

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

2016 INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YAO Tongshan (Chairman and
Chief Executive Officer)
Mr. WU Jianye
Ms. GAO Lingfeng
Mr. CUI Ruicheng

Non-executive Directors

Mr. 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

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607
6/F, China Merchants Building
152-155 Connaught Road Central
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Food Industry Park, Deng Kou County
Bayannur City
Inner Mongolia Autonomous Region
PRC

STOCK CODE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
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 Bank Co., Ltd.
(Hohhot Branch)
China Merchants Bank Co., Ltd
(Hohhot Branch)
Agricultural Bank of China Co., Ltd.
(Tumotezuqi Branch)

AUDITOR

Ernst & Young

LEGAL ADVISOR

As to Hong Kong Law

King & Wood Mallesons

As to Cayman Islands Law

Maples and Calder

WEBSITE

<http://www.youjimilk.com>

HIGHLIGHTS

	For the six-month period ended June 30,		Change
	2016 (Unaudited) (RMB'000)	2015 (Unaudited)	
Revenue	1,616,772	1,383,627	+16.9%
Gross profit	773,362	637,465	+21.3%
Profit attributable to owners of the parent	402,345	333,609	+20.6%

The Group's revenue increased by 16.9% from RMB1,383.6 million for the same period in 2015 to RMB1,616.8 million for the six months ended June 30, 2016.

The Group's gross profit increased by 21.3% from RMB637.5 million for the same period in 2015 to RMB773.4 million for the six months ended June 30, 2016.

The Group's profit attributable to owners of the parent increased by 20.6% from RMB333.6 million for the same period in 2015 to RMB402.3 million for the six months ended June 30, 2016.

The Directors do not recommend the payment of interim dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: Nil).

MARKET REVIEW

In recent years, with the flourishing organic food market in the PRC, more and more Chinese consumers tend to buy organic food. Organic food has been highly recognized and welcomed by the consumers for its unique advantages of high quality, safety and “green”. At the same time, with the strong “demand for organic products (有機效應)” emerging in the PRC dairy market, the market share of branded dairy products (represented by high-end organic dairy products) increased substantially, in particular, in terms of the consumption by the end consumers.

It is stated in “Several Opinions of the Central Committee of the CPC and the State Council of the PRC on Implementing a New Development Approach and Accelerating the Agricultural Modernization to Achieve the Goal of Building a Moderately Prosperous Society in All Respects (中國國務院《關於落實發展新理念加快農業現代化實現全面小康目標的若干意見》)” that in order to promote a sustainable agricultural development, we must establish the concept that the development of green agriculture amounts to the protection of environment and accelerate the formation of a new pattern for agriculture development that features effective use of resources, stable ecological system, sound environment and safe product quality. Addressing at the 12th meeting of the Central Leading Group for Financial and Economic Affairs on January 26, 2016, Chinese President Xi Jinping also pointed out that the fundamental objective of the “structural reform of the supply-side” of China is to improve the overall productivity, implement the “people-oriented” development philosophy, enhance high quality supply during production, reduce wasted supply and expand effective supply. The spirit of such statements is interpreted as encouragement and endorsement to a safe and “green” agriculture business model which supplies high quality products to the market. The organic-oriented industry and high-quality organic food market are supported by favourable policies constantly.

China Shengmu is the largest organic dairy company in China in the first half of 2016 in terms of the herd size of organic dairy cows and the production volume of organic raw milk. 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 May 2016, Shengmu was awarded, for the fifth time, the China International Organic Food Expo Gold Medal (中國國際有機食品博覽會金獎) by the China Green Food Development Center (中國綠色食品發展中心) and the NürnbergMesse Group. The organic liquid milk products of Shengmu have once again received the internationally claimed honour for its outstanding product quality and world-class organic standards and unanimous recognition and favourable comments by local and international consumers and industry experts.

BUSINESS REVIEW

The business of the Group comprises dairy farming business and liquid milk business.

Since its establishment seven years ago, Shengmu has been implementing its scientific and creative development strategy. To achieve economies of scale, a majority of our farms have a capacity to house between 3,500 to 4,500 dairy cows. It operates dairy farms at the areas that are most suitable and ideal for raising cows, known as the “golden milk-supply zone”. In particular, its organic dairy farms are located at Ulan Buh desert where, as compared to the traditional “golden milk-supply zone”, there are more advantages, including little pollution, very low levels of bacteria, viruses and pests and favourable climate for cows. Shengmu sticks to its integrated forage growing and dairy farming model whereby forage growing and dairy farming compliment each other to create a complete organic ecological circle. Cow dung from the organic dairy farms is applied as organic fertilizer to grow forage. Strong and long hours of sunshine in the desert also favours the growth of forage and helps the cow to transform vegetable protein to animal protein to increase calcium content and improve milk quality. Shengmu has been constantly developing new products for the downstream liquid milk business of its “desert-based-grass-to-glass” business model and building sales channels for its own- brand downstream products. Shengmu continued to implement its precise and detail-oriented management strategy. As a result, in the first half of 2016 (“2016 Interim Period”), the Group has maintained a relatively rapid growth and achieved a relatively good performance in the fierce competition in the dairy industry of the PRC. In the 2016 Interim Period, the Group’s revenue increased by 16.9% as compared to the first half of 2015 (“2015 Interim Period”). In the 2016 Interim Period, its revenue from liquid milk business amounted to RMB1,035.7 million representing an increase of 53.5% as compared to the same period of 2015 and the percentage of such revenue of the total revenue of the Group increased from 48.8% during 2015 Interim Period to 64.1% during 2016 Interim Period. With the vertical expansion of its “desert-based-grass-to-glass” business model, it is expected there is potential for the increase of the revenue from its liquid milk business as a percentage of total revenue of the Group.

Herd Size and Production Volume

As at June 30, 2016, the Group had 21 organic dairy farms and 12 non-organic dairy farms in operation. As at June 30, 2016, the Group had 122,046 cows (June 30, 2015:106,357) of which there are 83,816 organic cows (June 30, 2015: 68,515).

The Group produced 202,126 tonnes of organic raw milk and 90,588 tonnes of premium non-organic raw milk in the 2016 Interim Period, as compared to 175,807 tonnes of organic raw milk and 85,550 tonnes of premium non-organic raw milk in the 2015 Interim Period. Production volume of organic liquid milk products which are 100% processed from raw milk produced by self-owned certified organic dairy farms increased from 58,288 tonnes in the 2015 Interim Period to 109,143 tonnes in the 2016 Interim Period.

During 2016 Interim Period, the internal utilization rate of self-produced organic raw milk in the production of own-brand liquid milk products attained to 67.0%, demonstrating that the Group has transformed from an upstream raw milk supplier to a producer of organic dairy products with renowned brand. It also indicated that the organic liquid milk products of Shengmu has obtained positive brand image, relatively high market visibility and stable consumer base. Shengmu has become a prominent and competitive player in the dairy market of China with promising prospect.

Distribution Network

Attributable to the growing market demand and effective expansion of its distribution network, the Group had a relatively rapid growth in business in the 2016 Interim Period as compared to the same period of 2015.

In the 2016 Interim Period, based on its current sales network covering the first and second tier cities and the major third and fourth tier cities, the Group continued to expand its marketing network to the third and fourth tier cities. Furthermore, the Group continued to optimize its marketing network management, consolidate and further develop its sales channels and improve the management of individual shops to increase the sales revenue from such markets, channels and shops. The Group has upgraded its model for distribution network development from horizontal scale expansion at early stage to vertical deepening and enhanced penetration.

In the 2016 Interim Period, Shengmu continued to implement the “blue ocean” strategy to develop large chain community stores. Shengmu products have entered into over 100,000 large chain-community stores with independent promotional counters and good images across the country, which has 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.

