framework agreement in relation to the purchase of forage by the Group from Shengmu Forage and its subsidiaries (including Alxa Shengmu High-tech Ecological Forage Co., Ltd. ("**Alxa Forage**")) ("**Forage Supply Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to the agreement, Shengmu Forage and its subsidiaries (including Alxa Forage) shall sell all the forage produced by it to us on an exclusive basis for a period from January 1, 2014 to December 31, 2016. The total annual amount of purchases made by the Group from Shengmu Forage and Alxa Forage under the Forage Supply Framework Agreement will not exceed RMB392 million, RMB630 million and RMB911 million for each of the years ending December 31, 2014, 2015 and 2016. The total annual amount of purchases for the year ended December 31, 2015 was RMB443.1 million. Reasons for and benefits of the transactions under the Forage Supply Framework Agreement are: Shengmu Forage and Alxa Forage grow organic forage without using any synthetic pesticides or synthetic fertilizers. All of the growing fields developed by Shengmu Forage and Alxa Forage meet the E.U. standards set by ECOCERT S.A. and are certified organic under the PRC standards by the COFCC. We believe these crops provide organic, nutritious feeds necessary for our dairy cows, allowing them to produce organic and nutritious milk. In addition, farms of Shengmu Forage and Alxa Forage in the Ulan Buh desert are in the proximity of our organic dairy farms. As such, it is commercially beneficial to the Group to continue to purchase forage from Shengmu Forage and Alxa Forage in view of their stable and reliable supply of good quality forage and the proximity of its forage farms to our dairy farms.

2. On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of organic raw milk by the Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang ("**Milk Supply Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to the agreement, organic raw milk of Shengmu Pangu and Shengmu Xiwang are subject to our centralized sales management. Both of them shall sell their organic raw milk to us on a priority basis to meet our requirement. Excessive organic raw milk can be sold to third parties as permitted and managed by Shengmu Holding. The term of the agreement is January 1, 2014 to December 31, 2016. The total annual amount of purchases made by the Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang under the Milk Supply Framework Agreement will not exceed RMB160 million, RMB250 million and RMB400 million for each of the years ending December 31, 2014, 2015 and 2016. The total amount of purchases of raw fresh milk for the year ending December 31, 2015 was RMB210.7 million. Reasons for and benefits of the transactions under the Milk Supply Framework Agreement are: we manage our sales of raw milk under a centralized system and Shengmu Dairy serves as the processing center of raw milk for all our subsidiaries. As subsidiaries of the Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized sales system.

3. On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement in relation to the purchase of cows by the Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang ("**Framework Agreement for Sale and Purchase of Cows**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. The term of the agreement is January 1, 2014 to December 31, 2016. Under the Framework Agreement for Sale and Purchase of Cows, (I) the total annual amount of purchases of cows made by the Group (excluding Shengmu Pangu and Shengmu Xiwang) from Shengmu Pangu and Shengmu Xiwang will not exceed RMB33 million, RMB62 million and RMB61 million, and (II) the total sales of cows made by the Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang will not exceed RMB65 million, RMB55 million and RMB75 million, for each of the years ending December 31, 2014, 2015 and 2016. Under the Framework Agreement for Sale and Purchase of Cows above, the total purchase amount of cows of the Group (excluding Shengmu Pangu and Shengmu Xiwang) for the year ended December 31, 2015 was RMB16.5 million, while total sales revenue of the Group amounted to RMB18.8 million. Reasons for and benefits of the transactions under the Framework Agreement for Sale and Purchase of Cows are: we manage our dairy farming on a centralized basis. As subsidiaries of the Group, Shengmu Pangu and Shengmu Xiwang are also subject to such centralized management.

4. On June 25, 2014, Shengmu Pangu, Shengmu Xiwang and Shengmu Holding entered into a framework agreement for a term from January 1, 2014 to December 31, 2016 in relation to the provision of financial assistance to be provided by the Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang ("**Financial Assistance Framework Agreement**"), details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus. Pursuant to such agreement, the Group will provide financial assistances (in the form of guarantees) to Shengmu Pangu and Shengmu Xiwang on normal commercial terms. The term of the agreement is January 1, 2014 to December 31, 2016. The maximum daily balance of financial assistance to be provided by the Group (excluding Shengmu Pangu and Shengmu Xiwang) to Shengmu Pangu and Shengmu Xiwang shall not exceed RMB60 million, RMB100 million and RMB120 million for each of the years ending December 31, 2014, 2015 and 2016. The maximum daily balance of financial assistance for the year ending December 31, 2015 was RMB55 million. Reasons for and benefits of the transactions under the Financial Assistance Framework Agreement are: it would be difficult for our newly established subsidiaries, including Shengmu Pangu and Shengmu Xiwang, to obtain commercial loans and borrowings without guarantees of our other established subsidiaries. Even if they could obtain such loans and borrowings on their own, they would incur higher finance costs on commercial loans and borrowings without guarantees given by our other established subsidiaries. As such, it is commercially beneficial to the Group to continue to provide financial assistances to Shengmu Pangu and Shengmu Xiwang, which will also lower our overall finance costs.

5. On June 4, 2015, the Company and Shengmu Forage entered into a financial assistance framework agreement, pursuant to which the Group will provide financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage. The maximum daily balance of financial assistance (in the form of guarantees) to be provided by the Group to Shengmu Forage shall not exceed RMB300 million for each of the years ending December 31, 2015, 2016 and 2017. The maximum daily balance of financial assistance for the year ending December 31, 2015 was RMB300 million. Reasons for and benefits of the transactions under the financial assistance framework agreement are: provision of guarantees for the external borrowings of Shengmu Forage enables Shengmu Forage to implement its expansion plans, which is beneficial to the development of the Group. Besides, the risks arising from the provision of financial assistance are controllable.

The Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions referred to above are entered into during the ordinary course of the Group's business on normal or better commercial terms and under agreements of such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders of listed companies as a whole. The Company's auditor has confirmed that: (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors; (ii) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 33 to the financial statements. The related party transactions mainly comprise: (1) sale of products to certain entities which have been accounted for as associates of the Company as the Group holds interests in such entities. None of the connected person of the Company holds interests in or position with such entities, and such entities are not considered connected person under the Listing Rules; (2) purchase of forage from Shengmu Forage in accordance with the Forage Supply Framework Agreement as referred to in the section headed "Continuing Connected Transactions"; 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 of the Company. All the requirements under Chapter 14A of the Listing Rules have been complied with for the year ended December 31, 2015.

EMPLOYEES

As of December 31, 2015, the Group had a total of 3,713 employees. Total staff costs (including the emoluments of Directors and senior management) during the period was approximately RMB258.7 million (excluding equity-settled share option expenses) (2014: RMB177.2 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of the Group's rapid development and success in the future. The Group provides management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. In general, the Group determines employee compensation based on each employee's performance, qualifications, position and seniority.

The Group has also approved and adopted a pre-IPO share option scheme and a 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. On November 3, 2015, the extraordinary general meeting of the Company approved amendments to the pre-IPO share option scheme, details of amendments were set out in a circular named "Connected Transaction – Proposed Amendments to the Terms of Options Granted under the Pre-IPO Share Option Scheme" dated October 15, 2015.

RETIREMENT BENEFIT PLANS

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

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

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

During the year of 2015, no emoluments were paid by the Group to any Director or any of the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments for the year ended 31 December 2015.

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

SUFFICIENT PUBLIC FLOAT

Based on the public information available to the Company and so far as all Directors are aware, the Company had maintained the public float as required by the Listing Rules throughout the period from January 1, 2015 to the latest practicable date prior to the issue of this annual report.

AUDITORS

Ernst & Young has audited the financial statements for the year ended December 31, 2015. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Hong Kong, March 30, 2016

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YAO Tongshan (姚同山), aged 59, is the founder of our Group, chairman of the Board, chief executive officer and executive Director of the Company. He is also the chairman of the nomination committee of the Company. He is primarily responsible for our Company's strategic planning and long term business planning, overall business, market development and operation management, annual budgets, business plan, and other significant matters arising from ordinary business operation. Mr. YAO was appointed to our Board in February 2014. For positions with other members of the Group, Mr. YAO is also the director of Shengmu Holding, Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司) ("**IMU-Shengmu Dairy**"), Inner Mongolia Shengmu Holding Co. Ltd. ("**Shengmu Farming**"), Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (內蒙古聖牧高科奶業有限公司) ("**Shengmu Dairy**"), Shining Investment Industry Limited ("**Shining Investment**"), China Mengniu Investment Company Limited (中國蒙牛投資有限公司) ("**Mengniu Investment**"), Saint Investment HK Limited ("**Saint Investment**"), Flourish Treasure Holdings Limited ("**Flourish Treasure**"), Horizon King Investments Limited ("**Horizon King**"), Fortune Globe Limited ("**Fortune Globe**"), Saint Investment (Cayman) Limited ("**Saint Investment (Cayman)**"), Credence Global Investments Limited ("**Credence Global**") and Elite Noble Investments Limited ("**Elite Noble**"). He has over 14 years of experience in the dairy industry, with extensive industry and management experiences. In March 2014, Mr. YAO was honored as one of the top 10 economic figures in Inner Mongolia (內蒙古經濟年度十大人物) of 2013 for his contribution to the development of local economy jointly by Inner Mongolia Daily (內蒙古日報社), Inner Mongolia Federation of Industry and Commerce (General Chamber of Commerce) (內蒙古自治區工商聯 (總商會)) and Inner Mongolia Association of Entrepreneurs (內蒙古企業家聯合會).

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

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

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

Mr. WU Jianye (武建鄴), aged 42, is the president and executive Director of the Company. He is primarily responsible for the management and operation of our Group such as the strategic management and implementing the key performance indicator of Shengmu Farming and Shengmu Dairy. Mr. WU was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. WU is also the director of Shengmu Holding, IMU-Shengmu Dairy and Shengmu Pangu. He has over 11 years of management experience in various different industries. Mr. WU joined our Group in September 2010 as an assistant to chief executive officer and was designated as the president of Shengmu Holding in August 2013.

