

# 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



## 2017

## INTERIM REPORT





# CONTENTS

	Page
Corporate Information	2
Highlights	4
Management Discussion and Analysis	5
Report of the Directors	18
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	28
Interim Condensed Consolidated Statement of Financial Position	30
Interim Condensed Consolidated Statement of Changes in Equity	31
Interim Condensed Consolidated Statement of Cash Flows	32
Notes to the Interim Condensed Consolidated Financial Statements	34

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

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

#### Non-executive Directors

Mr. SHAO Genhuo (Chairman)  
Mr. WEN Yongping  
Mr. FAN Xiang  
Mr. CUI Guiyong  
Mr. SUN Qian  
Mr. ZHANG Jiawang

#### Independent Non-executive Directors

Mr. LI Changqing  
Ms. GE Xiaoping  
Mr. FU Wenge  
Mr. WANG Liyan  
Mr. LI Xuan

### 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. WANG Liyan

### REMUNERATION COMMITTEE

Mr. LI Changqing (Chairman)  
Mr. SUN Qian  
Mr. LI Xuan

### NOMINATION COMMITTEE

Mr. FU Wenge (Chairman)  
Mr. SHAO Genhuo  
Mr. YAO Tongshan  
Mr. LI Changqing  
Mr. WANG Liyan

### 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)  
Baoshang Bank Co., Ltd.  
(Hohhot 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,		
	2017	2016	Change
	(unaudited)	(unaudited)	
	(RMB'000)		
Revenue	1,152,184	1,616,772	-28.7%
Gross profit	500,413	773,362	-35.3%
Profit for the period	131,388	534,865	-75.4%
Profit attributable to owners of the parent	6,381	402,345	-98.4%

The Group's revenue decreased by 28.7% from RMB1,616.8 million for the same period in 2016 to RMB1,152.2 million for the six months ended June 30, 2017.

The Group's gross profit decreased by 35.3% from RMB773.4 million for the same period in 2016 to RMB500.4 million for the six months ended June 30, 2017.

The Group's profit for the period decreased by 75.4% from RMB534.9 million for the same period in 2016 to RMB131.4 million for the six months ended June 30, 2017.

The Group's profit attributable to owners of the parent decreased by 98.4% from RMB402.3 million for the same period in 2016 to RMB6.4 million for the six months ended June 30, 2017.

The Directors do not recommend the payment of interim dividend for the six months ended June 30, 2017 (for the six months ended June 30, 2016: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET REVIEW

In recent years, with the flourishing consumer market of dairy products in the PRC, the domestic consumption of dairy products has been improving significantly. According to data available, total national consumption of dairy products in the PRC increased from 24,805,000 tonnes in 2011 to 32,047,000 tonnes in 2016, with per capita consumption of dairy products (expressed as raw fresh milk equivalent) of 36.1 kilograms, accounting for approximately one-third of the world average. The abovesaid data indicates that the consumer market of dairy products in the PRC still has vast potential and room for further expansion, even with its currently rapid pace of development.

Meanwhile, as the organic food market in the PRC thrives, more and more domestic consumers tend to buy organic food, which has been highly recognized and welcomed by the general public. As one of the representatives of green, healthy food, and owing to its high quality, safe caliber and outstanding environmentally friendly nature, organic dairy products have begun to replace ordinary low end dairy products to become the first choice for high-quality consumers with a focus on food health and safety, as well as concern for the state of the environment. Following the successful launch of Shengmu's organic liquid milk, various new organic products under other famous brands have been launched into the market. The potential for new developments in the organic dairy products industry in the PRC has accordingly received wide recognition and attention from various established companies in the industry.

On December 31, 2016, the Central Committee of Communist Party of China and the State Council promulgated the "Several Opinions on Deepening Supply-side Structural Reform in the Agricultural Sector and Accelerating the Cultivation of New Growth Drivers for Agriculture and Rural Areas" 《關於深入推進農業供給側結構性改革加快培育農業農村發展新動能的若干意見》, specifying the importance of quality for agricultural development and proposing to implement agriculture standardization by focusing on quality, safety and green development approach, with the aim of improving the standard system of agricultural product quality and food safety. As provided therein, the government shall "guide companies to strive for international organic certification of agricultural products and improve the authority and influence of domestic green and organic certification".