FINANCIAL REVIEW

The Group maintained a relatively rapid growth in the 2016 Interim Period. The Group recorded a revenue of RMB1,616.8 million in the 2016 Interim Period, representing an increase of 16.9% from RMB1,383.6 million in the 2015 Interim Period. Gross profit of the Group increased by 21.3% from RMB637.5 million in the 2015 Interim Period to RMB773.4 million in the 2016 Interim Period. Profit attributable to owners of the parent increased by 20.6% from RMB333.6 million in the 2015 Interim Period to RMB402.3 million in the 2016 Interim Period.

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

Revenue

Unit: RMB in thousands, except percentages

	For the six-month period ended June 30,	
	2016	2015
	(Unaudited)	(Unaudited)
Dairy farming business	557,980	708,893
Liquid milk business	1,058,792	674,734
Total	1,616,772	1,383,627

For the six-month period ended June 30,	Dairy farming business				Liquid milk business				Total revenue
	Segment revenue	Inter- segment sales ⁽¹⁾	External sales	External sales as % of total revenue	Segment revenue	Inter- segment sales	External sales	External sales as % of total revenue	
2016 (Unaudited)	1,316,862	758,882	557,980	34.5%	1,058,792	—	1,058,792	65.5%	1,616,772
2015 (Unaudited)	1,270,319	561,426	708,893	51.2%	674,734	—	674,734	48.8%	1,383,627

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

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue of the Group had a relatively rapid growth of 16.9% in the 2016 Interim Period as compare to the 2015 Interim Period. Of the total revenue, revenue from self-owned brand liquid milk business in the 2016 Interim Period increased by 56.9% as compared to the 2015 Interim Period. Revenue from self-owned brand liquid milk business as a percentage of the total revenue of the Group increased from 48.8 % in the 2015 Interim Period to 65.5% in 2016 Interim Period, driving the increase in the total revenue. Facing the increasingly fierce competition in the dairy industry, the Group has steadily and rapidly expanded its unique “desert-based-grass-to-glass organic production model” to the downstream business, demonstrating such model as strategically forward-looking. With further deepening development of such model, it is expected that there is more upside potential for the increase in the revenue from “Shengmu” brand liquid milk business as a percentage to the total revenue of the Group.

Dairy farming business

	For the six-month period ended June 30,							
	2016 (unaudited)				2015 (unaudited)			
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	294,920	63,034	4,679	22.4%	356,779	67,645	5,274	28.1%
Inter-segment sales ⁽¹⁾	682,481	127,898	5,336	51.8%	561,426	103,109	5,445	44.2%
Subtotal	977,401	190,932	5,119	74.2%	918,205	170,754	5,377	72.3%
Premium non-organic raw milk								
External sales	263,060	69,553	3,782	20.0%	352,114	80,697	4,363	27.7%
Inter-segment sales ⁽²⁾	76,401	17,775	4,298	5.8%	—	—	—	—
Subtotal	339,461	87,328	3,887	25.8%	352,114	80,697	4,363	27.7%
Daily farming segment	1,316,862	278,260	4,732	100.0%	1,270,319	251,451	5,052	100%

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

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

Revenue from dairy farming business continued to record an increase from RMB1,270.3 million in 2015 Interim Period to RMB1,316.9 million in 2016 Interim Period. Benefiting from the development of the “desert-based-grass-to-glass organic production model” of Shengmu, a percentage of 67.0% to the total growing organic raw milk sales were sold to the production of self-owned brand organic liquid milk products, so that to meet the needs of the growing end market, the percentage of the revenue from self-produced organic raw milk sold to the Group's internal liquid milk business to the total revenue from dairy farming business increased from 44.2% in the 2015 Interim Period to 51.8% in the 2016 Interim Period. With further expansion and penetration of the market for Shengmu's self-owned brand organic liquid milk products, the self-owned brand organic liquid milk business will continue to drive the growth of the dairy farming business.

Liquid milk business

Revenue from self-owned brand liquid milk business increased by 56.9% from RMB674.7 million in the 2015 Interim Period to RMB1,058.8 million in the 2016 Interim Period. Percentage of such revenue of total revenue of the Group increased from 48.8% in the 2015 Interim Period to 65.5% in the 2016 Interim Period. Of the revenue from self-owned brand liquid milk business, revenue from self-owned brand organic liquid milk business increased by 53.5% from RMB674.7 million in the 2015 Interim Period to RMB1,035.7 million in the 2016 Interim Period and such revenue as a percentage to the total revenue of the Group was 64.1% in the 2016 Interim Period. The rapid growth of liquid milk business was mainly attributable to further recognition of self-owned brand organic liquid milk products from “desert-based-grass-to-glass organic production model” by the consumers and increased market demand. Meanwhile, the Group effectively expanded its distribution network, resulting in an increased market shares for its self-brand organic liquid milk products. Driven by the self-owned brand organic liquid milk business, revenue from organic business (comprising organic liquid milk business and organic raw milk business) as a percentage of the total revenue of the Group increased from 74.6% in the 2015 Interim Period to 82.3% in the 2016 Interim Period. It marks that the “desert-based-grass-to-glass organic production model” of Shengmu has become more mature and a strong driver for the growth of the business of the Group.

Organic liquid milk business

	For the six-month period ended June 30,		
	2016	2015	Increase
	(unaudited)	(unaudited)	
Revenue (RMB'000)	1,035,695	674,734	53.5%
Sales volume (Tonnes)	92,964	59,550	56.1%
Average selling price (RMB/Tonne)	11,141	11,331	-1.7%

REVENUE FROM ORGANIC/NON-ORGANIC BUSINESS AND PERCENTAGES

Unit: RMB in thousands, except percentages

	For the six-month period ended June 30,			
	2016		2015	
	(unaudited)		(unaudited)	
	Amount	Percentage	Amount	Percentage
Organic products				
Organic liquid milk	1,035,695	64.1%	674,734	48.8%
Organic raw milk	294,920	18.2%	356,779	25.8%
Subtotal of organic products	1,330,615	82.3%	1,031,513	74.6%
Non-organic products				
Premium non-organic raw milk	263,060	16.3%	352,114	25.4%
Premium non-organic liquid milk	23,097	1.4%	—	—
Subtotal of non-organic products	286,157	17.7%	352,114	25.4%
Total	1,616,772	100.0%	1,383,627	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales, Gross Profit and Gross Margin

	For the six-month period ended June 30,					
	2016 (unaudited)			2015 (unaudited)		
	Cost of sales amount	Gross profit amount	Gross margin	Cost of sales amount	Gross profit amount	Gross margin
	(RMB in thousands, except percentages)					
Dairy farming business						
Organic raw milk						
Before elimination	458,073	519,327	53.1%	474,303	443,902	48.3%
After elimination ⁽¹⁾	151,228	143,692	48.7%	187,897	168,882	47.3%
Premium non-organic raw milk						
Before elimination	214,689	124,771	36.8%	218,052	134,062	38.1%
After elimination ⁽³⁾	165,793	97,267	37.0%	218,052	134,062	38.1%
Subtotal						
Before elimination	672,762	644,098	48.9%	692,355	577,964	45.5%
After elimination	317,021	240,959	43.2%	405,949	302,944	42.7%
Liquid milk business						
Organic liquid milk						
Before elimination	809,710	225,985	21.8%	530,047	144,687	21.4%
After elimination ⁽²⁾	512,249	523,446	50.5%	340,213	334,521	49.6%
Premium non-organic liquid milk						
Before elimination	19,253	3,844	16.6%	—	—	—
After elimination ⁽³⁾	14,140	8,957	38.8%	—	—	—
Subtotal						
Before elimination	828,963	229,829	21.7%	530,047	144,687	21.4%
After elimination	526,389	532,403	50.3%	340,213	334,521	49.6%
Total after elimination	843,410	773,362	47.8%	746,162	637,465	46.1%

(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 organic raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.

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

(3) Non-organic raw milk after elimination is calculated using the formula in note (1) above, and the premium non-organic liquid milk after elimination is calculated using the formula in note (2) above.