Prior to joining our Group in September 2010, he was the chairman and president (mainly responsible for operational management) of Inner Mongolia Pangu Group Co., Ltd. (內蒙古盤古集團有限責任公司) (principally engaged in agricultural business) between May 2003 and August 2010. Mr. WU was the general manager (mainly responsible for overall management and sales) of Inner Mongolia Pangu Cashmere Co., Ltd (內蒙古盤古羊絨製品有限公司) (principally engaged in manufacture of cashmere) between January 2000 and May 2003.

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

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

Ms. GAO Lingfeng (高凌鳳), aged 45, is the vice president and executive Director of the Company. She is primarily responsible for setting up and implementing key performance indicators for various business units, production chain's quality management and organic certification management. In addition, Ms. GAO is primarily responsible for the evaluation, improvement and monitoring of our quality control system, and oversees the Group's overall administrative operation and the coordination between various business departments, and is also principally responsible for overseeing the management of Shengmu Farming. Ms. GAO was appointed to our Board on March 26, 2014. For position with other members of the Group, Ms. GAO is also the director of Shengmu Holding, IMU-Shengmu Dairy, Shengmu Agriculture and Shengmu Farming. She has over 16 years of experience in the dairy industry and 17 years of management experience in production and product quality.

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

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

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

Mr. CUI Ruicheng (崔瑞成), aged 33, is the vice president, chief financial officer and executive Director of the Company. He is primarily responsible for the financial management of our Group. Mr. CUI was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding. He has over 11 years of experience in the dairy industry and financial management.

Mr. CUI joined our Group since its establishment in October 2009. He has been appointed as a Joint Company Secretary of the Company since December 4, 2015. He has served as the vice president (finance) and chief financial officer of Shengmu Holding since January 2014. Prior to joining our Group, Mr. CUI held various financial and accounting positions with Inner Mongolia Mengniu, including accountant and listing administrator between July 2003 and August 2006, and was the finance department head with Inner Mongolia Mengniu Shengwu Zhineng Company Limited (內蒙古蒙牛生物質能有限公司) between August 2006 and September 2009.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Dong Xianli (董先理), aged 51, is a non-executive Director of the Company. He was appointed to our Board on February 19, 2016.

Mr. Dong is currently an assistant vice president of Inner Mongolia Mengniu, a subsidiary of China Mengniu Dairy Company Limited, a company listed on the main board of the Stock Exchange (stock code: 2319). Mr. Dong is primarily responsible for investment management, property management, risk control and internal audits of Inner Mongolia Mengniu. Mr. Dong joined Inner Mongolia Mengniu in January 2004 and has held various positions such as investment controller and financing controller since then. Mr. Dong has extensive experience in auditing, finance management and investment management.

Mr. Dong received his bachelor's degree from Beijing Forestry University (北京林業大學) (formerly known as Beijing Forestry College (北京林學院)) in July 1985, majoring in soil and water conservation and his master degree from Inner Mongolia University of Technology (內蒙古工業大學) in January 2010, majoring in project management. Mr. Dong has obtained qualifications as a Certified Public Accountant and a Certified Asset Appraiser in China.

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

Mr. FAN Xiang (范翔), aged 39, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. For position with other members of the Group, Mr. FAN is also the director of Shengmu Holding since December 2013. In addition to his role with our Company, Mr. FAN is currently the Chairman and General Manager of Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd. (北京高盛寬街博華股權投資管理有限公司), a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (高盛集團有限公司) (collectively "Goldman Sachs") since January 2013. Prior to the relocation to Beijing in January 2013, Mr. FAN was with the Hong Kong principal investment area and the New York investment banking division of Goldman Sachs as managing director and executive director from August 2007 to December 2012. Mr. FAN was with KKR Asia Limited as manager from March 2006 to July 2007.

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

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

Mr. CUI Guiyong (崔桂勇), aged 53, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014. He is also a member of the audit committee. For position with other members of the Group, Mr. CUI is also the director of Shengmu Holding since December 2013. In addition to his role with our Company, Mr. CUI is currently the managing director of Baring Private Equity Asia Limited since January 2012. Mr. CUI served as a managing director and subsequently a partner at HOPU Investment Management Co. Ltd. since May 2008. Prior to joining HOPU Investment Management Co., Ltd., he was an investment banker for 14 years, during which he served as the managing director of Morgan Stanley Asia Limited between April 2007 and April 2008, managing director of GIBA-Resources and Energy of HSBC Markets (Asia) Limited between March 2004 and April 2007, head of Investment Banking Division of ICEA Capital Limited from June 2002 to August 2003 and assumed various positions in N M Rothschild & Sons (Hong Kong) Limited from September 1994 to June 2002, including the position of the Chief Representative of China in its Beijing Office before he left the company in 2002.

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

Mr. CUI has served as a non-executive director of AAG Energy Holdings Limited which is listed on the Stock Exchange (stock code:2686) since January 2015. He served as a non-executive director of Winsway Coking Coal Holdings Limited which is listed on the Stock Exchange (stock code: 1733) from June 2010 to January 2012.

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

Mr. SUN Qian (孫謙), aged 42, is a non-executive Director of the Company. He was appointed to our Board on March 26, 2014 and he is a member of the remuneration committee. Mr. SUN currently is a partner of Sequoia Capital China.

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Kun Kau (黃灌球), aged 55, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014. He is a chairman of the remuneration committee and a member of nomination committee. Mr. WONG has more than 23 years of experience in investment banking and corporate finance. He is currently the founder and managing partner of Bull Capital Partners Ltd. ("Bull Capital"), a fund management company specializing in direct investment in the greater China region.

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

Mr. WONG was an independent non-executive director of Sun. King Power Electronics Group Limited, a company listed on the Stock Exchange (stock code: 580) (principally engaged in trading and manufacturing of power electronic components) from May 2010 to June 2015. He is also the independent non-executive director of West China Cement Limited (principally engaged in manufacture and sale of cement and cement products) since July 2010, Anhui Conch Cement Company Limited ("Anhui Conch") (principally engaged in manufacture and sales of clinker and cement products) since May 2012, Lifestyle Properties Development Limited (principally engaged in property development and property investment) since August 2013, all of which are listed on the Stock Exchange (stock code:2233, stock code: 914 and stock code: 2183, respectively) and an independent non-executive director of REF Holdings Limited (principally engaged in financial printing services) (stock code:8177) since September 2015; Anhui Conch is additionally listed on The Shanghai Stock Exchange (stock code: 600585).

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

Mr. LI Changqing (李長青), aged 59, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014. He is a member of audit committee and remuneration committee.

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

Mr. LI is widely recognized for his research and has received numerous awards in recognition of his exemplary work including the title of National outstanding teacher (全國優秀教師稱號) awarded in September 2014, Inner Mongolia outstanding talent award (內蒙古自治區傑出人才獎) by Inner Mongolia Autonomous Region Government in September 2012 and the first-class award of Inner Mongolia science and technology progress (內蒙古自治區科學技術進步一等獎) by Inner Mongolia Autonomous Region Government in January 2009, Wuyi-Worker Medal of the Autonomous Region (全區五一勞動獎章) by Inner Mongolia Autonomous Region General Worker Union (內蒙古自治區總工會) in April 2012 and received special allowance from the State Council in March 2009 in recognition of his outstanding contribution in the education sector.

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

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

Ms. GE Xiaoping (葛曉萍), aged 53, is an independent non-executive Director of the Company. She was appointed to our Board on June 18, 2014. She is the chairman of audit committee. Ms. GE has over 31 years of experience in auditing and accounting, she is a certified public accountant in PRC and certified public valuer in the PRC.

Ms. GE is currently a partner and branch chief representative (Xiamen branch) for BDO China Shu Lun Pan Certified Public Accountants LLP ("BDO") (立信會計師事務所 (特殊普通合夥)) since March 2010. Ms. GE was the accounting lecturer for the People's Liberation Army Necessities and Finance College (中國人民解放軍軍需財經高等專科學校) between June 1989 and January 1997, and she held various positions (including accountant) with Hubei Electronic Engines Factory (湖北電機廠) (principally engaged in manufacture of electronic engines) between December 1980 and June 1989.

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

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

Ms. GE was an independent director of Tsann Keun China Enterprise Co., Ltd. (廈門燦坤實業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 200512), between May 2008 and May 2014.

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

Mr. YUAN Qing (袁清), aged 59, is an independent non-executive Director of the Company. He was appointed to our Board on June 18, 2014. He is a member of nomination committee. Mr. YUAN has over 27 years of experience in academic research, on the subject of grassland resources.

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

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

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

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

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

SENIOR MANAGEMENT

Mr. YAO Tongshan (姚同山), aged 59, is the founder of our Group, chairman, chief executive officer and executive Director of our Company. His biographical details are set out under the section "Executive Directors" above.

Mr. WU Jianye (武建鄴), aged 42, is the president and executive Director of our Company. His biographical details are set out under the section "Executive Directors" above.

Ms. GAO Lingfeng (高凌鳳), aged 45, is a vice president and executive Director of our Company. Her biographical details are set out under the section "Executive Directors" above.

Mr. CUI Ruicheng (崔瑞成), aged 33, is the vice-president, chief financial officer, executive Director and Joint Company Secretary of our Company. His biographical details are set out under the section "Executive Directors" above.