The raw milk production base of China Shengmu is located in the Inner Mongolia Autonomous Region, the PRC, the government of which, in early January 2017, issued the "Government Work Report of the Inner Mongolia Autonomous Region 2017" 《2017年內蒙古自治區政府工作報告》, which stated, under the conclusion of speeding up industrial transformation and upgrade, that "the Inner Mongolia Autonomous Region Government had made a good effort to develop modern agriculture and animal husbandry industry in 2016, where the production volume of organic food accounted for more than 1/3 of the production volume of the country". This report also specified the work focus of the Inner Mongolia Autonomous Regions's government in 2017, that is "to promote supply-side structural reform of agriculture and animal husbandry industry, to give greater prominence to the increasing of the supply of green premium agricultural and livestock products, to vigorously develop modern agriculture and animal husbandry industry, to adjust the structure of agriculture and animal husbandry industry, and to expand the production of green, organic and pollution-free agricultural and livestock products in line with the overriding trend of consumption upgrade".

The issuance of the above documents indicates vaster development capacity for the green, healthy, safe and environmentally friendly organic products industry, which is supported by the national and local government's industry policy and driven by the pursuit of a fulfilling life by the people of our nation.

China Shengmu is the largest organic dairy company in the PRC in terms of the herd size of organic dairy cows and the production volume of organic raw milk for the six month period ended June 30, 2017. China Shengmu is the only vertically integrated grass-to-glass organic dairy company in the PRC that meets the organic standards of the European Union. It is also the only dairy company in the PRC that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms and the only sizeable dairy company in the PRC to operate the “desert-based grass-to-glass organic production model” (沙漠全程有機產業體系). The formation of comprehensive desert-based grass-to-glass organic milk model by Shengmu effectively promoted the supply capability of domestic organic dairy products, satisfied the needs of Chinese people for high-quality dairy milk, embarked on a new milestone of domestic grass-to-glass organic traceable liquid milk, and improved the product quality in the industry and market competitiveness.

In the BIOFACH CHINA Organic Trade Fair (中國國際有機食品博覽會) held in May 2017, China Shengmu was awarded the Gold Medal jointly by the China Green Food Development Center (中國綠色食品發展中心) and the NürnbergMesse Group for the sixth time. Shengmu’s organic liquid milk products won this international honor again for its high-standard food safety, excellent product quality and adherence to global highest organic standard, receiving wide acclaim and recognition from consumers and professionals at home and abroad.

## BUSINESS REVIEW

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

Since it was founded in 2009, Shengmu entered into the hinterland of the Ulan Buh Desert where it has established a complete organic ecological circle through consistent and unrelenting efforts for nearly 8 years. While transforming the said desert by converting an area of over 200 thousand mu into an oasis, it also produces Shengmu organic milk certified organic by the European Union and the COFCC. Shengmu has grown into the largest organic dairy company in the PRC, which offers organic dairy products that are 100% processed from organic milk produced by self-owned farms, and which initiated the innovative vertically integrated desert-based grass-to-glass organic production model. By exploring the path of grass-to-glass organic milk industry development through the combination of the enterprise development and ecological control in the Ulan Buh Desert, Shengmu has created a new model for desert control by achieving mutual transformation of ecology and economy.

Since its establishment, Shengmu has persisted with the implementation of its scientific and creative development strategy. To achieve economies of scale, a majority of our farms have the capacity to house between 3,500 to 4,500 dairy cows. Currently, Shengmu’s 23 organic dairy farms are located at the unique environment of hinterland of the Ulan Buh Desert where, as compared to the traditional “golden milk-supply zone”, there are more advantages, including reduced pollution, very low levels of bacteria, viruses and pests, and favorable climate in this region. Shengmu maintains its integrated forage growing and dairy farming model whereby forage growing and dairy farming complement each other. Organic cows live a comfortable life with low density in the natural organic environment, where they can drink pure water, bask in the sun, and chew organic forage so as to ensure pure and high-quality milk resources.

In response to the rising market competition in the dairy industry in 2017, the Group established its market strategy of “brand upgrade, price stabilization, channel expansion and innovative development” at the beginning of the year. Under such strategy, the Group strengthened its support to distributors and sub-distributors. Despite the price stabilization actions of the Group, revenue of the Group decreased as compared to the same period last year. In order to facilitate its support to distributors and sub-distributors, the Group reduced the sales price of liquid milk products to distributors and sub-distributors in a proactive and appropriate way, such that improvement of the brand image of the Group will pave a more solid foundation for the long-term development of the brand and brand awareness of Shengmu.

In the first half of 2017 (“2017 Interim Period”), the Group’s revenue was RMB1,152.2 million, representing a decrease of 28.7% as compared to the first half of 2016 (“2016 Interim Period”). Revenue from self-owned brand organic liquid milk business amounted to RMB688.4 million, representing a decrease of 33.5% as compared to the 2016 Interim Period.