Cost of sales increased from RMB746.2 million in the 2015 Interim Period to RMB843.4 million in the 2016 Interim Period. Gross profit of the Group increased from RMB637.5 million in the 2015 Interim Period to RMB773.4 million in the 2016 Interim Period. Gross profit margin increased from 46.1% in the 2015 Interim Period to 47.8% in the 2016 Interim Period.

Cost of sales increased by 13.0% in the 2016 Interim Period as compared to the 2015 Interim Period. Such increase in the cost of sales was less than the 16.9% increase in the revenue, mainly attributable to the Group's effective control and reduction of procurement cost and farming cost of the whole production chain by continuous implementation of the precision and meticulous management model. Meanwhile, enhanced profitability of the farming business and substantial increase in the revenue from high profit margin business, such as organic business (in particular, the self-owned brand organic liquid milk business), of the total revenue of the Group in the 2016 Interim Period as compared to the 2015 Interim Period has driven the increase in the gross profit margin of the Group by 21.3% in the 2016 Interim Period as compared to the 2015 Interim Period.

Overall, against the backdrop of unfavourable conditions of and fierce competition in the dairy industry, the consolidated gross margin of the Group increased from 46.1% in the 2015 Interim Period to 47.8% in the 2016 Interim Period, mainly attributable to the continued steady and rapid development of the unique "desert-based-grass-to-glass organic production model" and further increase in the revenue from organic business as a percentage of total revenue of the Group.

Other Income and Gains

Other income and gains mainly include bank interest income, government grants, foreign exchange differences (net) and others. In the 2016 Interim Period, other income and gains amounted to RMB19.4 million (RMB9.6 million in the 2015 Interim Period).

Selling and Distribution Expenses

Selling and distribution expenses primarily include logistics and transportation expenses, warehouse fees and the relevant employees' remunerations. In the 2016 Interim Period, selling and distribution expenses amounted to RMB132.0 million, representing a slight increase as compared to RMB119.8 million in the 2015 Interim Period. Selling and distribution expenses as a percentage to the revenue amounted to 8.2% in the 2016 Interim Period and 8.7% in the 2015 Interim Period.

Administrative Expenses

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees. For the 2016 Interim Period and the 2015 Interim Period, (i) administrative expenses amounted to RMB76.3 million and RMB44.9 million, representing 4.7% and 3.2% of the revenue, respectively; (ii) administrative expenses (excluding share option expenses) represented 2.8% and 2.5% of the revenue, 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 RMB29.7 million in the 2016 Interim Period and RMB33.4 million in the 2015 Interim Period.

Changes in fair value less costs to sell of biological assets in the 2016 Interim Period decreased as compared to the 2015 Interim Period. However, the Group still recorded a net gain, mainly attributable to the higher net gain arising from changes in fair value less costs to sell of biological assets associated with organic dairy cows than the net losses arising from changes in fair value less costs to sell of biological assets associated with non-organic dairy cows. Net gain arising from the changes in fair value less costs to sell of biological assets associated with organic dairy cows was mainly attributable to the overall enhanced productivity of milkable cows in the organic dairy farms of the Group.

Major Investment

In the 2016 Interim Period, as an effort to expand its international business horizon, the Group, for the first time, invested approximately RMB74.0 million to establish Food Union Shengmu Dairy Co., Ltd. (富友聯合聖牧乳品有限公司) (“**Food Union JV**”), a joint venture with Food Union (Dairy) Hong Kong Limited. The Group holds 20% equity interest in Food Union JV. Food Union JV will produce organic dairy products including high-end children dairy products, with all the organic raw milk to be purchased from the Group. For the financial performance of the associates during 2016 Interim Period, please refer to the section headed “Share of Profits and Losses of Associates”.

Share of Profits and Losses of Associates

The associates mainly include (a) the companies that were jointly established by the Group and its premium distributors in its key distribution cities to distribute the liquid milk products with the Group’s self-owned brand; and (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary (“**Shengmu Forage**”) in which the Group invested and held minority interests; and (c) Food Union JV and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests and which produce dairy products with the raw milk to be purchased from the Group. The Group recorded share of losses of associates of RMB9.2 million in the 2016 Interim Period and RMB7.7 million in the 2015 Interim Period. Share of losses of associates increased mainly due to the loss of the distribution companies located in the second and third tier cities in the provinces, including Zhejiang, Hubei, Liaoning and Jiangxi, in which the Group invested in the 2016 Interim Period as an effort to strengthen its distribution network. Such associated companies incurred losses because they were still in their initial stage of developing the market.

Income Tax Expense

All profit of the Group was derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (“**EIT Law**”), the Group’s subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group’s income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required. In accordance with “The Notice of Tax Policies Relating to the Implementation of the Western China Development Strategy” 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》(財稅[2011]58號)), the Group’s taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax expenses were RMB8.8 million in the 2016 Interim Period and RMB0.2 million in the 2015 Interim Period. Based on the percentage of the income tax expenses of the profit before tax, the effective enterprise income tax rate of the Group was 1.6% in the 2016 Interim Period and 0.1% in the 2015 Interim Period. Increase in the effective enterprise income tax rate was mainly due to the substantial increase of the profit before tax from the self-owned brand organic liquid milk business as a percentage to the overall profit before tax of the Group and expansion of the product portfolio of its self-owned liquid milk products.

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 the 2016 Interim Period was RMB132.5 million (RMB127.3 million in the 2015 Interim Period).

ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

As at June 30, 2016, the total current assets of the Group were RMB3,590.2 million (RMB4,010.3 million as at December 31, 2015), primarily consisting of inventories of RMB751.7 million (RMB824.5 million as at December 31, 2015), trade and bills receivables of RMB1,234.0 million (RMB915.3 million as at December 31, 2015), prepayments, deposits and other receivables of RMB725.3 million (RMB468.5 million as at December 31, 2015) and cash and bank balances and pledged deposits of RMB879.3 million (RMB1,802.0 million as at December 31, 2015).

Trade and bills receivables

Unit: RMB in thousands

	As at June 30, 2016 (unaudited)	As at December 31, 2015 (audited)
Trade receivables	1,234,806	915,181
Bills receivables	870	500
Impairment	(1,653)	(369)
Total	<u>1,234,023</u>	<u>915,312</u>

Trade and bills receivables of the Group increased substantially as compared to the beginning of period, mainly because the Group granted different credit limits and credit terms according to the recovery of the receivables from and sales of the Group's products (as compared to the sales of the competitive products) by the supermarkets and stores as well as the sales and creditability of the distributors as an effort to expand and strengthen its market share in organic liquid milk products.

The Group makes provision for impairment according to its assets impairment policy.

Prepayments, Deposits and Other Receivables

The Group's aggregate amount of prepayments, deposits and other receivables were RMB725.3 million and RMB468.5 million as at June 30, 2016 and December 31, 2015, respectively, primarily due to the increase in the prepayments as a result of the increased purchase by the Group from forage suppliers.

Current Liabilities

As at June 30, 2016, the total current liabilities of the Group amounted to RMB2,028.3 million (RMB2,975.6 million as at December 31, 2015), primarily consisting of trade and bills payables of RMB695.7 million (RMB1,018.1 million as at December 31, 2015), receipts in advance of RMB3.8 million (RMB17.3 million as at December 31, 2015), other payables and accruals of RMB280.6 million (RMB338.3 million as at December 31, 2015), and interest-bearing bank and other borrowings of RMB1,048.2 million (RMB1,599.9 million as at December 31, 2015). Current liabilities as at June 30, 2016 decreased substantially as compared to December 31, 2015, primarily due to (a) the optimized debt structure as a result of the repayment of short-term borrowings due and payable by the proceeds from the issue of long-term corporate bonds by the Group in the 2016 Interim Period, and (b) the substantial decrease in the trade and bills payables as a result of the Group's increased payments of trade payables.