Mr. AU Wai Keung (區偉強), aged 44, is a Joint Company Secretary of our Company. Mr. AU was appointed on March 27, 2014. Mr. AU has more than 17 years of experience in the area of accounting. Currently, Mr. AU is a director of Arion & Associated Limited (亞利安會計事務所有限公司), a corporate secretarial and accounting services provider in Hong Kong. He also served as the company secretary of Baofeng Modern International Holdings Company Limited (寶峰時尚國際控股有限公司) which is listed on the Stock Exchange (stock code: 1121) from January 2011 to January 2014, the company secretary of Honworld Group Limited (老恒和釀造有限公司) which is listed on the Stock Exchange (stock code: 2226) since December 2013, and the company secretary of SDM Group Holdings Limited which is listed on the Stock Exchange (stock code: 8363) from October 2014 to September 2015. Mr. AU obtained a bachelor's degree of social sciences from the Chinese University of Hong Kong in December 1993 and a master's degree in business administration from the City University of Hong Kong in November 1999. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

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

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

CORPORATE GOVERNANCE PRACTICES

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

We have adopted, applied and complied with the code provisions contained in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (as amended from time to time) during the year ended December 31, 2015, except for provision A2.1 of the Corporate Governance Code as disclosed below.

Pursuant to provision A2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. YAO Tongshan currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning and implementation for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

BOARD OF DIRECTORS

The Board is the decision-making body of the Company, and is responsible for formulating overall strategies and policies of the Group and approving its implementation plans to ensure that the Group achieves its goal swiftly. During the year ended December 31, 2015, the responsibilities performed by the Board include: formulation of strategies of the Company; formulation of development goals, guidelines and policies and implementation plans of the Company; control of and assessment on the fulfillment of the Company's financial and operating goals; review and approval of annual financial budgets, final accounts plans, profit distribution plans and compensation plans of the Company; establishment of effective internal control systems for risks assessment; and review and approval of the Company's material contracts and transactions, information disclosure, connected transactions and other matters required to be handled by the Board.

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

Delegation by the Board

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

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

Composition of the Board

During the year ended December 31, 2015, the Board comprised of twelve Directors, including four executive Directors (Mr. YAO Tongshan, Mr. WU Jianye, Ms. GAO Lingfeng and Mr. CUI Ruicheng); four non-executive Directors (Mr. WU Jingshui, Mr. FAN Xiang, Mr. CUI Guiyong and Mr. SUN Qian); and four independent non-executive Directors (Mr. WONG Kun Kau, Mr. LI Changqing, Ms. GE Xiaoping and Mr. YUAN Qing). The Chairman of the Board of the Company is Mr. YAO Tongshan. Mr. WU Jingshui resigned as a non-executive Director of the Company on February 19, 2016, and Mr. Dong Xianli was appointed as a non-executive Director of the Company on February 19, 2016.

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

Permitted Indemnity Provision

As of the date of this report, the Company has maintained adequate liability insurances cover in respect of potential legal actions against its Directors.

Appointment, Re-election and Dismissal of Directors

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

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

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

Board Diversity Policy

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

Independent Non-executive Directors

The Company has complied with the requirement of appointing adequate number of independent non-executive Directors under Rule 3.10 of the Listing Rules. Ms. GE Xiaoping, one of the independent non-executive Directors of the Company has an experience of over 31 years in the auditing and accounting and is a PRC certified accountant.

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

Board Meeting

The Board convenes a meeting on a regular basis and at least four meetings each year. In 2015, the Board held four meetings at which the operating results, investment issues, etc. of the Company were considered and discussed.

Attendance record is as below:

Members	Meetings attended/ meetings held since respective appointment date	Attendance
Executive Directors		
Mr. YAO Tongshan	4/4	100%
Mr. WU Jianye	4/4	100%
Ms. GAO Lingfeng	4/4	100%
Mr. CUI Ruicheng	4/4	100%
Non-executive Directors		
Mr. WU Jingshui	4/4	100%
Mr. FAN Xiang	4/4	100%
Mr. CUI Guiyong	4/4	100%
Mr. SUN Qian	4/4	100%
Independent non-executive Directors		
Mr. WONG Kun Kau	4/4	100%
Mr. LI Changqing	4/4	100%
Ms. GE Xiaoping	4/4	100%
Mr. YUAN Qing	4/4	100%

DIRECTOR TRAINING

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

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

BOARD COMMITTEES

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

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages for the Directors and senior management members. As at December 31, 2015, the Remuneration Committee comprised two independent non-executive Directors (Mr. WONG Kun Kau and Mr. LI Changqing) and one non-executive Director (Mr. SUN Qian) and was chaired by Mr. WONG Kun Kau.

According to the terms of reference of the Remuneration Committee of the Company, the Remuneration Committee convenes at least one meeting in each year. In 2015, the Remuneration Committee convened a total of one meeting, whereby the overall remuneration policy and structure for Company's Directors and senior management members and proposals on the establishment of standard and transparent procedures for the formulation of remuneration policies were reviewed.

NOMINATION COMMITTEE

The Company established the Nomination Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. As at December 31, 2015, the Nomination Committee comprised two independent non-executive Directors (Mr. YUAN Qing and Mr. WONG Kun Kau) and one executive Director (Mr. YAO Tongshan) and was chaired by Mr. YAO Tongshan.

According to the terms of reference of the Nomination Committee of the Company, the Nomination Committee convenes at least one meeting in each year. In 2015, the Nomination Committee convened a total of one meeting, whereby the members discussed the structure and composition of the Board of the Company, advised on the proposed changes to the Board for the purpose of the Company's corporate strategies and assessed the independence of independent non-executive Directors.

AUDIT COMMITTEE

The Company established the Audit Committee on June 18, 2014 in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee was established with written terms of reference in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Company modified the terms of reference of the Audit Committee on January 1, 2016. As at December 31, 2015, the Audit Committee comprised two independent non-executive Directors (Ms. GE Xiaoping and Mr. LI Changqing) and one non-executive Director (Mr. CUI Guiyong) and was chaired by Ms. GE Xiaoping.

According to the terms of reference of the Audit Committee of the Company, the Audit Committee convenes at least two meetings in each year. In 2015, the Audit Committee convened a total of two meetings, whereby the members discussed various matters, including the interim results announcement and interim results report of the Company and its subsidiaries for the interim period of 2015 and the 2015 annual audit plan, with Ernst & Young, the external auditor.

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

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

General Meetings

For the year ended December 31, 2015, the attendance record of each Director at General Meetings is as follows:

	Number of attendances/meetings	
Directors	Annual General Meeting	Extra-ordinary General Meeting
YAO Tongshan	1/1	1/1
WU Jianye	1/1	0/1
GAO Lingfeng	0/1	0/1
CUI Ruicheng	1/1	0/1
WU Jingshui	0/1	0/1
FAN Xiang	0/1	0/1
CUI Guiyong	0/1	0/1
SUN Qian	1/1	0/1
WONG Kun Kau	1/1	0/1
LI Changqing	1/1	1/1
GE Xiaoping	1/1	0/1
YUAN Qing	1/1	0/1

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended December 31, 2015.

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

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

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

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended December 31, 2015 is set out in the "Independent Auditors' Report" contained in this annual report.

INTERNAL CONTROL

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

During the year, the Board took measures to improve its risk management function. Such measures mainly include: (1) the Company had set up internal control management center, in charge of improving the Company's internal control rules and ensured their reasonableness and effective implementation; (2) the Company's management team, including general managers of subsidiaries and department heads, convened quarterly internal meetings of the Group to check the accomplishment of works for the current quarter and plan operational works for the next quarter. Such meetings are instrumental in coordinating, communicating and supervising the implementation of various operational objectives.

Based on the assessment by the Audit Department, senior management members and the internal audit department, we did not identify any material internal control flaw or deficit as at December 31, 2015.

COMPANY SECRETARIES

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

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

Mr. CUI Ruicheng (崔瑞成), one of our joint company secretaries, has been appointed since December 4, 2015, and will comply with the relevant professional training requirements under Rule 3.29 of the Listing Rules since 2016. As at December 31, 2015, Mr. LI Yundong and Mr. AU, who were the Company's original joint company secretaries, confirmed that they had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules by taking at least 15 hours of relevant professional training.

EXTERNAL AUDITOR AND ITS EMOLUMENTS

The Group's external auditor is Ernst & Young. For the year ended December 31, 2015, the emoluments paid or payable for the audit and non-audit services provided by Ernst & Young was as follows:

	Amount (RMB)
Audit Services	2,650,000
Review Services	800,000
Total	3,450,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Shareholders can also send enquiries and proposals to be put forward at general meetings for shareholders' consideration to the Board or senior management by email at zgsm@smorganic.cn or by mail to the principal office of the Company in Hong Kong at Room 606-607, 6/F, China Merchants Building, 152-155 Connaught Road Central, Hong Kong Special Administrative Region.

PROCEDURES FOR THE CONVENING OF EXTRAORDINARY GENERAL MEETINGS BY SHAREHOLDERS

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

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2015, there was no change in or amendment to the Company's constitutional documents.