### *Herd Size and Production Volume*

As at June 30, 2017, the Group had 23 organic dairy farms and 12 non-organic dairy farms in operation. As at June 30, 2017, the Group had 133,953 cows (June 30, 2016: 122,046) of which there are 101,980 organic cows (June 30, 2016: 83,816). The Group produced 222,159 tonnes of organic raw milk and 82,166 tonnes of premium non-organic raw milk in the 2017 Interim Period, as compared to 202,126 tonnes of organic raw milk and 90,588 tonnes of premium non-organic raw milk in the 2016 Interim Period. Production volume of organic liquid milk products which are 100% processed from raw milk produced by self-owned certified organic dairy farms decreased from 109,143 tonnes in the 2016 Interim Period to 93,337 tonnes in the 2017 Interim Period.

### *Distribution Network*

Against the further fierce competitive trend in the domestic dairy industry since 2017, Shengmu decisively raised its market strategy, namely “brand upgrade, price stabilization, channel expansion and innovation development”. Under this strategy, Shengmu proactively exited the price war in the end market from January to May of the year thereby stabilising its prices and improving upon its brand image. In the process of stabilizing price to maintenance of its brand image, the market share of Shengmu has been affected to some extent, as compared to the same period of last year. However, the improvement of the brand image of Shengmu has paved more solid foundation for the long term development of Shengmu brand.

In the first half of this year, Shengmu consistently adhered to the strategy of proceeding with sales channel expansion and has continued to implement the policy of “three promotional counters in a store” in 85% of supermarkets and department stores nationwide to form uniform brand image and uniform promotional activities. Meanwhile, Shengmu put great efforts to continue to implement the “blue ocean” strategy in chain-community stores, which further enhanced the awareness of Shengmu brand and its channel occupancy rate. As Shengmu entered into the second half of this year, raw milk was in short supply due to changes of the supply and demand. In order to seize such good opportunity, Shengmu has developed the following new strategies based on the efforts to stabilize the end market price system: (1) strengthening its support to distributors and sub-distributors, improving its channel image and increasing its investment in the brand; and (2) implementing a price guidance strategy by hierarchy and category according to the changes in the market, and rapidly enhancing its market share based on improving channel advantages.

## **FINANCIAL REVIEW**

The Group recorded a revenue of RMB1,152.2 million in the 2017 Interim Period, representing a decrease of 28.7% from RMB1,616.8 million in the 2016 Interim Period. Gross profit of the Group decreased by 35.3% from RMB773.4 million in the 2016 Interim Period to RMB500.4 million in the 2017 Interim Period. Profit decreased by 75.4% from RMB534.9 million in the 2016 Interim Period to RMB131.4 million in the 2017 Interim Period. Profit attributable to owners of the parent decreased by 98.4% from RMB402.3 million in the 2016 Interim Period to RMB6.4 million in the 2017 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	
	2017	2016
	(Unaudited)	(Unaudited)
Dairy farming business	454,814	557,980
Liquid milk business	697,370	1,058,792
<b>Total</b>	<b>1,152,184</b>	<b>1,616,772</b>

	Dairy farming business				Liquid milk business				
For the six-month period ended June 30,	Segment revenue	Inter- segment sales <sup>(1)</sup>	External sales	External sales as % of total revenue	Segment revenue	Inter- segment sales	External sales	External sales as % of total revenue	Total revenue
2017 (Unaudited)	1,335,053	880,239	454,814	39.5%	697,370	—	697,370	60.5%	1,152,184
2016 (Unaudited)	1,316,862	758,882	557,980	34.5%	1,058,792	—	1,058,792	65.5%	1,616,772

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

Given the rising competition existing in the dairy products market, the Group required the market terminals to stabilize prices globally to improve the brand image of Shengmu. In the 2017 Interim Period, the sales volume of the Group's own organic liquid milk products decreased by approximately 23.8%. Meanwhile, the Group strengthened its support to distributors and sub-distributors by reducing the price of liquid milk products appropriately. The revenue of the Group's own organic liquid milk products for the 2017 Interim Period was affected by the price stabilization actions of the Group, and amounted to RMB688.4 million, representing a decrease of approximately 33.5% as compared to the 2016 Interim Period. Further, the sales price of raw milk in the 2017 Interim Period decreased as compared to the same period last year due to market competition, which was also another main reason resulting in the decrease of the Group's revenue as compared to the 2016 Interim Period.