Non-Current Liabilities

As at June 30, 2016, the total non-current liabilities of the Group amounted to RMB1,852.6 million (RMB1,117.0 million as at December 31, 2015), primarily consisting of interest-bearing bank and other borrowings of RMB1,723.9 million (RMB1,117.0 million as at December 31, 2015) and long-term payables of RMB128.7 million. The substantial increase in the non-current liabilities as at June 30, 2016 as compared to December 31, 2015 is primarily due to the increase in the long-term interest-bearing bank and other borrowings resulted from the issue of RMB600 million long-term corporate bonds by the Group. Such issue of corporate bonds optimized the Group's debt structure and reduced its overall financing cost rate.

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and substantially all transactions are conducted in RMB. As at June 30, 2016, the Group did not have significant foreign currency exposure from its operations, except certain bank balances equivalent to approximately RMB2.36 million and RMB0.8 million which were denominated in United States dollars and Hong Kong dollars, respectively. During 2016 Interim Period, 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 June 30, 2016, the Group has pledged deposits in an aggregate amount of approximately RMB55.8 million (RMB70.3 million as at December 31, 2015) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts.

Liquidity, Financial Resources and Capital Structure

In the 2016 Interim Period, the Group generally finances its daily operations from internally generated cash flows, bank borrowings and proceeds from other fund raising activities. As at June 30, 2016, the Group had (a) cash and bank balances of RMB823.5 million (RMB1,731.8 million as at December 31, 2015), and (b) interest-bearing bank and other borrowings of RMB2,772.0 million (RMB2,716.9 million as at December 31, 2015), which were denominated in RMB, and RMB1,723.9 million of which were repayable within one to five years while the other remaining interest-bearing bank and other borrowings were repayable within one year. The gearing ratio (calculated as total debt (total interest bearing bank and other borrowings) divided by total capital) was 47.1% as at June 30, 2016 (50.6% as at December 31, 2015). The Group's bank and other borrowings are all denominated in RMB and bear fixed interest rates. During 2016 Interim Period, the annual interest rate of bank and other borrowings was 4.48% to 6.89% (during 2015 Interim Period: 5.60% to 7.14%). In 2015, China Securities Regulatory Commission has approved the Group to issue long-term corporate bonds up to RMB1.6 billion. The Group issued RMB600 million corporate bonds at the interest rate of 4.75% in the 2016 Interim Period. Such issue of corporate bonds optimized the Group's debt structure and reduced its overall financing cost rate.

Capital Commitments

As at June 30, 2016, the Group's capital commitments amounted to RMB228.7 million (RMB201.2 million as at December 31, 2015), primarily relating to the expansion of liquid milk production capacity by investing and constructing new production plants and production lines for liquid milk business in the 2016 Interim Period, in order to keep up with the rapid development of self-owned brand liquid milk business. The Group has sufficient internal and financial resources to fund its capital expenditures.

HUMAN RESOURCES

As at June 30, 2016, the Group had a total of 3,788 employees (3,574 employees as at June 30, 2015). Total staff costs for the 2016 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB135.9 million (excluding share option expenses) (RMB134.9 million in the 2015 Interim Period).

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

The Company has also approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"). The purpose of the Pre-IPO Share Option Scheme and the Share Option Scheme are to attract, retain and motivate the Directors, senior management and employees of the Group and other participants.

CONTINGENT LIABILITIES

As at June 30, 2016, except for the guarantees with an aggregate amount of up to RMB300,000,000 for the bank loans of Shengmu Forage, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries and associated companies in the 2016 Interim Period.

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

Save as disclosed above in connection with capital commitments under the paragraph headed “Capital Commitments” and in the prospectus under the section headed “Future Plans and Use of Proceeds”, as at the date of this announcement, 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.

Improving Liquid Milk Processing Capacity

In order to keep up with the rapid development of self-owned brand liquid milk business, the Group expanded its liquid milk production capacity by investing and constructing new production plants and production lines for liquid milk business in the 2016 Interim Period. It’s expected that these production plants and production lines will be in operation by the end of 2016.

Implement Technology Innovation and Develop New Organic Liquid Milk Products

The Group plans to further expand its own-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.

After over a year’s dedicated efforts of the R&D department and the manufacturing department on the development and improvement of each procedure, the Group has launched first batch of machines to the market, which can produce fresh low-temperature organic yogurt by adding active lactobacillus on site at the sales outlets in June 2016. It is expected that it will capture the consumers’ demand for fresh organic dairy products at the places of public entertainment, restaurants and canteens and office areas and is a combination of technology and marketing innovation for liquid milk products.

Continue to Strengthen the Development of Marketing and Sales Channels, Optimize the Current Nationwide Distribution Network and Enhance Brand Recognition

In 2016, the Group plans to continue to strengthen the implementation of the “blue ocean” strategy to consolidate and further develop its marketing and sales channels. With the establishment of over 100,000 premium large chain-community stores across the country as a foundation, Shengmu plans to further develop its “blue ocean” strategy by establishing 6,500 large chain-community stores with sales volume and image comparable with KA stores to form a unique marketing network and obtain more market share.

REPORT OF THE DIRECTORS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company has the pleasure in submitting the interim financial report of the Group for the six months ended June 30, 2016, which has been reviewed by the audit committee (“**Audit Committee**”) of the Board.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2016 Interim Period (the 2015 Interim Period: Nil).

USE OF PROCEEDS

The Company completed its initial public offering of 444,800,000 shares at the offer price of HK\$2.39 per share and dealings in the shares of the Company commenced on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on July 15, 2014 (the “**Listing Date**”). The net proceeds from the global offering amounted to approximately RMB801.2 million. Since the Listing Date and up to June 30, 2016, such net proceeds have been applied in accordance with the proposed applications as set out in “Future Plans and Use of Proceeds” in the Prospectus.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During 2016 Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

EVENT AFTER THE REPORTING PERIOD

There is no significant event since June 30, 2016 and up to the date of this interim report.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, during 2016 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code except the code provision A.2.1 of the Code as disclosed below.

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

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results for the 2016 Interim Period.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by its Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of 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 during 2016 Interim Period, they have complied with the required standards as set out in the Model Code.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at June 30, 2016, Mr. DONG Xianli, a non-executive Director, who is also the Assistant Vice President of Inner Mongolia Mengniu Dairy Group Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of China Mengniu Dairy Company Limited, a listed company on the Stock Exchange with the stock code of 2319. Save as disclosed above and in the Prospectus, all Directors have confirmed that during the six-month period ended June 30, 2016, they and their close associates have not engaged in or held any interest in any business which is or may be, directly or indirectly, in competition with the Company's business.

CONTINUING CONNECTED TRANSACTIONS

The Company's continuing connected transactions during the 2016 Interim Period are as follows: the non-exempt continuing connected transactions conducted pursuant to the Forage Supply Framework Agreement and Financial Assistance Framework Agreement entered into with Shengmu Forage, Milk Supply Framework Agreement entered into with Bayannur Shengmu Pangu Farming Co., Ltd. and Bayannur Shengmu Xiwang Farming Co., Ltd., Framework Agreement for Sale and Purchase of Cows and Financial Assistance Framework Agreement (among Shengmu Pangu, Shengmu Xiwang and Shengmu Holding), whose details were disclosed in the section headed "Report of the Directors - Continuing Connected Transactions" in the 2015 annual report of the Company.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 21 to the financial statements. The related party transactions mainly comprise: (1) sale of products to certain entities which have been accounted for as associate of the Company as the Group holds interests in such entities. None of the connected person of the Company holds interests in or position with such entities, and such entities are not considered as connected person under the Listing Rules; (2) purchase of forage from Shengmu Forage in accordance with the Forage Supply Framework Agreement as referred to in the section headed "Report of the Directors - Continuing Connected Transactions" in the 2015 annual report of the Company; (3) provision of financial assistance (in the form of guarantees) for the external borrowings of Shengmu Forage in accordance with the Financial Assistance Framework Agreement entered into between the Company and Shengmu Forage on June 4, 2015; and (4) payment of emoluments to key management of the Group. The arrangement whereby Shengmu Forage provided biowaste (i.e. cow dung) cleaning services to our organic dairy farms for free in return for our supply of such unprocessed biowaste from our organic dairy farms to Shengmu Forage for free, is an exempt continuing connected transaction, details of which has been set out in the section headed "Continuing Connected Transaction" in the Prospectus. All the requirements under Chapter 14A have been complied with during the 2016 Interim Period.