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

We have audited the consolidated financial statements of China Shengmu Organic Milk Limited (the "Company") and its subsidiaries set out on pages 59 to 123, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at December 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
March 30, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended December 31, 2015

	Notes	2015	2014
		RMB'000	RMB'000
REVENUE	5	3,100,711	2,132,428
Cost of sales		(1,623,168)	(1,062,620)
Gross profit		1,477,543	1,069,808
Gain arising from changes in fair value less costs to sell of biological assets	18	52,722	87,098
Other income and gains	5	47,424	28,405
Selling and distribution expenses		(265,468)	(128,111)
Administrative expenses		(107,470)	(101,733)
Finance costs	7	(99,147)	(60,272)
Share of profits and losses of associates		(18,041)	(7,651)
Gain on disposal of a subsidiary		265	—
PROFIT BEFORE TAX	6	1,087,828	887,544
Income tax expense	10	(4,606)	(3,736)
PROFIT FOR THE YEAR		1,083,222	883,808
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		1,893	2,779
Net other comprehensive income to be reclassified to profit or loss in subsequent period		1,893	2,779
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,085,115	886,587
Profit attributable to:			
Owners of the parent		800,652	711,228
Non-controlling interests		282,570	172,580
		1,083,222	883,808
Total comprehensive income attributable to:			
Owners of the parent		802,545	714,007
Non-controlling interests		282,570	172,580
		1,085,115	886,587
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		RMB0.126	RMB0.118
Diluted		RMB0.124	RMB0.116

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015

	Notes	December 31, 2015	December 31, 2014
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,093,230	1,657,827
Prepaid land lease payments	14	5,066	5,252
Other intangible assets	15	15,518	15,969
Investments in associates	16	32,055	28,160
Available-for-sale investments	17	1,404	980
Biological assets	18	3,285,436	2,720,126
Deposits for property, plant and equipment and biological assets	20	15,690	26,985
Deferred tax assets	19	1,076	910
Total non-current assets		5,449,475	4,456,209
CURRENT ASSETS			
Inventories	21	824,514	701,183
Trade and bills receivables	22	915,312	397,543
Prepayments, deposits and other receivables	20	468,456	185,175
Pledged deposits	23	70,277	16,431
Cash and bank balances	23	1,731,759	734,703
Total current assets		4,010,318	2,035,035
CURRENT LIABILITIES			
Trade and bills payables	24	1,018,126	423,963
Receipts in advance		17,320	32,440
Other payables and accruals	25	338,293	293,443
Interest-bearing bank and other borrowings	26	1,599,855	1,334,000
Income tax payable		1,974	2,299
Total current liabilities		2,975,568	2,086,145
NET CURRENT ASSETS/(LIABILITIES)		1,034,750	(51,110)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,484,225	4,405,099

	Notes	December 31, 2015	December 31, 2014
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	1,117,000	150,000
Total non-current liabilities		1,117,000	150,000
Net assets		5,367,225	4,255,099
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	50	50
Reserves	28	4,551,605	3,721,848
		4,551,655	3,721,898
Non-controlling interests		815,570	533,201
Total equity		5,367,225	4,255,099

YAO Tongshan
Director

CUI Ruicheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2015

	Attributable to owners of the parent									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2014	—	—	641,138	—	92,213	—	760,809	1,494,160	213,732	1,707,892
Profit for the year	—	—	—	—	—	—	711,228	711,228	172,580	883,808
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	2,779	—	2,779	—	2,779
Total comprehensive income for the year	—	—	—	—	—	2,779	711,228	714,007	172,580	886,587
Reorganisation*	1	946,811	(265,768)	—	—	—	—	681,044	—	681,044
Issue of shares	4	843,459	—	—	—	—	—	843,463	—	843,463
Share issue expenses	—	(32,458)	—	—	—	—	—	(32,458)	—	(32,458)
Transfer from share premium account to share capital	45	(45)	—	—	—	—	—	—	—	—
Equity-settled share option arrangements	—	—	—	23,396	—	—	—	23,396	—	23,396
Capital injection	—	—	—	—	—	—	—	—	151,850	151,850
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	(6,675)	(6,675)
Loss on acquisition of non-controlling interests	—	—	(1,714)	—	—	—	—	(1,714)	1,714	—
Transfer from retained profits	—	—	—	—	94,558	—	(94,558)	—	—	—
At December 31, 2014	50	1,757,767 #	373,656 #	23,396 #	186,771#	2,779 #	1,377,479 #	3,721,898	533,201	4,255,099
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 year	—	—	—	—	—	—	800,652	800,652	282,570	1,083,222
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	1,893	—	1,893	—	1,893
Total comprehensive income for the year	—	—	—	—	—	1,893	800,652	802,545	282,570	1,085,115
Equity-settled share option arrangements	—	—	—	27,011	—	—	—	27,011	—	27,011
Gain on acquisition of non-controlling interests	—	—	201	—	—	—	—	201	(201)	—
Transfer from retained profits	—	—	—	—	116,605	—	(116,605)	—	—	—
At December 31, 2015	50	1,757,767 #	373,857 #	50,407 #	303,376 #	4,672 #	2,061,526 #	4,551,655	815,570	5,367,225

* Since December 2013, the Group has undertaken a reorganisation (the "Reorganisation") in anticipation of an initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("IPO"). The Reorganisation was completed in March 2014, consisted of introducing additional pre-IPO investors, establishing the offshore listing structure and injecting additional capital into our PRC dairy-farm companies.

\# These reserve accounts comprise the consolidated reserves of RMB4,551,605,000 (2014: RMB3,721,848,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2015

	Notes	2015	2014
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,087,828	887,544
Adjustments for:			
Gain arising from changes in fair value less costs to sell of biological assets	18	(52,722)	(87,098)
Interest income	5	(12,234)	(6,016)
Finance costs	7	99,147	60,272
Share of profits and losses of associates		18,041	7,651
Gain on disposal of a subsidiary		(265)	—
Depreciation	13	105,046	58,953
Amortisation of prepaid land lease payments	14	186	97
Amortisation of other intangible assets	15	1,454	988
Loss on disposal of items of property, plant and equipment	6	141	137
Equity-settled share option expenses	30	27,011	23,396
Share issue expenses		—	22,654
Foreign exchange differences, net		(543)	(395)
		1,273,090	968,183
Increase in inventories		(123,331)	(365,965)
Increase in trade and bills receivables		(517,769)	(334,073)
Increase in prepayments, deposits and other receivables		(267,846)	(83,241)
Increase in pledged deposits		(53,846)	(1,401)
Increase in trade and bills payables		594,162	232,926
Decrease in receipts in advance		(15,120)	(50,041)
Increase in other payables and accruals		38,916	57,075
Cash generated from operations		928,256	423,463
Interest received		5,368	6,016
Income taxes paid		(5,097)	(2,793)
Net cash flows from operating activities		928,527	426,686

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2015

	Notes	2015	2014
		RMB'000	RMB'000
Net cash flows from operating activities		928,527	426,686
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(506,525)	(760,620)
Additions to prepaid land lease payments	14	—	(2,008)
Additions to other intangible assets	15	(1,003)	(2,765)
Purchases of biological assets		(107,007)	(744,274)
Payments for breeding calves and heifers		(636,841)	(562,998)
Proceeds from disposal of biological assets		222,436	176,589
Proceeds from disposal of items of property, plant and equipment		269	535
Acquisition of associates		(21,670)	(18,084)
Purchases of time deposits with original maturity of more than three months		(320,260)	—
Acquisition of available-for-sale investments		(424)	(980)
Net cash flows used in investing activities		(1,371,025)	(1,914,605)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27	—	843,463
Share issue expenses		(1,620)	(53,492)
Capital injection by investors		—	681,044
Capital injection by non-controlling interests		—	151,850
Acquisition of non-controlling interests		(4,675)	(2,000)
New bank loans		1,587,948	1,574,000
New other borrowings		1,100,000	2,850
Other borrowings issue expenses		(7,400)	—
Repayment of bank loans		(1,447,711)	(1,022,000)
Repayment of other borrowings		—	(20,470)
Interest paid		(107,791)	(60,077)
Net cash flows from financing activities		1,118,751	2,095,168
NET INCREASE IN CASH AND CASH EQUIVALENTS		676,253	607,249
Cash and cash equivalents at beginning of year		734,703	127,059
Effect of foreign exchange rate changes, net		543	395
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	1,411,499	734,703

1. CORPORATE AND GROUP INFORMATION

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

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is World Shining Investment Limited ("World Shining") which was incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
內蒙古聖牧高科牧業有限公司 Inner Mongolia Shengmu High-tech Farming Co., Ltd. # (note (i))	PRC/ Mainland China	RMB 738,700,000	—	100	Production and distribution of raw milk
內蒙古聖牧控股有限公司 Inner Mongolia Shengmu Holding Co., Ltd.# (note (i))	PRC/ Mainland China	RMB 280,000,000	—	100	Production and distribution of raw milk
內蒙古聖牧高科奶業有限公司 Inner Mongolia Shengmu High-tech Dairy Co., Ltd.#	PRC/ Mainland China	RMB 300,000,000	—	100	Production and distribution of dairy products
巴彥淖爾市聖牧盤古牧業有限責任公司 Bayannur Shengmu Pangu Farming Co., Ltd.#	PRC/ Mainland China	RMB 80,000,000	—	55	Production and distribution of raw milk

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

Note:

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

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

2.1 BASIS OF PRESENTATION

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

Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are prepared as if the current group structure had been in existence throughout the year ended December 31, 2014.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Report Standards, International Accounting standards ("IASs") and Interpretations, as issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain biological assets and agricultural produce which have been measured at fair value less costs to sell. These financial statements are presented in Renminbi (''RMB'') and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control as defined in IFRS10. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 BASIS OF PREPARATION – continued

Basis of consolidation – continued

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The Annual Improvements to IFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 Operating Segments: Clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 Related Party Disclosures: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued

(c) The Annual Improvements to IFRSs 2011-2013 Cycle issued in January 2014 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 Business Combinations: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 Fair Value Measurement: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 Investment Property: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group does not have investment property.

The adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
IFRS 16	*Lease*[4]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 7	*Disclosure Initiative*[2]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS – continued

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
6 No mandatory effective date yet determined but available for adoption

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations and goodwill – continued

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

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

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

Fair value measurement

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fair value measurement – continued

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Related parties – continued

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment and depreciation – continued

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

Biological assets

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

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

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

Agricultural produce

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

Non-current assets and disposal groups held for sale

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

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

Intangible assets (other than goodwill)

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets (other than goodwill) – continued

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

Technical know-how

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

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products.