*Dairy farming business*

	For the six-month period ended June 30,							
	2017 (Unaudited)		2016 (Unaudited)		2017 (Unaudited)		2016 (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
<b>Organic raw milk</b>								
External sales	235,282	56,100	4,194	17.6%	294,920	63,034	4,679	22.4%
Inter-segment sales <sup>(1)</sup>	827,441	158,150	5,232	62.0%	682,481	127,898	5,336	51.8%
Subtotal	1,062,723	214,250	4,960	79.6%	977,401	190,932	5,119	74.2%
<b>Premium non-organic raw milk</b>								
External sales	219,532	65,832	3,335	16.4%	263,060	69,553	3,782	20.0%
Inter-segment sales <sup>(2)</sup>	52,798	13,970	3,779	4.0%	76,401	17,775	4,298	5.8%
Subtotal	272,330	79,802	3,413	20.4%	339,461	87,328	3,887	25.8%
<b>Daily farming segment</b>	<u>1,335,053</u>	<u>294,052</u>	<u>4,540</u>	<u>100.0%</u>	<u>1,316,862</u>	<u>278,260</u>	<u>4,732</u>	<u>100.0%</u>

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

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

Revenue from dairy farming segment recorded a slight increase from RMB1,316.9 million in 2016 Interim Period to RMB1,335.1 million in 2017 Interim Period. Among revenue from organic raw milk, the percentage of the revenue from inter-segment sales to organic liquid milk processing plant to the revenue from dairy farming segment increased from 51.8% in the 2016 Interim Period to 62.0% in the 2017 Interim Period. Despite increasingly competitive environment in the dairy industry, the Group will continue to expand, develop and consolidate self-owned brand liquid milk products market to drive the sustainable development of the dairy farming business.

*Liquid milk business*

In the 2017 Interim Period, due to implementation of the Group's market strategy of "brand upgrade, price stabilization, channel expansion and innovative development", revenue from liquid milk business decreased by 34.1% from RMB1,058.8 million in the 2016 Interim Period to RMB697.4 million. Revenue from liquid milk business maintained at a high level, accounting for 60.5% of total revenue of the Group, in the 2017 Interim Period. Driven by liquid milk business, revenue from organic business (comprising organic raw milk business and organic liquid milk business) accounted for 80.2% of total revenue of the Group in the 2017 Interim Period.



*Organic liquid milk business*

	For the six-month period ended June 30,		Increase/ (Decrease)
	2017 (Unaudited)	2016 (Unaudited)	
Revenue (RMB'000)	688,438	1,035,695	(33.5%)
Sales volume (Tonnes)	70,860	92,964	(23.8%)
Average selling price (RMB/Tonne)	9,716	11,141	(12.8%)

**REVENUE FROM ORGANIC/NON-ORGANIC BUSINESS AND PERCENTAGES**

Unit: RMB in thousands, except percentages

	For the six-month period ended June 30,			
	2017 (Unaudited)		2016 (Unaudited)	
	Amount	Percentage	Amount	Percentage
<b>Organic products</b>				
Organic liquid milk	688,438	59.8%	1,035,695	64.1%
Organic raw milk	235,282	20.4%	294,920	18.2%
<b>Subtotal of organic products</b>	<b>923,720</b>	<b>80.2%</b>	<b>1,330,615</b>	<b>82.3%</b>
<b>Non-organic products</b>				
Premium non-organic raw milk	219,532	19.0%	263,060	16.3%
High-end non-organic liquid milk	8,932	0.8%	23,097	1.4%
<b>Subtotal of non-organic products</b>	<b>228,464</b>	<b>19.8%</b>	<b>286,157</b>	<b>17.7%</b>
<b>Total</b>	<b>1,152,184</b>	<b>100.0%</b>	<b>1,616,772</b>	<b>100.0%</b>

*Cost of Sales, Gross Profit and Gross Margin*

Unit: RMB in thousands, except percentages

	For the six-month period ended June 30,					
	2017 (Unaudited)			2016 (Unaudited)		
	Cost of sales Amount	Gross profit Amount	Gross margin	Cost of sales Amount	Gross profit Amount	Gross margin
<b>Dairy farming business</b>						
Organic raw milk						
Before elimination	512,512	550,211	51.8%	458,073	519,327	53.1%
After elimination <sup>(1)</sup>	134,199	101,083	43.0%	151,228	143,692	48.7%
Premium non-organic raw milk						
Before elimination	192,238	80,092	29.4%	214,689	124,771	36.8%
After elimination <sup>(3)</sup>	153,637	65,895	30.0%	165,793	97,267	37.0%
<b>Subtotal</b>						
Before elimination	704,750	630,303	47.2%	672,762	644,098	48.9%
After elimination	287,836	166,978	36.7%	317,021	240,959	43.2%
<b>Liquid milk business</b>						
Organic liquid milk						
Before elimination	591,297	97,141	14.1%	809,710	225,985	21.8%
After elimination <sup>(2)</sup>	358,260	330,178	48.0%	512,249	523,446	50.5%
High-end non-organic liquid milk						
Before elimination	8,286	646	7.2%	19,253	3,844	16.6%
After elimination <sup>(3)</sup>	5,675	3,257	36.5%	14,140	8,957	38.8%
<b>Subtotal</b>						
Before elimination	599,583	97,787	14.0%	828,963	229,829	21.7%
After elimination	363,935	333,435	47.8%	526,389	532,403	50.3%
<b>Total after elimination</b>	<b>651,771</b>	<b>500,413</b>	<b>43.4%</b>	<b>843,410</b>	<b>773,362</b>	<b>47.8%</b>

- (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) Premium 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 of the Group decreased from RMB843.4 million in the 2016 Interim Period to RMB651.8 million in the 2017 Interim Period. Gross profit decreased from RMB773.4 million in the 2016 Interim Period to RMB500.4 million in the 2017 Interim Period. Gross profit margin decreased from 47.8% in the 2016 Interim Period to 43.4% in the 2017 Interim Period.