CHANGE OF DIRECTOR'S INFORMATION

Mr. Wong Kun Kau, the independent non-executive Director of the Company, ceased to be an independent non-executive director of AnHui Conch Cement Company Limited (a company listed on the Stock Exchange with the stock code of 914) as from June 2, 2016. Save as disclosed herein, there was no change to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) (if applicable) of Rule 13.51(2) of the Listing Rules during the 2016 Interim Period.

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

So far as is known to any Director or chief executive of the Company, as at June 30, 2016, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
YAO Tongshan (姚同山)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,485,909,327	54.85%
	Beneficial Owner ⁽²⁾	70,419,200	1.11%
WU Jianye (武建邺)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,485,909,327	54.85%
	Beneficial Owner ⁽²⁾	64,876,800	1.02%
GAO Lingfeng (高凌鳳)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,485,909,327	54.85%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%
CUI Ruicheng (崔瑞成)	Interests held jointly with another person; interest of a controlled corporation ⁽¹⁾	3,485,909,327	54.85%
	Beneficial Owner ⁽²⁾	31,992,000	0.50%

(1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, the Ultimate Controlling Shareholders other than Mr. YAO Tongshan shall support Mr. YAO Tongshan's decisions in relation to the operation and management of the Group by exercising their voting rights at the meetings of the shareholders of the member companies of the Group in accordance with the decision of Mr. YAO Tongshan upon completion of the Reorganization. For more details, please refer to the section headed "Relationship with our Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, the Controlling Shareholder, World Shining Investment Limited ("World Shining"), control 54.85% 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 54.85% interest in the share capital of the Company. World Shining is owned as to 87.44% by the Ultimate Controlling Shareholders as a group of persons acting in concert.

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

(ii) Long position in the shares of associated corporation

Name	Name of associated company	Percentage of interest
YAO Tongshan (姚同山)	Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司)	1.45%
WU Jianye (武建鄴)	Bayannur Shengmu Pangu Farming Co., Ltd. (巴彥淖爾市聖牧盤古牧業有限責任公司)	45.00%
	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)	6.83%
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)	14.52%

Save as disclosed above and to the best knowledge of the Directors, as at June 30, 2016, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at June 30, 2016, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
World Shining ⁽¹⁾	Beneficial Owner	3,485,909,327	54.85%
SHI Jianhong (史建宏) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
ZHU Jianhua (朱建華) ⁽²⁾	Interests of spouse	3,485,909,327	54.85%
WANG Fuzhu (王福柱) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
HOU Bo (侯波) ⁽³⁾	Interests of spouse	3,485,909,327	54.85%
ZHANG Junli (張軍力) ⁽⁴⁾	Interests of spouse	3,556,328,527	55.96%
GUO Yunfeng (郭運鳳) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
WANG Zhizhong (王志忠) ⁽⁵⁾	Interests of spouse	3,485,909,327	54.85%

REPORT OF THE DIRECTORS

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
QIN Yuan (秦源) ⁽⁶⁾	Interests of spouse	3,550,786,127	55.87%
WANG Zhenxi (王振喜) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
WANG Ning (王寧) ⁽⁷⁾	Interests of spouse	3,485,909,327	54.85%
YUN Zhongping (雲中平) ⁽⁸⁾	Interests of spouse	3,517,901,327	55.36%
YUN Jindong (雲金東) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
GUO Haimei (郭海梅) ⁽⁹⁾	Interests of spouse	3,485,909,327	54.85%
YANG Yaping (楊亞萍) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
TENG Jie (騰傑) ⁽¹⁰⁾	Interests of spouse	3,485,909,327	54.85%
LU Shunyi (盧順義) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
ZHAO Lizhen (趙麗珍) ⁽¹¹⁾	Interests of spouse	3,485,909,327	54.85%
WANG Zhen (王鎮) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
YANG Yali (楊亞利) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
YANG Feng (楊峰) ⁽¹²⁾	Interests of spouse	3,485,909,327	54.85%
ZHANG Junke (張俊科) ⁽¹⁾	Interests held jointly with another person; interest of a controlled corporation	3,485,909,327	54.85%
ZHENG Yueqin (鄭月琴) ⁽¹³⁾	Interests of spouse	3,485,909,327	54.85%
LI Liying (李麗英) ⁽¹⁴⁾	Interests of spouse	3,517,901,327	55.36%
Greenbelt Global Limited	Beneficial Owner	395,235,200	6.22%
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200	6.22%
Baring Private Equity Asia GP V, L.P.	Interest of a controlled corporation	395,235,200	6.22%
The Baring Asia Private Equity Fund V, L.P.	Interest of a controlled corporation	395,235,200	6.22%
Salata Jean	Interest of a controlled corporation	395,235,200	6.22%
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%

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
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%
Nong You Co., Ltd.	Beneficial Owner	372,727,273	5.86%
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	372,727,273	5.86%
SHAO Genhuo(邵根夥)	Interest of a controlled corporation	372,727,273	5.86%

- (1) Pursuant to the acting-in-concert agreement dated October 18, 2010 and a supplementary agreement dated March 24, 2014, the Ultimate Controlling Shareholders (as defined in the Prospectus) (other than Mr. YAO Tongshan) shall support Mr. YAO Tongshan's decisions in relation to the operation and management of the Group by exercising their voting rights at the meetings of the shareholders of the member companies of the Group in accordance with the decision of Mr. YAO upon completion of the Reorganization. For more details, please refer to the section on "Relationship with Controlling Shareholders — Our Ultimate Controlling Shareholders Acting in Concert" in the Prospectus. As such, the Controlling Shareholder, World Shining, control 54.85% 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 54.85% interest in the issued share capital of the Company.
- (2) ZHU Jianhua is the spouse of SHI Jianhong. Under the SFO, ZHU Jianhua is deemed to be interested in the same number of Shares in which SHI Jianhong is interested.
- (3) HOU Bo is the spouse of WANG Fuzhu. Under the SFO, HOU Bo is deemed to be interested in the same number of Shares in which WANG Fuzhu is interested.
- (4) ZHANG Junli is the spouse of YAO Tongshan. Under the SFO, ZHANG Junli is deemed to be interested in the same number of Shares in which YAO Tongshan is interested.
- (5) WANG Zhizhong is the spouse of GUO Yunfeng. Under the SFO, WANG Zhizhong is deemed to be interested in the same number of Shares in which GUO Yunfeng is interested.
- (6) QIN Yuan is the spouse of WU Jianye. Under the SFO, QIN Yuan is deemed to be interested in the same number of Shares in which WU Jianye is interested.
- (7) WANG Ning is the spouse of WANG Zhenxi. Under the SFO, WANG Ning is deemed to be interested in the same number of Shares in which WANG Zhenxi is interested.
- (8) YUN Zhongping is the spouse of GAO Lingfeng. Under the SFO, YUN Zhongping is deemed to be interested in the same number of Shares in which GAO Lingfeng is interested.
- (9) GUO Haimei is the spouse of YUN Jindong. Under the SFO, GUO Haimei is deemed to be interested in the same number of Shares in which YUN Jindong is interested.
- (10) TENG Jie is the spouse of YANG Yaping. Under the SFO, TENG Jie is deemed to be interested in the same number of Shares in which YANG Yaping is interested.
- (11) ZHAO Lizhen is the spouse of LU Shunyi. Under the SFO, ZHAO Lizhen is deemed to be interested in the same number of Shares in which LU Shunyi is interested.

REPORT OF THE DIRECTORS

- (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.