Leases

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments and other financial assets – continued

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Derecognition of financial assets – continued

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of financial assets – continued

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial liabilities – continued

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

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

Income tax

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Income tax – continued

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

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

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

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

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

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

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

Government grants

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

Grants relating to biological assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants – continued

Other grants

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

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

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

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

Revenue recognition

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

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

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

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

Share-based payments

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payments – continued

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

Other employee benefits

Pension scheme

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

Termination benefits

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

Borrowing costs

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgments

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

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgments on the timing of the payment of the dividends or the amount of profits to be retained by the relevant subsidiary. As at December 31, 2015, the deferred tax liabilities arising thereon amounted to nil (2014: Nil).

Estimation uncertainty

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

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at each year end adjusted with reference to the species, age, growing condition, cost incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any changes in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in fair value of dairy cows. Further details are given in note 18 to the financial statements.

Impairment of receivables

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

Impairment of raw materials

Management estimate net realizable value of raw materials based on the estimated selling price of finished products in which they will be incorporated, the estimated costs of completion and the estimated costs necessary to make the sale. The carrying amount of raw materials is written down below cost to net realizable value when the cost of raw materials is higher than the net realizable value. If management's estimates change, a provision for decline in the value of raw materials is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Estimation uncertainty – continued

Impairment of non-financial assets (other than goodwill)

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

Depreciation

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

4. OPERATING SEGMENT INFORMATION

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

(a) Dairy farming – breeding dairy cows to produce and distribute raw milk;

(b) Liquid milk products – producing and distributing organic ultra-heat treated liquid milk and organic yogurt.

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

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

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

4. OPERATING SEGMENT INFORMATION – continued

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

Year ended December 31, 2015	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,445,022	1,655,689	3,100,711
Intersegment sales	1,076,373	—	1,076,373
	2,521,395	1,655,689	4,177,084
Reconciliation:			
Elimination of intersegment sales			(1,076,373)
Revenue			3,100,711
Segment results	996,931	110,668	1,107,599
Reconciliation:			
Elimination of intersegment results			(72,596)
Gain arising from changes in fair value less costs to sell of biological assets			52,722
Corporate and other unallocated expenses			(4,503)
Profit for the year			1,083,222
Segment assets	8,347,005	1,537,127	9,884,132
Reconciliation:			
Elimination of intersegment receivables			(551,363)
Corporate and other unallocated assets			127,024
Total assets			9,459,793
Segment liabilities	3,560,796	1,083,123	4,643,919
Reconciliation:			
Elimination of intersegment payables			(551,363)
Corporate and other unallocated liabilities			12
Total liabilities			4,092,568
Other segment information			
Share of profits and losses of associates	1,192	(19,233)	(18,041)
Segment bank interest income	9,338	965	10,303
Corporate and other unallocated bank interest income			1,931
Total bank interest income			12,234
Finance costs	89,400	9,747	99,147
Income tax expenses	—	4,606	4,606
Share option expenses	25,278	1,733	27,011
Depreciation and amortisation	82,857	23,829	106,686
Investments in associates	22,880	9,175	32,055
Segment capital expenditure*	990,958	270,503	1,261,461
Corporate and other unallocated capital expenditure			34
Total capital expenditure			1,261,495

4. OPERATING SEGMENT INFORMATION – continued

Year ended December 31, 2014	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,393,117	739,311	2,132,428
Intersegment sales	416,918	—	416,918
	1,810,035	739,311	2,549,346
Reconciliation:			
Elimination of intersegment sales			(416,918)
Revenue			2,132,428
Segment results	752,063	123,733	875,796
Reconciliation:			
Elimination of intersegment results			(37,345)
Gain arising from changes in fair value less costs to sell of biological assets			87,098
Corporate and other unallocated expenses			(41,741)
Profit for the year			883,808
Segment assets	5,870,719	701,917	6,572,636
Reconciliation:			
Elimination of intersegment receivables			(217,494)
Corporate and other unallocated assets			136,102
Total assets			6,491,244
Segment liabilities	1,960,303	490,019	2,450,322
Reconciliation:			
Elimination of intersegment payables			(217,494)
Corporate and other unallocated liabilities			3,317
Total liabilities			2,236,145

4. OPERATING SEGMENT INFORMATION – continued

Year ended December 31, 2014	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Other segment information			
Share of profits and losses of associates	548	(8,199)	(7,651)
Segment bank interest income	4,905	45	4,950
Corporate and other unallocated bank interest income			1,066
Total bank interest income			6,016
Finance costs	54,043	6,229	60,272
Income tax expenses	—	3,736	3,736
Share option expenses	11,081	1,322	12,403
Corporate and other unallocated share option expenses			10,993
Total share option expenses			23,396
Depreciation and amortisation	46,458	13,580	60,038
Investments in associates	21,688	6,472	28,160
Segment capital expenditure*	1,880,635	85,915	1,966,550
Corporate and other unallocated capital expenditure			69
Total capital expenditure			1,966,619

* Capital expenditure consists of purchases of items of property, plant and equipment, additions to prepaid land lease payments, additions to other intangible assets, purchases of biological assets, payments for breeding calves and heifers and acquisition of associates.

Geographical information

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

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

Information about major customers

During the year, sales by the Group's dairy farming segment to the below customer amounted to more than 10% of the Group's total revenue:

	2015 RMB'000	2014 RMB'000
Entity A	1,152,036	973,679

5. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	2015	2014
	RMB'000	RMB'000
Revenue		
– Sales of raw milk	1,445,022	1,393,117
– Sales of liquid milk products	1,655,689	739,311
	3,100,711	2,132,428
Other income and gains		
– Government grants	31,791	16,204
– Bank interest income	12,234	6,016
– Foreign exchange differences, net	(40)	6,167
– Others	3,439	18
	47,424	28,405
	3,148,135	2,160,833

6. PROFIT BEFORE TAX

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

	2015	2014
	RMB'000	RMB'000
Cost of inventories sold	1,623,168	1,062,620
Gains arising from changes in fair value less costs to sell of biological assets	(52,722)	(87,098)
Depreciation of items of property, plant and equipment	105,046	58,953
Amortisation of prepaid land lease payments	186	97
Amortisation of other intangible assets	1,454	988
Research and development costs	8,981	3,591
Minimum lease payments under operating leases	9,532	8,932
Auditors' remuneration	3,450	2,750
Employee benefit expense		
(including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	236,787	161,694
Other social insurances and benefits	12,504	8,391
Pension scheme contributions	9,434	7,073
Equity-settled share option expenses	27,011	23,396
	285,736	200,554
Foreign exchange differences, net	40	(6,167)
Impairment of trade receivables	369	—
Loss on disposal of items of property, plant and equipment	141	137

7. FINANCE COSTS

	2015	2014
	RMB'000	RMB'000
Interest on bank loans	107,319	68,798
Interest on short-term notes	250	—
Less: Interest capitalised	(8,422)	(8,526)
	99,147	60,272

The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation for the year ended December 31, 2015 ranged between 4.88% and 6.72% (2014: between 6.00% and 6.72%).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015	2014
	RMB'000	RMB'000
Fees	480	239
Other emoluments:		
Salaries, allowances and benefits in kind	927	854
Pension scheme contributions	40	32
	967	886
	1,447	1,125

As of December 31, 2015, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. In accordance with IFRS 2, share option benefits represent the fair value at the grant date of the share options issued under the share option scheme of the Company amortised in profit or loss during the year disregarding whether the options have been vested/exercised or not. During the year, the share option benefits relating to the share options granted to Mr. YAO Tongshan, Mr. WU Jianye, Ms. GAO Lingfeng and Mr. CUI Ruicheng were approximately RMB2,318,000 (2014: RMB3,272,000), RMB2,136,000 (2014: RMB3,014,000), RMB1,053,000 (2014: RMB1,486,000) and RMB1,053,000 (2014: RMB1,486,000). Share option benefits relating to the share options granted to the directors are not included in the above table.

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

(a) Independent non-executive directors

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

	2015	2014
	RMB'000	RMB'000
Mr. LI Changqing	100	42
Ms. GE Xiaoping	100	42
Mr. YUAN Qing	100	42
Mr. WONG Kun Kau	100	33
	400	159

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

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
2015				
Executive directors:				
Mr. YAO Tongshan (also the chief executive)	20	251	10	281
Mr. WU Jianye	20	240	10	270
Ms. GAO Lingfeng	20	229	10	259
Mr. CUI Ruicheng	20	207	10	237
	80	927	40	1,047
Non-executive directors:				
Mr. WU Jingshui	—	—	—	—
Mr. FAN Xiang	—	—	—	—
Mr. CUI Guiyong	—	—	—	—
Mr. SUN Qian	—	—	—	—
	—	—	—	—
	80	927	40	1,047

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

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

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

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration for the year of the five (2014: five) highest paid employees (neither a director nor chief executive of the Company) are as follows:

	2015	2014
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,526	1,476
Pension scheme contributions	38	37
	1,564	1,513

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

	Number of employees 2015	2014
Nil to HK$1,000,000	5	5

10. INCOME TAX EXPENSE

	2015	2014
	RMB'000	RMB'000
Current - PRC	4,772	4,459
Deferred (note 19)	(166)	(723)
	4,606	3,736

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

	2015	2014
	RMB'000	RMB'000
Profit before tax	1,087,828	887,544
Tax at the statutory tax rate (note (i))	271,957	221,886
Income not subject to tax (note (ii))	(266,858)	(217,232)
Lower tax rate for specific provinces (note (iii))	(4,073)	(2,699)
Expenses not deductible for tax, net (note (iv))	5,083	2,093
Adjustments in respect of current tax of previous periods	(1,503)	(312)
Tax charge at the Groups' effective rate of 0.4% (2014: 0.4%)	4,606	3,736

Notes:

(i) The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations. Hong Kong profits tax has not been provided as there are no assessable profits arising in Hong Kong during the year. Entities in the PRC were generally subject to the PRC enterprise income tax rate of 25% for the year ended December 31, 2015 (2014: 25%).