Cost of sales of the Group decreased by 22.7% in the 2017 Interim Period as compared to the 2016 Interim Period. Such decrease in cost of sales was mainly attributable to reduced sales volume of the Group. Gross profit of the Group decreased by 35.3% in the 2017 Interim Period as compared to the 2016 Interim Period, slightly higher than the decrease of revenue of the Group. It was mainly attributable to the Group's greater support to distributors and sub-distributors by reducing the price of liquid milk products appropriately in the 2017 Interim Period.

Overall, against the backdrop of unfavourable conditions of and fierce competition in the dairy industry, the Group's overall gross margin declined, while gross margin of the organic business on the whole remained high.

#### *Other Income and Gains/(Losses)*

Other income and gains/(losses) of the Group decreased from a net gain of RMB19.4 million in the 2016 Interim Period to a net loss of RMB85.4 million in the 2017 Interim Period, mainly attributable to the provision for impairment of trade receivables referring to the collectability of individual account receivables and aging analysis by the Group.

#### *Selling and Distribution Expenses*

Selling and distribution expenses of the Group primarily include logistics and transportation expenses, warehouse fees and employees' remunerations. In the 2017 Interim Period, selling and distribution expenses of the Group amounted to RMB120.7 million, representing a decrease as compared to RMB132.0 million in the 2016 Interim Period, mainly attributable to declined sales volume of liquid milk business as compared to the 2016 Interim Period.

#### *Administrative Expenses*

Administrative expenses mainly include salary and welfare, travel expenses and transportation expenses of management and administrative employees. In the 2017 Interim Period and the 2016 Interim Period, administrative expenses of the Group were RMB50.9 million and RMB76.3 million respectively, representing a decrease of 33.2% as compared to the same period of last year, mainly due to equity-settled share option expense included in the administrative expenses for the same period of last year. Excluding this, administrative expenses in the 2017 Interim Period and the 2016 Interim Period were RMB50.9 million and RMB44.9 million respectively, accounted for 4.4% and 2.8% of revenue respectively. Such increase in percentage was mainly attributable to decreased revenue for the current period as compared to the same period of last year.

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

Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows, due to the changes in physical attributes and market prices of the dairy cows 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.

In the 2017 Interim Period, the Group recorded net losses arising from changes in fair value less costs to sell of biological assets of RMB61.9 million, compared with net gains arising from changes in fair value less costs to sell of biological assets of RMB29.7 million in the 2016 Interim Period. In the 2017 Interim Period, given the weak demand of non-organic raw milk in the market, the Group controlled the numbers of its non-organic dairy cows, which led to a large amount of net losses arising from changes in fair value less costs of sales of biological assets associated with non-organic dairy cows, and accordingly causing the indicators to record a substantial loss in the 2017 Interim Period.



### *Share of Profits and Losses of Associates*

The Group's 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; (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 Shengmu Dairy Co., Ltd. ("Food Union Shengmu") 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 produces dairy products with the raw milk to be purchased by it from the Group. In the 2017 Interim Period and the 2016 Interim Period, the Group recorded share of losses of associates of RMB7.4 million and RMB9.2 million respectively.

### *Income Tax Credit/(Expense)*

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "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 (Cai Shui [2011] No.58) (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)), the Group's taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax credit of the Group was RMB25.8 million in the 2017 Interim Period while income tax expense was RMB8.8 million in the 2016 Interim Period. Income tax credit in the 2017 Interim Period was due to the net loss of the liquid milk business and the provision of deferred income tax assets for unrealised profit or loss from internal sales.

### *Profit Attributable to Owners of the Parent and Profit Attributable to Non-Controlling Interests*

Profit attributable to non-controlling interests mainly represents the profit for the period attributable to dairy farmers with whom we cooperate in relation to farm management in our farms. In the 2017 Interim Period and the 2016 Interim Period, profit attributable to non-controlling interest was RMB125.0 million and RMB132.5 million respectively.