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

Name	Name of member company	Percentage of interest
Inner Mongolia University Aodu Assets Management Limited (內蒙古大學奧都資產經營有限責任公司)	Inner Mongolia IMU-Shengmu High-tech Dairy Co., Ltd. (內蒙古內大聖牧高科牧業有限公司)	30.0%
CHEN Qingjun (陳慶軍)	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.0%
LI Yongqiang (李永強)	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.0%
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)	35.0%
WANG Qiang (王強)	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.0%
LI Ruijun (李瑞軍)	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.0%
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)	35.0%
WANG Lixin (汪立新)	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.0%
CHANG Zhibai (常志拔)	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	15.5%
HOU Liubin (侯留斌)	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.0%
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司),	35.0%
REN Junming (任俊明)	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	35.0%
YU Gong (于工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	35.0%

Save as set out above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who, as at June 30, 2016, 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.

REPORT OF THE DIRECTORS

The table below sets out the particulars of changes of options granted under the Pre-IPO Share Option Scheme from January 1, 2016 to June 30, 2016:

Name or category of participant	Number of options ⁽¹⁾			As at June 30, 2016	Date of grant of options	Exercise period of options (both dates inclusive)	Exercise price of options (HK\$)
	As at January 1, 2016	Exercised during the period	Lapsed/ Cancelled during the period				
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	122,868,600	Nil	11,160,000 ⁽³⁾	111,708,600	April 30, 2014	(1) May 4, 2016–May 4, 2017: 50%; (2) November 4, 2016 – May 4, 2017: 50% ⁽²⁾	HK\$1.56
Other grantees who are employees of the Group	123,481,000	Nil	29,502,600 ⁽³⁾	93,978,400	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:	449,498,400 options eligible to subscribe for 449,498,400 shares of the Company	Nil	Total of 40,662,600 options (with rights to subscribe for 40,662,600 shares of the Company) have lapsed ⁽³⁾	408,835,800 options eligible to subscribe for 408,835,800 shares of the Company			

Note:

- (1) Prior to the Listing Date, options to subscribe for an aggregate of 504,480,000 Shares have been conditionally granted to a total of 189 grantees under the Pre-IPO Share Option Scheme by the Company. As at the date of this interim report, there were 45 grantees who have left employment with the Group and 95,644,200 options they held to subscribe for 95,644,200 Shares had lapsed. As at the date of this interim report, a total of 144 grantees held a total of 408,835,800 options granted under the Pre-IPO Share Option Scheme to subscribe for 408,835,800 shares representing (i) approximately 6.43% of the Company's issued share capital as at the date of this interim report (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme); and (ii) approximately 6.04% of the Company's issued share capital as at the date of this interim report, assuming that all options currently in force which have been granted and vested under the Pre-IPO Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme. Save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. The subscription price per share of each option granted under the Pre-IPO Share Option Scheme is HK\$1.56.
- (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 40,662,600 options to subscribe for a total of 40,662,600 Shares had lapsed as certain grantees ceased to be employees of the Group during the 2016 interim period.

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

Share Option Scheme

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

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

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

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

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

Hong Kong, August 26, 2016

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

	Notes	For the six-month period ended	
		June 30, 2016	June 30, 2015
		(unaudited) RMB'000	(unaudited) RMB'000
REVENUE	4	1,616,772	1,383,627
Cost of sales		(843,410)	(746,162)
Gross profit		773,362	637,465
Gain arising from changes in fair value less costs to sell of biological assets		29,675	33,385
Other income and gains	4	19,429	9,634
Selling and distribution expenses		(131,961)	(119,841)
Administrative expenses		(76,309)	(44,891)
Finance costs	6	(61,325)	(47,439)
Share of profits and losses of associates		(9,222)	(7,671)
Gain on disposal of a subsidiary		—	472
PROFIT BEFORE TAX	5	543,649	461,114
Income tax expense	7	(8,784)	(212)
PROFIT FOR THE PERIOD		<u>534,865</u>	<u>460,902</u>
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		2,362	32
Net other comprehensive income to be reclassified to profit or loss in subsequent period		2,362	32
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>537,227</u></u>	<u><u>460,934</u></u>

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

	Notes	For the six-month period ended	
		June 30, 2016	June 30, 2015
		(unaudited) RMB'000	(unaudited) RMB'000
Profit attributable to:			
Owners of the parent		402,345	333,609
Non-controlling interests		132,520	127,293
		<u>534,865</u>	<u>460,902</u>
Total comprehensive income attributable to:			
Owners of the parent		404,707	333,641
Non-controlling interests		132,520	127,293
		<u>537,227</u>	<u>460,934</u>
Earnings per share attributable to ordinary equity holders of the parent:	8		
– Basic		<u>RMB0.063</u>	<u>RMB0.053</u>
– Diluted		<u>RMB0.063</u>	<u>RMB0.052</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at	
		June 30, 2016	December 31, 2015
		(unaudited) RMB'000	(audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,450,980	2,093,230
Prepaid land lease payments		5,022	5,066
Other intangible assets		15,176	15,518
Investments in associates		103,583	32,055
Available-for-sale investments		1,404	1,404
Biological assets	11	3,579,721	3,285,436
Prepayments for property, plant and equipment and biological assets	13	24,495	15,690
Deferred tax assets		1,060	1,076
Total non-current assets		6,181,441	5,449,475
CURRENT ASSETS			
Inventories		751,642	824,514
Trade and bills receivables	12	1,234,023	915,312
Prepayments, deposits and other receivables	13	725,257	468,456
Pledged deposits	14	55,770	70,277
Cash and bank balances	14	823,546	1,731,759
Total current assets		3,590,238	4,010,318
CURRENT LIABILITIES			
Trade and bills payables	15	695,703	1,018,126
Receipts in advance		3,800	17,320
Other payables and accruals	16	280,597	338,293
Interest-bearing bank and other borrowings	17	1,048,202	1,599,855
Income tax payable		—	1,974
Total current liabilities		2,028,302	2,975,568
NET CURRENT ASSETS		1,561,936	1,034,750
TOTAL ASSETS LESS CURRENT LIABILITIES		7,743,377	6,484,225
NON-CURRENT LIABILITIES			
Long-term payables		128,725	—
Interest-bearing bank and other borrowings		1,723,845	1,117,000
Total non-current liabilities		1,852,570	1,117,000
Net assets		5,890,807	5,367,225
EQUITY			
Equity attributable to owners of the parent			
Share capital	18	50	50
Reserves		5,037,214	4,551,605
		5,037,264	4,551,655
Non-controlling interests		853,543	815,570
Total equity		5,890,807	5,367,225

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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	Foreign fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At January 1, 2016	50	1,757,767	373,857	50,407	303,376	4,672	2,061,526	4,551,655	815,570	5,367,225
Profit for the period	—	—	—	—	—	—	402,345	402,345	132,520	534,865
Other comprehensive income	—	—	—	—	—	2,362	—	2,362	—	2,362
Total comprehensive income	—	—	—	—	—	2,362	402,345	404,707	132,520	537,227
Equity-settled share option arrangement	—	—	—	31,420	—	—	—	31,420	—	31,420
Capital injection	—	—	—	—	—	—	—	—	(45,065)	(45,065)
Gain arising from purchase of non-controlling interests	—	—	49,482	—	—	—	—	49,482	(49,482)	—
At June 30, 2016 (unaudited)	<u>50</u>	<u>1,757,767[#]</u>	<u>423,339[#]</u>	<u>81,827[#]</u>	<u>303,376[#]</u>	<u>7,034[#]</u>	<u>2,463,871[#]</u>	<u>5,037,264</u>	<u>853,543</u>	<u>5,890,807</u>
At January 1, 2015	50	1,757,767	373,656	23,396	186,771	2,779	1,377,479	3,721,898	533,201	4,255,099
Profit for the period	—	—	—	—	—	—	333,609	333,609	127,293	460,902
Other comprehensive Income	—	—	—	—	—	32	—	32	—	32
Total comprehensive income	—	—	—	—	—	32	333,609	333,641	127,293	460,934
Equity-settled share option arrangement	—	—	—	10,585	—	—	—	10,585	—	10,585
Gain arising from purchase of non-controlling interests	—	—	201	—	—	—	—	201	(201)	—
At June 30, 2015 (unaudited)	<u>50</u>	<u>1,757,767[#]</u>	<u>373,857[#]</u>	<u>33,981[#]</u>	<u>186,771[#]</u>	<u>2,811[#]</u>	<u>1,711,088[#]</u>	<u>4,066,325</u>	<u>660,293</u>	<u>4,726,618</u>