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

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

(iv) Non-deductible expenses are mainly the staff welfare and entertainment expenses which exceed the tax limit.

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended December 31, 2015 (2014: Nil).

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

The calculation of the basic earnings per share amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares of 6,354,400,000 (2014: 6,018,136,000) in issue during the year.

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

	Number of shares	
	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	6,018,136,320
Effect of dilution of share options	86,155,092	114,264,051
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	6,440,555,092	6,132,400,371

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office and other equipment	Motor vehicles	Construction In progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2015						
At December 31, 2014 and at January 1, 2015						
Cost	906,007	426,305	21,202	7,932	397,394	1,758,840
Accumulated depreciation	(46,077)	(47,495)	(4,602)	(2,839)	—	(101,013)
Net carrying amount	859,930	378,810	16,600	5,093	397,394	1,657,827
At January 1, 2015, net of accumulated depreciation	859,930	378,810	16,600	5,093	397,394	1,657,827
Additions	275	88,073	4,544	1,250	446,717	540,859
Transfers	374,514	111,110	1,361	53	(487,038)	—
Disposals	—	(395)	(7)	(8)	—	(410)
Depreciation provided during the year	(49,575)	(50,206)	(3,821)	(1,444)	—	(105,046)
At December 31, 2015, net of accumulated depreciation	1,185,144	527,392	18,677	4,944	357,073	2,093,230
At December 31,2015						
Cost	1,280,796	624,875	27,066	9,127	357,073	2,298,937
Accumulated depreciation	(95,652)	(97,483)	(8,389)	(4,183)	—	(205,707)
Net carrying amount	1,185,144	527,392	18,677	4,944	357,073	2,093,230

13. PROPERTY, PLANT AND EQUIPMENT – continued

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

14. PREPAID LAND LEASE PAYMENTS

	2015	2014
	RMB'000	RMB'000
Carrying amount at January 1	5,363	3,452
Additions	—	2,008
Recognised during the year	(186)	(97)
Carrying amount at December 31	5,177	5,363
Current portion included in prepayments, deposits and other receivables	(111)	(111)
Non-current portion	5,066	5,252

15. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000	Computer software RMB'000	Total RMB'000
December 31, 2015			
Cost at January 1, 2015, net of accumulated amortisation	12,379	3,590	15,969
Additions	—	1,003	1,003
Amortisation provided during the year	(750)	(704)	(1,454)
At December 31, 2015	11,629	3,889	15,518
At December 31, 2015			
Cost	15,004	5,023	20,027
Accumulated amortisation	(3,375)	(1,134)	(4,509)
Net carrying amount	11,629	3,889	15,518
At December 31, 2014			
Cost	15,004	4,020	19,024
Accumulated amortisation	(2,625)	(430)	(3,055)
Net carrying amount	12,379	3,590	15,969
December 31, 2014			
Cost at January 1, 2014, net of accumulated amortisation	13,129	1,063	14,192
Additions	—	2,765	2,765
Amortisation provided during the year	(750)	(238)	(988)
At December 31, 2014	12,379	3,590	15,969
At December 31, 2014			
Cost	15,004	4,020	19,024
Accumulated amortisation	(2,625)	(430)	(3,055)
Net carrying amount	12,379	3,590	15,969
At December 31, 2013			
Cost	15,004	1,255	16,259
Accumulated amortisation	(1,875)	(192)	(2,067)
Net carrying amount	13,129	1,063	14,192

16. INVESTMENTS IN ASSOCIATES

	2015	2014
	RMB'000	RMB'000
Share of net assets	32,055	28,160

The Group's trade receivable and payable balances with the associates are disclosed in note 33 to the financial statements.

Particulars of the material associate are as follows:

Name	Registered capital	Place of incorporation/ registration and operations	Percentage of equity interests attributable to the Group	Principal activities
Bayannur Shengmu High-tech Ecological Forage Co., Ltd.* (note (a))	RMB228,680,000	PRC/ Mainland China	9.01%	Grass planting

Note:

(a) Although the Group only held a 9.01% equity interest in Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") as at December 31, 2015, Shengmu Forage has been accounted for as an associate of the Group as the Group has had more than 20% effective voting power in Shengmu Forage. Shengmu Forage, which is considered a material associate of the Group, is a strategic partner of the Group and is engaged in grass planting. Investment in Shengmu Forage is accounted for using the equity method.

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

	2015	2014
	RMB'000	RMB'000
Current assets	657,027	119,210
Non-current assets	483,625	313,489
Current liabilities	(886,012)	(202,504)
Net assets	254,640	230,195
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	9.01%	9.01%
Group's share of net assets of the associate, excluding goodwill	22,932	20,741
Goodwill included in investment	947	947
Adjustments	(999)	—
Carrying amount of the investment	22,880	21,688
Revenue	426,622	339,218
Profit for the year	13,239	7,407
Total comprehensive income for the year	13,239	7,407
Dividend received	—	—

16. INVESTMENTS IN ASSOCIATES – continued

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

	2015	2014
	RMB'000	RMB'000
Share of the associates' loss for the year	(19,233)	(8,199)
Share of the associates' total comprehensive loss	(19,233)	(8,199)
Aggregate carrying amount of the Group's investments in the associates	9,175	6,472

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

All the above associates have been accounted for using the equity method in the financial statement. The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associates exceeded the Group's interests in the associates. The amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were RMB18,242,000 (2014: RMB3,472,000) and RMB21,714,000 (2014: RMB3,472,000), respectively.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	RMB'000	RMB'000
Unlisted equity investments, at cost	1,404	980

The above investments consist of investments which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The above unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

18. BIOLOGICAL ASSETS

(A) Nature of activities

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

The quantity of dairy cows owned by the Group at December 31, 2015 and December 31, 2014 are shown below. The Group's dairy cows include milkable cows, heifers and calves. Heifers and calves were dairy cows that have not had their first calves.

	2015	2014
	Head	Head
Dairy cows		
Milkable cows	66,790	55,032
Heifers and calves	44,605	48,220
Total dairy cows	111,395	103,252

18. BIOLOGICAL ASSETS – continued

(A) *Nature of activities – continued*

In general, heifers are inseminated with semen when they reach the age of approximately 14 months. After approximately 9 months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. The heifers, at this time, will be transferred to the group of milkable cows. A milkable cow is typically milked for approximately 305 days before an approximately 60 days' resting period. The male calves newly born will be sold while the female calves will be bred for six months and then transferred to the group of heifers. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

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

(i) *Regulatory and environmental risks*

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

(ii) *Climate, disease and other natural risks*

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

(B) *Value of biological assets*

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

	Heifers and calves	Milkable cows	Total
	RMB'000	RMB'000	RMB'000
December 31, 2015			
At January 1, 2015	945,030	1,775,096	2,720,126
Increase due to purchase	102,082	—	102,082
Increase due to raising (feeding costs and others)	636,798	—	636,798
Transfer	(754,804)	754,804	—
Decrease due to sales	(74,503)	(151,789)	(226,292)
Gain/(loss) arising from changes in fair value less costs to sell	71,038	(18,316)	52,722
At December 31, 2015	925,641	2,359,795	3,285,436

18. BIOLOGICAL ASSETS – continued

(B) Value of biological assets – continued

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

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent professional qualified valuers, which has appropriate qualifications and recent experience in the valuation of biological assets.

(C) Fair value hierarchy

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

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

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

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

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2015	—	—	3,285,436	3,285,436
As at December 31, 2014	—	—	2,720,126	2,720,126

18. BIOLOGICAL ASSETS – continued

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

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Calves and heifers	The fair value of the heifers purchased within 6 months prior to each reporting date is determined with adjustment by adding the feeding costs from the purchase date to the reporting date. For the calves and the rest heifers, the fair value of 14 months of age heifers is determined by referring to the market price of the actively traded market. The fair values of the heifers over 14 months of age are determined by adding the breeding costs required to raise the heifers from 14 months old to the respective specific ages plus the estimated margins that would be required by a raiser. The fair values of the heifers under 14 months of age and the fair values of the calves are determined by subtracting the breeding costs required to raise the heifers or calves from the respective specific ages to 14 months old and the margins that would be required by a raiser.	Average market price of the heifers of 14 months age: RMB20,580 to RMB21,000 for the year of 2015 (2014: RMB20,020 to RMB20,392).	The estimated fair value increases when the market price increases.

18. BIOLOGICAL ASSETS – continued

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

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	For the quantity of the milkable cows, assuming the number of the existing milkable cows as at the year end will decrease in the projection period at certain culling rates due to natural or unnatural factors, which include illness, difficult birth, low milk production or completion of all lactation periods. The estimated overall culling rate ranges from over 18% up to 100% along with the increase of the number of the lactation periods.	The estimated fair value decreases when the estimated culling rate increases.
	The calf interval (including dry period and open days) is estimated based on historical data and is assumed to be 400 days (each milkable cow will give birth to a calf every 400 days).This 400-day period is one lactation cycle in this valuation exercise.	A milkable cow could have as many as six to seven lactation periods. The estimated average raw milk production volume per head for lactation period ranges from 9.0 tonnes to 10.6 tonnes for the year of 2015 (2014: 8.8 tonnes to 10.3 tonnes) depending on the number of the lactation periods and the individual physical condition.	The estimated fair value increases when the estimated raw milk production volume increases.
		The estimated future local market prices for raw milk per tonne for the year of 2015 range from RMB4,300 to RMB5,080 per tonne (2014: RMB4,760 to RMB5,220 per tonne).	The estimated fair value increases when the estimated future local market price for raw milk increases.
		The discount rate is 14.00% for the year 2015 (2014: 14.00%), calculated by using the capital asset pricing model.	The estimated fair value decreases when the discount rate increases.