In the 2017 Interim Period, profit attributable to owners of the parent of the Group decreased by 98.4% to RMB6.4 million as compared with RMB402.3 million in the 2016 Interim Period due to the combined effect of (1) decreased sales of the Group's own organic liquid milk products and an appropriate reduction of the price of liquid milk products by the Group to support its sales channels; (2) decreased sales price of the Group's raw milk as compared to the same period last year; (3) a substantial loss arising from changes in fair value less costs of sales of biological assets attributable to the parent; and (4) the provision for asset impairment of trade receivables.

## ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*Current Assets*

As at June 30, 2017, the total current assets of the Group were RMB4,065.1 million (RMB3,665.3 million as at December 31, 2016), primarily consisting of inventories of RMB862.2 million (RMB928.8 million as at December 31, 2016), trade and bills receivables of RMB1,444.8 million (RMB1,108.7 million as at December 31, 2016), prepayments, deposits and other receivables of RMB442.0 million (RMB393.6 million as at December 31, 2016) and cash and bank balances, available for sale investments and pledged deposits of RMB1,316.1 million (RMB1,234.2 million as at December 31, 2016).

*Trade and bills receivables*

Unit: RMB in thousands

	As at	
	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Trade and bills receivables	1,602,512	1,194,299
Impairment	(157,746)	(85,512)
<b>Total</b>	<b>1,444,766</b>	<b>1,108,787</b>

Trade and bills receivables of the Group increased substantially as compared to last year, 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 sub-distributors as an effort to expand and strengthen its market share in organic liquid milk products.

The Group formulated its policy in respect of making provisions for asset impairment based on the practical situation of production and operation. Based on such policy, the Group determined the receivables group based on the aging as the credit risk characteristics, made provisions for bad debt of receivables and other receivables through aging analysis, and estimated the provisions for asset impairment based on recoverability of individual receivables and customer creditworthiness at the same time. In the 2017 Interim Period, the Group made a total provision of RMB72.2 million for the impairment of receivables.

*Current Liabilities*

As at June 30, 2017, the total current liabilities of the Group amounted to RMB2,915.5 million (RMB2,292.3 million as at December 31, 2016), primarily consisting of trade and bills payables of RMB917.1 million (RMB920.6 million as at December 31, 2016), receipts in advance of RMB33.8 million (RMB13.2 million as at December 31, 2016), other payables and accruals of RMB328.6 million (RMB438.5 million as at December 31, 2016), interest-bearing bank and other borrowings of RMB1,634.4 million (RMB918.4 million as at December 31, 2016), and income tax payable of RMB1.6 million (RMB1.6 million as at December 31, 2016).

### *Non-Current Liabilities*

As at June 30, 2017, the total non-current liabilities of the Group amounted to RMB1,808.5 million (RMB1,859.9 million as at December 31, 2016), primarily consisting of interest-bearing bank and other borrowings of RMB1,727.0 million (RMB1,752.0 million as at December 31, 2016) and long-term payables of RMB81.5 million (RMB107.9 million as at December 31, 2016).

### *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, 2017, the Group did not have any significant foreign currency exposure from its operations, nor has it entered 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. Credit risk of the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

### *Charge on Assets*

As at June 30, 2017, the Group had pledged deposits in aggregate amount of approximately RMB82.7 million (RMB66.8 million as at December 31, 2016) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts.

### *Liquidity, Financial Resources and Capital Structure*

In the first half of 2017, the Group financed its daily operations mainly from internally generated cash flows and bank and other borrowings. As at June 30, 2017, the Group had (a) cash and bank balances of RMB1,202.4 million (RMB1,047.4 million as at December 31, 2016), and (b) interest-bearing bank and other borrowings of RMB3,361.4 million (RMB2,670.4 million as at December 31, 2016), of which, RMB1,727.0 million were repayable within one to five years, while the remaining interest-bearing bank and other borrowings were repayable within one year. The gearing ratio (calculated as total debt (total bank borrowings) divided by total equity) was 51.9% as at June 30, 2017 (42.1% as at December 31, 2016). For the six-month period ended June 30, 2017, the annual interest rate of bank loans was 1.55% to 6.50% (for the six-month period ended June 30, 2016: 4.48% to 6.89%).

### *Capital Commitments*

As at June 30, 2017, the Group's capital commitments amounted to RMB249.9 million (RMB352.6 million as at December 31, 2016), primarily relating to construction of plants and purchase of machineries for the expansion of liquid milk production capacity. The Group has sufficient internal and financial resources to fund its capital expenditures.



## HUMAN RESOURCES

As at June 30, 2017, the Group had a total of 3,609 employees (3,788 employees as at June 30, 2016). Total staff costs for the 2017 Interim Period (including the emoluments of Directors and senior management of the Company) amounted to RMB138.9 million (RMB135.9 million in the 2016 Interim Period (excluding equity-settled share option expenses)).