These reserve accounts comprise the consolidated reserves of RMB5,037,214,000 (June 30, 2015: RMB4,066,275,000) in the interim consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2016	June 30, 2015
	(unaudited) RMB'000	(unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	543,648	461,114
Adjustments for:		
Gain arising from change in fair value less costs to sell of biological assets	(29,675)	(33,385)
Interest income	(2,136)	(6,791)
Finance costs	61,325	47,439
Share of profits and losses of associates	9,222	7,671
Loss on disposal of a subsidiary	—	118
Depreciation	70,738	47,398
Amortisation of prepaid land lease payments	56	55
Amortisation of other intangible assets	441	614
Loss on disposal of items of property, plant and equipment	106	9
Equity-settled share option expense	31,420	10,585
Foreign exchange differences, net	(78)	(394)
	685,067	534,433
Increase in inventories	49,115	54,867
Increase in trade and bills receivables	(318,711)	(235,019)
Increase in prepayments, deposits and other receivables	(178,135)	(36,347)
(Increase)/decrease in pledged deposits	14,507	(25,147)
Increase/(decrease) in trade and bills payables	(176,360)	114,177
Increase/(decrease) in receipts in advance	(13,519)	—
Increase/(decrease) in accruals and other payables	(20,953)	(17,042)
Cash generated from operations	41,011	389,922
Interest received	10,569	6,791
Income tax paid	(9,897)	(2,296)
Net cash flows from operating activities	41,683	394,417

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2016	June 30, 2015
	(unaudited) RMB'000	(unaudited) RMB'000
Net cash flows from operating activities	41,683	394,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(328,417)	(303,767)
Additions to prepaid land lease payments	—	—
Additions to other intangible assets	(99)	(624)
Purchases of biological assets	(27,295)	(28,772)
Payments for breeding calves and heifers	(483,309)	(306,131)
Proceeds from disposal of biological assets	77,051	55,794
Proceeds from disposal of items of property, plant and equipment	98	252
Acquisition of associates	(78,501)	(14,570)
Acquisition of available-for-sale investments	—	(423)
Purchases of time deposits with original maturity of more than three months	198,000	(238,924)
Net cash flows used in investing activities	(642,472)	(837,165)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue expenses	—	(1,620)
Capital injection by investors	(45,065)	—
Capital injection by non-controlling interests	1,355	—
Acquisition of non-controlling interests	(46,420)	(1,335)
New bank loans	504,500	908,733
New other loans	595,800	—
Repayment of bank loans	(1,070,854)	(639,681)
Repayment of other loans	(60,750)	—
Interest paid	(33,133)	(47,896)
Net cash flows used in/from financing activities	(109,502)	218,201
NET INCREASE IN CASH AND CASH EQUIVALENTS	(710,291)	(224,547)
Cash and cash equivalents at beginning of period	1,411,499	734,703
Effect of foreign exchange rate changes, net	78	395
CASH AND CASH EQUIVALENTS AT END OF PERIOD	701,286	510,551

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During 2016 Interim Period, 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 ("PRC").

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

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended June 30, 2016 (the "Interim Period") have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2015.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of new and revised IFRSs effective as at January 1, 2016.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs</i>

The application of the above new standards and revised amendments to HKFRSs in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or on the disclosures set out in these condensed consolidated financial statements.

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

2.3 *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	<i>Financial Instruments</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁵
IFRS 14	<i>Regulatory Deferral Accounts</i> ⁴
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
IFRS 16	<i>Lease</i> ³
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ 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

⁵ 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.

3. OPERATING SEGMENT INFORMATION

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

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

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

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.

3. 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.

For the six-month period ended June 30, 2016 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	557,980	1,058,792	1,616,772
Intersegment sales	758,882	—	758,882
	1,316,862	1,058,792	2,375,654
<i>Reconciliation:</i>			
Elimination of intersegment sales			(758,882)
Revenue			1,616,772
Segment results	533,502	79,470	612,972
<i>Reconciliation:</i>			
Elimination of intersegment results			(100,567)
Gain arising from changes in fair value less costs to sell of biological assets			29,675
Corporate and other unallocated expenses			(7,215)
Profit for the period			534,865
As at June 30, 2016 (unaudited)			
Segment assets	8,652,070	2,095,550	10,747,620
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(1,109,619)
Corporate and other unallocated assets			133,678
Total assets			9,771,679
Segment liabilities	3,368,107	1,615,227	4,983,334
<i>Reconciliation:</i>			
Elimination of intersegment payables			(1,109,619)
Corporate and other unallocated liabilities			7,157
Total liabilities			3,880,872

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended June 30, 2015 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	708,893	674,734	1,383,627
Intersegment sales	561,426	—	561,426
	1,270,319	674,734	1,945,053
<i>Reconciliation:</i>			
Elimination of intersegment sales			(561,426)
Revenue			1,383,627
Segment results	498,296	26,112	524,408
<i>Reconciliation:</i>			
Elimination of intersegment results			(85,187)
Gain arising from changes in fair value less costs to sell of biological assets			33,385
Corporate and other unallocated expenses			(11,704)
Profit for the period			460,902
As at December 31, 2015 (audited)			
Segment assets	8,347,005	1,537,127	9,884,132
<i>Reconciliation:</i>			
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
<i>Reconciliation:</i>			
Elimination of intersegment payables			(551,363)
Corporate and other unallocated liabilities			12
Total liabilities			4,092,568

4. 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:

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) RMB'000	(unaudited) RMB'000
Revenue		
– Sales of raw milk	557,980	708,893
– Sales of liquid milk products	1,058,792	674,734
	<u>1,616,772</u>	<u>1,383,627</u>
Other income and gains		
– Government grants	11,994	55
– Bank interest income	2,136	6,791
– Foreign exchange differences, net	(1)	16
– Others	5,300	2,772
	<u>19,429</u>	<u>9,634</u>
	<u>1,636,201</u>	<u>1,393,261</u>

5. PROFIT BEFORE TAX

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

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) RMB'000	(unaudited) RMB'000
Cost of inventories sold	843,410	746,162
Gains arising from changes in fair value less costs to sell of biological assets	(29,675)	(33,385)
Depreciation of items of property, plant and equipment	70,738	47,398
Amortisation of prepaid land lease payments	56	55
Amortisation of other intangible assets	441	614
Employee benefits expense (including Directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	123,561	119,936
Other social insurances and benefits	6,828	7,989
Pension scheme contribution	5,540	6,936
Equity-settled share option expenses	31,420	10,585
	<u>167,349</u>	<u>145,446</u>

6. FINANCE COSTS

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) RMB'000	(unaudited) RMB'000
Interest on bank loans	64,354	52,475
Finance costs on long-term payables	3,078	—
Less: Interest capitalised	(6,107)	(5,036)
	<u>61,325</u>	<u>47,439</u>

7. INCOME TAX EXPENSE

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) RMB'000	(unaudited) RMB'000
Current	8,768	379
Deferred	16	(167)
	<u>8,784</u>	<u>212</u>

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

The calculation of basic earnings per share for the six-month period ended June 30, 2016 is based on the profit attributable to ordinary equity holders of the Company of RMB402,345,000 (for the six-month period ended June 30, 2015: RMB333,609,000) and the weighted average of 6,354,400,000 (for the six-month period ended June 30, 2015: 6,354,400,000) ordinary shares of the Company in issue during the period.