18. BIOLOGICAL ASSETS – continued

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

	2015	2014
	Tonne	Tonne
Raw milk	537,300	353,284

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

	2015	2014
	RMB'000	RMB'000
Raw milk	2,493,643	1,790,584

19. DEFERRED TAX

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

	2015	2014
	RMB'000	RMB'000
At January, 1	910	187
Credited to profit or loss during the year	166	723
At December, 31	1,076	910

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

	2015	2014
	RMB'000	RMB'000
Accrued expenses	1,021	910
Impairment	55	—
	1,076	910

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

19. DEFERRED TAX – continued

At December 31, 2015, no (2014: Nil) deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,575,995,000 at December 31, 2015 (2014: RMB1,419,220,000).

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Prepayments	375,562	175,449
Deposits and other receivables	91,597	24,436
Prepaid expenses	16,987	12,275
	484,146	212,160
Non-current prepayments	(15,690)	(26,985)
Current portion	468,456	185,175

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

21. INVENTORIES

	2015	2014
	RMB'000	RMB'000
Raw materials	776,152	605,893
Finished goods	16,023	68,919
Consumables	32,339	26,371
	824,514	701,183

22. TRADE AND BILLS RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Trade receivables	915,181	393,443
Bills receivable	500	4,100
Impairment	(369)	—
	915,312	397,543

22. TRADE AND BILLS RECEIVABLES – continued

The Group normally allows a credit limit or offer to its customers credit terms which are adjustable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade and bills receivables are non-interest-bearing.

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

	2015	2014
	RMB'000	RMB'000
Within 3 months	627,740	336,882
4 to 6 months	224,208	46,383
7 to 12 months	60,042	13,688
Over 1 year	3,322	590
	915,312	397,543

The movements in provision for impairment of trade receivables are as follows:

	2015	2014
	RMB'000	RMB'000
At beginning of year	—	—
Impairment losses recognised	369	—
	369	—

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

	2015	2014
	RMB'000	RMB'000
Neither past due nor impaired	911,990	397,543

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

23. CASH AND BANK BALANCE AND PLEDGED DEPOSITS

	2015	2014
	RMB'000	RMB'000
Cash and cash equivalents	1,411,499	734,703
Time deposits with original maturity of more than 3 months	320,260	—
Pledged deposits	70,277	16,431
Cash and bank balances	1,802,036	751,134
Less: Pledged deposits	(70,277)	(16,431)
Cash and bank balances	1,731,759	734,703

The Group's above balances were dominated in the following currencies as listed:

	2015	2014
	RMB'000	RMB'000
United States dollars	1,075	38,292
Hong Kong dollars	13,965	21,706
RMB	1,716,719	674,705
	1,731,759	734,703

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at the prevailing market interest rates. Time deposits are made for varying periods depending on the cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

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

	2015	2014
	RMB'000	RMB'000
1 to 3 months	680,070	406,785
4 to 6 months	191,138	13,224
7 to 12 months	137,390	2,470
1 to 2 years	8,183	1,451
2 to 3 years	1,312	33
Over 3 years	33	—
	1,018,126	423,963

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

25. OTHER PAYABLES AND ACCRUALS

	2015	2014
	RMB'000	RMB'000
Advances from related parties	—	4,675
Payables for acquisition of property, plant and equipment	148,351	122,135
Payables for purchase of dairy cows	15,460	27,009
Payables for third parties' deposits	42,970	30,267
Payables for purchase of transportation services	47,440	26,058
Salary and welfare payables	30,562	25,776
Payables for taxes other than corporate income tax	2,234	5,775
Others	51,276	51,748
	338,293	293,443

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

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective contract rate (%)	Maturity	RMB'000	Effective contract rate (%)	Maturity	RMB'000
Current						
Bank loans - unsecured	4.79-7.14	2016	1,500,237	5.88-6.72	2015	1,334,000
Short-term notes – unsecured	5.33	2016	99,618			—
			1,599,855			1,334,000
Non-current						
Bank loans - unsecured	5.25-7.04	2019	124,000	6.72-7.04	2019	150,000
Domestic corporate bonds - unsecured	4.74	2018	993,000			—
			1,117,000			150,000
			2,716,855			1,484,000

26. INTEREST-BEARING BANK AND OTHER BORROWINGS – continued

	2015	2014
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,500,237	1,334,000
In the third to fifth years, inclusive	124,000	150,000
	1,624,237	1,484,000
Other borrowings repayable:		
Within one year	99,618	—
In the second years	—	—
In the third to fifth years, inclusive	993,000	—
	1,092,618	—
	2,716,855	1,484,000

Notes:

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

(ii) The short-term notes with an aggregate nominal amount of RMB100,000,000 were issued by Inner Mongolia Shengmu High-tech Farming Co., Ltd to various independent third parties on December 16, 2015 in the Inter-bank Bond Market in the PRC according to the approval by National Association of Financial Market Institutional Investors. The short-term notes bear annual interest rate of 5.33% and are repayable in 366 days.

(iii) The domestic corporate bonds with an aggregate nominal amount of RMB1,000,000,000 were issued by Inner Mongolia Shengmu High-tech Farming Co., Ltd. (the "Issuer") to qualified investors on December 29, 2015 as approved by the China Securities Regulatory Commission. The domestic corporate bonds bear annual interest rate of 4.48% and have a term of 5 years. The issuer has the right to adjust the interest rate of all the outstanding bonds at the end of the first three year period. Upon exercise by the issuer of such right, the holders of the bonds are entitled to sell all or any part of the outstanding bonds held by them to the issuer at the nominal amount.

27. SHARE CAPITAL

Shares

	2015	2014
	RMB'000	RMB'000
Authorised:		
30,000,000,000 ordinary shares of HK$0.00001 each		
(2014: 30,000,000,000 ordinary shares of HK$0.00001 each)	236	236
Issued and fully paid:		
HK$63,544 (2014: HK$63,544) ordinary shares	50	50

27. SHARE CAPITAL – continued

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

	Number of shares in issue	Share capital	Share premium account	Total
		RMB'000	RMB'000	RMB'000
At January 1, 2014	—	—	—	—
Reorganisation	143,839,020	1	946,811	946,812
Issue of shares	444,800,000	4	843,459	843,463
Share issue expenses	—	—	(32,458)	(32,458)
Transfer from share premium account to share capital	5,765,760,980	45	(45)	—
At December 31, 2014 and January 1, 2015	6,354,400,000	50	1,757,767	1,757,817
At December 31, 2015*	6,354,400,000	50	1,757,767	1,757,817

* On May 13, 2015, 611,620,800 shares representing approximately 9.63% of the issued shares of the Company held by World Shining were pledged to an independent third party as security for a loan provided by the said independent third party to World Shining.

Shares options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

28. RESERVES

(i) Movements in components of equity

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

(ii) Contributed surplus

The Group's contributed surplus represents the excess of the net assets value of the subsidiaries acquired by the Company over the nominal amount of the shares issued by the Company as consideration pursuant to the Reorganisation.

(iii) Reserve fund

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

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2015	2014
Percentage of equity interest held by non-controlling interests	45%	45%
Profit for the year allocated to non-controlling interests	53,192	43,732
Accumulated balances of non-controlling interests at the end of reporting period	164,219	111,026

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

	2015	2014
	RMB'000	RMB'000
Revenue	231,713	208,876
Profit for the year	122,734	109,809
Total comprehensive income for the year	122,734	109,809
Current assets	200,968	148,418
Biological assets	236,325	193,758
Other non-current assets	101,352	88,599
Current liabilities	(79,974)	(81,422)
Non-current liabilities	(76,000)	(90,000)
Net cash flows (used in)/from operating activities	69,671	(35,947)
Net cash flows used in investing activities	(41,299)	(87,593)
Net cash flows (used in)/from financing activities	(30,851)	121,689
Net decrease in cash and cash equivalents	(2,479)	(1,851)

30. SHARE OPTION SCHEME

The Company has approved and adopted a pre-IPO share option scheme pursuant to the resolutions of the shareholders passed on April 30, 2014 (the "Pre-IPO Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the directors and senior management of the Group and Shengmu Forage, to provide a means of compensating them through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. Participants of the Pre- IPO Share Option Scheme include (a) the executive directors, (b) senior management of the Group, (c) management of the subsidiaries of the Company, and (d) management of Shengmu Forage. The Pre-IPO Share Option Scheme became effective on April 30, 2014 and, unless otherwise cancelled or amended, will remain in force for 4 years from that date.

30. SHARE OPTION SCHEME – continued

Prior to the listing date of the Company on The Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Date"), options to subscribe for an aggregate of 504,480,000 shares have been conditionally granted to a total of 189 grantees under the Pre-IPO Share Option Scheme by the Company. The shares subject to the options granted under the Pre-IPO Share Option Scheme represent (i) approximately 7.94% of the Company's issued share capital as of December 31, 2015 (excluding any options granted under the Pre-IPO Share Option Scheme); and (ii) approximately 7.36% of the Company's issued share capital as of December 31, 2015, assuming that all options granted under the Pre-IPO Share Option Scheme have been exercised. Save for the options which have been granted before July 15, 2014, the Company's listing date on the Stock Exchange of Hong Kong Limited, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

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

On May 4, 2015, out of the 504,480,000 units of share options, 488,484,000 units of share options were vested to 181 grantees, meanwhile 15,996,000 units of share options lapsed as certain grantees ceased to be employees of the Group.

Pursuant to a resolution approved by the shareholders at the extraordinary general meeting on November 3, 2015, the outstanding 488,484,000 units of share options relating to the Pre-IPO Share Option Scheme was amended as follows("the Amendment"):

(1) All the shares issued pursuant to the exercise of options during the Amended Exercise Period (as defined hereunder) would not be subject to any restriction applicable during the Lock-up Period (being the period from May 4, 2015 to May 4, 2017). Grantees are entitled to sell or otherwise dispose of any interest in the shares after they exercise the options during the Amended Exercise Period.