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

## CONTINGENT LIABILITIES

As at June 30, 2017, the Group provided guarantees with amounts of RMB280.0 million (December 31, 2016: RMB300.0 million) and RMB60.3 million (December 31, 2016: RMB51.5 million) for the bank borrowings of Shengmu Forage and Food Union Shengmu, respectively.

## MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries and associated companies in the 2017 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", the Group does not have any plan for material investments or acquisition of capital assets as at the date of this announcement.

## OUTLOOK

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

Shengmu has become the first organic milk brand in the PRC through its consistent efforts for many years. In order to further expand its first organic brand and market channel advantages quickly, Shengmu Group formulated the development strategies as follows:

### *Launch Strategic Organic “Naijue” Product Series*

This strategic new product is high-end organic milk rich in natural DHA, mainly for consumers aged 4 to 20. The main attributes of this new product are beneficial for youth growth and mental development. In October of this year, Shengmu will launch this strategic new product. Through market research, product research and development, new product media plans and marketing plans regarding to this strategic new product have been gradually formed. Following the launch of this new product in the market, Shengmu will continue to implement independent online and offline promotion in stages, leveraging on existing channels and establishing promotion systems of independent promotional counters and independent images in supermarkets and department stores. It is planned that after the efforts described above, this product will be developed as a star product of Shengmu which can contribute to the increase in the market sales of the Group for 6 to 8 months.

### *Continue to Put Efforts in Market Development of Organic Yogurt*

Currently, an aggregate of 10,000 Shengmu organic yogurt machines have been placed in the market. Organic yogurt machines developed by Shengmu include five kinds of probiotics, ensuring the high quality and fresh taste of yogurt produced on site. We believe that this innovative product will also become a key product that, following promotion in the coming one year, will heavily contribute to sales of Shengmu's organic liquid milk products in the future.

### *Speed up the Construction of Projects for Organic Infant Formulas*

The Group's infant formula project, located in the Ulan Buh Desert in Inner Mongolia, is expected to complete and commence production in the second quarter next year. The construction plan of this project will adopt a most advanced membrane filtration decomposition formula and craftsmanship so as to more precisely achieve infant formula standards. During the period of the construction of our infant formula project, we proactively prepared for its market promotion plan. While the infant formulas commences production, we will establish cooperation relationship with tens of thousands of maternity shops, striving to complete the first stage of market development in half a year. It is expected that the infant formulas will contribute to the revenue of the Group in 2018.

### *Speed up Cooperation with Food Union, a well-known company in North Europe*

By speeding up the construction of projects for a series of products of Food Union Shengmu (mainly produces low temperature high-end organic series products) jointly established by the Group and Food Union, the project is expected to commence production in March 2018, which will significantly increase the market share of Shengmu's organic raw milk and have a positive impact on the steady supply and sales of milk resources of Shengmu.

### *Put Greater Efforts in Propagation and Promotion of Brand*

As the market sales volume and market shares of Shengmu products are improving, Shengmu will initiate its brand marketing strategy as and when appropriate. The implementation of brand marketing strategy will powerfully expand the market channels, increase the market shares of products, and promote virtuous, healthy and rapid development of organic milk business of Shengmu.

## REPORT OF THE DIRECTORS

The board (the “**Board**”) of directors (the “**Directors**”) of the Company herein presents the interim report of the Group for the six months ended June 30, 2017 together with the unaudited condensed consolidated financial report, and such interim financial report 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 2017 Interim Period (the 2016 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, 2017, 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 2017 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 has been no significant event since June 30, 2017 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 2017 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. As at June 29, 2017, the board of directors announced that, for the purposes of enhancing corporate governance, and with a view to separating the roles of the chairman of the Board and the chief executive officer of the Company under the requirement of code provision A2.1 of the Code, Mr. Yao Tongshan has tendered his resignation from the office of chairman of the Board and Mr. Shao Genhuo, a non-executive Director, has been appointed as the chairman of the Board, with effect from June 29, 2017. Following his resignation, Mr. Yao Tongshan will continue to serve the Company as an executive director of the Company and the chief executive officer of the Company.

## 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. WANG Liyan, 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 2017 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. LI Changqing, Mr. SUN Qian and Mr. LI Xuan and is chaired by Mr. LI Changqing. 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 in compliance with the Listing Rules. The nomination committee has been established with written terms of reference in compliance with the Listing Rules. The nomination committee comprises Mr. FU Wenge, Mr. SHAO Genhuo, Mr. YAO Tongshan, Mr. LI Changqing and Mr. WANG Liyan, and is chaired by Mr. FU Wenge. 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 they have complied with the required standards as set out in the Model Code during the 2017 Interim Period.