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

	Number of shares For the six-month period ended June 30,	
	2016	2015
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	6,354,400,000	6,354,400,000
Effect of dilution of share options	12,696,765	120,256,554
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	<u>6,367,096,765</u>	<u>6,474,656,554</u>

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend during 2016 Interim Period (during 2015 Interim Period: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) RMB'000	(unaudited) RMB'000
Carrying amount at 1 January	2,093,230	1,657,827
Additions	428,692	317,358
Disposals	(204)	(261)
Depreciation provided for the period	(70,738)	(47,398)
Carrying amount at 30 June	<u>2,450,980</u>	<u>1,927,526</u>

11. BIOLOGICAL ASSETS

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

(A) Quantity of biological assets

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

	June 30,	December 31,
	2016	2015
	(unaudited) Head	(audited) Head
Dairy cows		
Milkable cows	64,235	66,790
Heifers and calves	<u>57,811</u>	<u>44,605</u>
Total dairy cows	<u>122,046</u>	<u>111,395</u>

11. BIOLOGICAL ASSETS (continued)

(B) Value of biological assets

The value of Group's biological assets as at June 30, 2016 and December 31, 2015 is as follows:

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Milkable cows	2,401,101	2,359,795
Heifers and calves	1,178,620	925,641
Total value of dairy cows	<u>3,579,721</u>	<u>3,285,436</u>

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

The valuation techniques and principal valuation assumptions used in the determination of the fair value of dairy cows are the same as those set out in the Group's 2015 annual report.

12. TRADE AND BILLS RECEIVABLES

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Trade receivables	1,234,806	915,181
Bills receivable	870	500
Impairment	(1,653)	(369)
	<u>1,234,023</u>	<u>915,312</u>

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

12. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade receivables as at June 30, 2016 and December 31, 2015, based on the invoice dates and net of provision, is as follows:

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Within 3 months	602,880	627,740
4 to 6 months	457,106	224,208
7 to 12 months	159,154	60,042
Over 1 year	14,883	3,322
	<u>1,234,023</u>	<u>915,312</u>

During the Period, the Group provided for an impairment of RMB1,284,000 for trade receivables, which was included in the reduction of other income and gains.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Prepayments	658,486	375,562
Deposits and other receivables	72,311	91,597
Prepaid expenses	18,955	16,987
	<u>749,752</u>	<u>484,146</u>
Non-current prepayments	(24,495)	(15,690)
Current portion	<u>725,257</u>	<u>468,456</u>

14. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Cash and cash equivalents	701,286	1,411,499
Time deposits with original maturity of more than 3 months	122,260	320,260
Pledged deposits	55,770	70,277
Cash and bank balances and pledged deposits	879,316	1,802,036
Less: Pledged deposits	(55,770)	(70,277)
Cash and bank balances	<u>823,546</u>	<u>1,731,759</u>

15. TRADE AND BILLS PAYABLES

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

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
1 to 3 months	487,669	680,070
4 to 6 months	102,808	191,138
7 to 12 months	97,803	137,390
1 to 2 years	6,487	8,183
2 to 3 years	754	1,312
3 years and more	182	33
	<u>695,703</u>	<u>1,018,126</u>

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

16. OTHER PAYABLES AND ACCRUALS

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Payables for acquisition of property, plant and equipment	161,792	148,351
Payables for purchase of dairy cows	6,633	15,460
Payables for third parties' deposits	36,733	42,970
Payables for purchase of transportation services	22,947	47,440
Salary and welfare payables	34,833	30,562
Payables for taxes other than corporate income tax	—	2,234
Others	17,659	51,276
	<u>280,597</u>	<u>338,293</u>

Other payables are non-interest-bearing.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Current		
Bank and other loans - unsecured	1,048,202	1,599,855
Non-current		
Bank and other loans - unsecured	1,723,845	1,117,000
	<u>2,772,047</u>	<u>2,716,855</u>

Notes:

- (i) The Group's bank and other borrowings are all denominated in RMB. During the six-month period ended June 30, 2016, the annual interest rate of bank loans is 4.48% to 6.89% (for the six-month period ended June 30, 2015: 5.60% to 7.14%).
- (ii) During the six-month period ended June 30, 2016, the Group repaid bank loans of RMB1,070,854,000 (for the six-month period ended June 30, 2015: RMB639,681,000) and obtained new bank loans of RMB1,100,300,000 (for the six-month period ended June 30, 2015: RMB908,733,000) to finance the Group's operation.
- (iii) The domestic corporate bonds with an aggregate nominal amount of RMB600,000,000 were issued by Inner Mongolia Shengmu High-tech Farming Co., Ltd. (the "Issuer") to qualified investors on June 2, 2016 as approved by the China Securities Regulatory Commission. The domestic corporate bonds bear annual interest rate of 4.75% 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.

18. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As at June 30, 2016 and December 31, 2015, the Company has authorized share capital of HK\$300,000, divided into 30,000,000,000 shares with a par value of HK\$0.00001 each.

As at June 30, 2016 and December 31, 2015, the Company's issued share capital was HK\$63,544 with 6,354,400,000 shares in issuance.

19. PRE-IPO SHARE OPTION SCHEME

During the Period, the Group recognized share option expenses of RMB31,420,000 (the six-month period ended June 30, 2015: RMB10,585,000), which was included in administration expenses.

20. COMMITMENTS

The Group had the following capital commitments as at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(unaudited) RMB'000	(audited) RMB'000
Contracted, but not provided for:		
Land and buildings	132,358	187,322
Plant and machinery	96,330	13,885
	<u>228,688</u>	<u>201,207</u>

21. RELATED PARTY DISCLOSURES

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

	Note	For the six-month period ended June 30,	
		2016	2015
		(unaudited) RMB'000	(unaudited) RMB'000
Associates:			
Sales of products	(i)	476,500	234,492
Purchases of raw materials	(i)	138,043	44,603
Sales of raw materials	(i)	3,888	—

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 interim period of 2016 and 2015, Bayannur Shengmu High-tech Ecological Forage Co., Ltd. ("Shengmu Forage") provided biowaste (i.e., cow dung) cleaning services to the dairy farms of the Group for free. Such services include collecting and cleaning unprocessed biowaste from the farms. In return, Shengmu Forage collected free unprocessed biowaste from the farms.

During the interim period of 2016 and as at June 30, 2016, the Group provided guarantees with an aggregate amount of RMB300,000,000 (During the interim period of 2015 and as at June 30, 2015: Nil) for the bank loans of Shengmu Forage.

21. RELATED PARTY DISCLOSURES (continued)

(C) Compensation of key management personnel of the Group

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) RMB'000	(unaudited) RMB'000
Short term employee benefits	678	860
Pension scheme contribution	19	24
	<u>697</u>	<u>884</u>

As at June 30, 2016, the company had four key managers (Mr. Yao Tongshan, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Cui Ruicheng). As at June 30, 2015, the company had five key managers (Mr. Yao Tongshan, Mr. Wu Jianye, Ms. Gao Lingfeng, Mr. Cui Ruicheng and Mr. Li Yundong), Mr. Li Yundong resigned as a joint company secretary of the Company on December 4, 2015.

(D) Outstanding balances with related parties

	June 30,	December 31,
	2016	2015
	(unaudited) RMB'000	(audited) RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	654,200	439,289
– Trade and bills payables	(100,098)	(169,193)
– Prepayments, deposits and other receivables	557,757	336,466
– Other payables and accruals	<u>(1,862)</u>	<u>(2,679)</u>

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

22. FAIR VALUE AND FAIR VALUE HIERACHY OF FINANCIAL INSTRUMENTS

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

	June 30, 2016		December 31, 2015	
	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings	2,772,047	2,780,546	2,716,855	2,731,172

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

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

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

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

The Group did not have any financial assets or liabilities measured at fair value for the six-month period ended June 30, 2016.

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	June 30, 2016	December 31, 2015
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank and other borrowings	2,780,546	2,731,172

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

The unaudited interim condensed consolidated financial statements have been authorized for issuance by the board of Directors on August 26, 2016.