(2) The exercise period provided under the Pre-IPO Share Option Scheme (from May 4, 2015 to November 4, 2015) was varied to the "Amended Exercise Period" in the following manner:

Amended Exercise Period	Maximum percentage of options exercisable during the respective Amended Exercise Period
from May 4, 2016 to May 4, 2017	50% of the options vested
from November 4, 2016 to May 4, 2017	50% of the options vested

If the grantee ceases employment with the Group or Shengmu Forage before May 4, 2016, 100% of the options held by him/her shall lapse immediately, and if the grantee ceases employment with the Group or Shengmu Forage on or after May 4, 2016 but before November 4, 2016, 50% of the options held by him/her shall lapse immediately.

Apart from the above amendments, the other terms of the Pre-IPO Share Option Scheme remain the same.

During the period from November 3, 2015 to December 31, 2015, a further 38,985,600 units of share options lapsed due to unemployment.

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

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

30. SHARE OPTION SCHEME – continued

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

2015

Date of grant	Exercise price HK$ per share	As at January 1, 2015	Granted during the year	Lapsed during the year	As at December 31, 2015
April 30, 2014	1.56	504,480,000	—	54,981,600	449,498,400

2014

Date of grant	Exercise price HK$ per share	As at January 1, 2014	Granted during the year	Lapsed during the year	As at December 31, 2014
April 30, 2014	1.56	—	504,480,000	—	504,480,000

The incremental fair value as a result of the Amendment was estimated to be RMB91,239,000 in total, using the measurement method as described below.

The Group recognised a share option expense of HK$33,211,000 (equivalent to RMB27,011,000) (2014: HK$29,707,000 (equivalent to RMB23,396,000)), during the year ended December 31, 2015.

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

	2015	2014
Dividend yield (%)	3.00	—
Expected volatility (%)	42.40	39.79
Risk-free interest rate (%)	0.27	0.21
Expected life of options (year)	1.5	1.5
Weighted average share price (HK$ per share)	1.69	1.10

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

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

At the end of the reporting period, the Company had 449,498,400 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 449,498,400 additional ordinary shares of the Company and additional share capital of HK$4,495 and share premium of HK$701,213,009 (before issue expenses).

At the date of approval of these financial statements, the Company had 449,498,400 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 7.07% of the Company's shares issued at that date.

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	2015	2014
	RMB'000	RMB'000
Within one year	8,599	19,304
In the second to fifth years, inclusive	16,560	18,117
	25,159	37,421

32. COMMITMENTS

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

	2015	2014
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	187,322	240,683
Plant and machinery	13,885	2,507
	201,207	243,190

33. RELATED PARTY DISCLOSURES

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

Name	Note	2015	2014
		RMB'000	RMB'000
Associates:			
Sales of products	(i)	651,612	106,688
Sales of raw materials	(i)	14,447	—
Purchases of raw materials	(i)	443,063	371,972

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

During the year and as of December 31, 2015, the Group provided guarantees with an aggregate amount of RMB300,000,000 (2014: Nil) for the bank loans of Shengmu Forage.

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

	2015	2014
	RMB'000	RMB'000
Short term employee benefits	1,654	1,318
Pension scheme contributions	47	40
	1,701	1,358

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

33. RELATED PARTY DISCLOSURES – continued

(D) Outstanding balances with related parties

	2015	2014
	RMB'000	RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	439,289	72,244
– Trade and bills payables	(169,193)	(5,440)
– Prepayments, deposits and other receivables	336,466	68,108
– Other payables and accruals	(2,679)	(201)

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	2015	2014
	RMB'000	RMB'000
Loans and receivables:		
Trade and bills receivables	915,312	397,543
Financial assets included in prepayments, deposits and other receivables	91,598	22,041
Pledged deposits	70,277	16,431
Cash and bank balances	1,731,759	734,703
	2,808,946	1,170,718
Available-for-sale investments:	1,404	980

Financial liabilities

	2015	2014
	RMB'000	RMB'000
Financial liabilities at amortised cost:		
Trade and bills payables	1,018,126	423,963
Financial liabilities included in other payables and accruals	305,497	261,004
Interest-bearing bank and other borrowings	2,716,855	1,484,000
	4,040,478	2,168,967

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts As at December 31,		Fair values As at December 31,	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	**2,716,855**	1,484,000	**2,731,172**	1,494,217

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 determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

The fair values of 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 years ended December 31, 2015 and 2014.

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	2015	2014
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank and other borrowings	**2,731,172**	1,494,217

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

The Group's fair value interest rate risk relates primarily to variable-rate bank and other borrowings. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate profile set out in note 26.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		RMB'000	RMB'000
2015			
RMB	50	(1,919)	(1,919)
RMB	(50)	1,919	1,919
2014			
RMB	50	(2,677)	(2,677)
RMB	(50)	2,677	2,677

* Excluding retained profits

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at December 31, 2015, cash and bank balances of approximately RMB1,075,000 (2014: RMB38,292,000) and RMB13,965,000 (2014: RMB21,706,000) were denominated in United States dollars ("USD") and Hong Kong dollars ("HK$"), respectively. The fluctuations of the exchange rates of RMB against foreign currencies could slightly affect the Group's results of operations.

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

	Increase/ (decrease) in rate	Increase/ (decrease) in profit before tax
	%	RMB'000
2015		
If RMB strengthens against USD	5%	33
If RMB weakens against USD	(5%)	(33)
2014		
If RMB strengthens against USD	5%	(85,074)
If RMB weakens against USD	(5%)	85,074

Credit risk

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

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

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

There were no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables were widely dispersed as at 31 December 2015 and 2014.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 22 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

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

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

	On demand	Less than 1 year	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2015				
Trade and bills payables	1,018,126	—	—	1,018,126
Financial liabilities included in other payables and accruals	305,497	—	—	305,497
Interest-bearing bank and other borrowings	—	1,636,509	1,286,889	2,923,398
	1,323,623	1,636,509	1,286,889	4,247,021
2014				
Trade and bills payables	423,963	—	—	423,963
Financial liabilities included in other payables and accruals	261,004	—	—	261,004
Interest-bearing bank and other borrowings	—	1,384,070	198,751	1,582,821
	684,967	1,384,070	198,751	2,267,788

Capital management

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

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

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

	2015	2014
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	2,716,855	1,484,000
Total equity	5,367,225	4,255,099
Gearing ratio	50.6%	34.9%

37. EVENT AFTER THE REPORTING PERIOD

On January 27, 2016, World Shining, the controlling shareholder of the Company has entered into a sale and purchase agreement with an independent third party, Nong You Co., Ltd., to dispose 1,525,056,000 shares in the Company to NongYou Co., Ltd. for an aggregate consideration of HK$3,355,123,200, being HK$2.2 per share. The shares represented 24% of the total issued share capital of the Company as of the date of January 27, 2016. Further details are set out in the Company's announcement dated January 28, 2016.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	December 31, 2015	December 31, 2014
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Other intangible assets	21	69
Investments in subsidiaries	229,434	146,680
Due from subsidiaries	2,679,757	2,821,126
Total non-current assets	2,909,212	2,967,875
CURRENT ASSETS		
Prepayments, deposits and other receivables	2,648	1,627
Cash and cash equivalents	14,595	24,358
Due from subsidiaries	310,969	—
Total current assets	328,212	25,985
CURRENT LIABILITIES		
Other payables and accruals	—	3,306
Total current liabilities	—	3,306
NET CURRENT ASSETS	328,212	22,679
TOTAL ASSETS LESS CURRENT LIABILITIES	3,237,424	2,990,554
Net assets	3,237,424	2,990,554
EQUITY		
Share capital	50	50
Reserves	3,237,374	2,990,504
Total equity	3,237,424	2,990,554

YAO Tongshan
Director

CUI Ruicheng
Director

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At January 1, 2014	—	—	—	—	—
Loss for the year	—	—	(44,827)	—	(44,827)
Other comprehensive income	—	—	—	(13,002)	(13,002)
Total comprehensive income for the year	—	—	(44,827)	(13,002)	(57,829)
Equity-settled share option arrangement	—	23,396	—	—	23,396
Issue of shares	3,057,440	—	—	—	3,057,440
Share issue expenses	(32,458)	—	—	—	(32,458)
Transfer from share premium account to share capital	(45)	—	—	—	(45)
At December 31, 2014	3,024,937	23,396	(44,827)	(13,002)	2,990,504
Profit for the year	—	—	34,604	—	34,604
Other comprehensive income	—	—	—	185,255	185,255
Total comprehensive income for the year	—	—	34,604	185,255	219,859
Equity-settled share option arrangement	—	27,011	—	—	27,011
At December 31, 2015	3,024,937	50,407	(10,223)	172,253	3,237,374

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 30, 2016.

FINANCIAL SUMMARY

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

RMB'000	For the year ended December 31,				
	2015	2014	2013	2012	2011
Revenue	**3,100,711**	2,132,428	1,143,709	700,763	389,417
Profit for the year	**1,083,222**	883,808	374,498	198,903	223,241
Of which: profits attributable to the owners of the parent	**800,652**	711,228	327,309	195,782	223,268
Earnings per share attributable to ordinary equity holders of the parent:					
Basic	**RMB 0.126**	RMB 0.118	RMB0.075	—	—
Diluted	**RMB 0.124**	RMB 0.116	RMB0.075	—	—

	As at December 31,				
	2015	2014	2013	2012	2011
Total assets	**9,459,793**	6,491,244	3,112,608	1,816,728	1,181,170
Total liabilities	**4,092,568**	2,236,145	1,404,716	598,259	305,904
Net assets	**5,367,225**	4,255,099	1,707,892	1,218,469	875,266
Of which: equity attributable to ordinary equity holders of the parent:	**4,551,655**	3,721,898	1,494,160	1,166,851	855,569