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

Mr. WEN Yongping, a non-executive Director of the Company, is the assistant vice president and the general manager of the milk sources business department 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 ("China Mengniu"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 2319). Since March 29, 2017, Mr. WEN Yongping has been a non-executive director of China Modern Dairy Holdings Ltd. ("China Modern Dairy"), a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1117). For further information on the businesses of China Mengniu and the potential competition between those businesses with the businesses of the Group, please refer to the section headed "Relationship with Controlling Shareholders – Directors' Interests in Competing Business" in the Prospectus.

**REPORT OF THE DIRECTORS**

As at June 30, 2017, Mr. DONG Xianli, a former non-executive Director (resigned on July 18, 2017), is also the chief financial officer of China Modern Dairy.

Modern Dairy is primarily engaged in (i) dairy farming business, under which it mainly produces and sells raw milk to customers; and (ii) liquid milk products business under its own brands. As the Board is independent of the board of directors of Modern Dairy, and businesses of the Group and businesses controlled by Modern Dairy are managed by independent entities under independent management and administration respectively, businesses of the Group and businesses controlled by Modern Dairy are independent of each other and are conducted separately at arm's length.

Save as disclosed above, all Directors have confirmed that during the six-month period ended June 30, 2017, and as at the date of this report, 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 2017 Interim Period are as follows: the non-exempt continuing connected transactions conducted pursuant to the Milk Supply Framework Agreement, Framework Agreement for Sale and Purchase of Cows and Financial Assistance Framework Agreement entered into with Bayannur Shengmu Pangu Farming Co., Ltd., and the Feed Supply Framework Agreement entered into with Inner Mongolia Sijichun Co. Ltd. (內蒙古四季春飼料有限公司) ("Sijichun"), whose details were disclosed in the section headed "Report of the Directors - Continuing Connected Transactions" in the 2016 annual report of the Company.

**RELATED PARTY TRANSACTIONS**

Details of the Group's related party transactions are set out in note 20 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) sale of raw milk to Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司), a related party; (3) purchase of raw materials from Shengmu Forage; (4) provision of financial assistance for the external borrowings of Shengmu Forage; (5) purchase of feed from Sijichun; and (6) 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 of the Listing Rules have been complied with during the 2017 Interim Period.



## CHANGE OF DIRECTOR'S INFORMATION

Mr. WONG Kun Kau, an independent non-executive Director of the Company, who did not offer himself for re-election as an independent non-executive Director of the Company at the annual general meeting of the Company held on June 28, 2017 and had ceased to be a Director and the member of the Remuneration Committee and Nomination Committee immediately following such annual general meeting, had ceased to act as an independent non-executive director of Lifestyle Properties Development Limited, a company listed on the Stock Exchange (stock code: 2183), since May 31, 2017. Mr. Yuan Qing, an independent non-executive Director of the Company, did not offer himself for re-election as an independent non-executive Director of the Company at the annual general meeting of the Company held on June 28, 2017 and had ceased to be a Director and the member of the Nomination Committee immediately following such annual general meeting. Save as disclosed herein, during 2017 Interim Period, there was no change of information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

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

So far as is known to any Director or chief executive of the Company, as at June 30, 2017, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or the interests or short positions which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or the interests or short positions which were required, pursuant to the Model Code, to be immediately notified to the Company and the Stock Exchange, were as follows:

## REPORT OF THE DIRECTORS

## (i) Long position in the Shares or underlying Shares

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
SHAO Genhuo	Interest of a controlled corporation <sup>(1)</sup>	1,301,651,000	20.48%
YAO Tongshan	Beneficial Owner	342,002,700	5.38%
WU Jianye	Beneficial Owner	141,190,100	2.22%
GAO Lingfeng	Beneficial Owner	129,285,680	2.04%
CUI Ruicheng	Beneficial Owner	53,501,500	0.85%

- (1) Mr. SHAO Genhuo (邵根夥) holds the entire equity interests of Beijing Zhi Nong Investment Co., Ltd. ("Beijing Zhi Nong"), which in turn holds the entire equity interests of Nong You Co., Ltd. ("Nong You"). Therefore, Mr. Shao is deemed to be interested in the Shares held by Nong You. For details of changes of share numbers held by the executive directors of the Company, please refer to the section on "PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME" of this interim report.

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

Name	Name of associated corporation	Percentage of interest
YAO Tongshan	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	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	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, 2017, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be immediately notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at June 30, 2017, the following persons (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested or deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares	Percentage
Greenbelt Global Limited	Beneficial Owner	395,235,200(L)	6.22% (L)
Baring Private Equity Asia GP V Limited	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Baring Private Equity Asia GP V LP	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
The Baring Asia Private Equity Fund V LP	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Salata Jean	Interest of a controlled corporation	395,235,200(L)	6.22% (L)
Sequoia Capital 2010 CGF Holdco, Ltd.	Beneficial Owner	378,320,000(L)	5.95% (L)
SC China Growth 2010 Management, L.P.	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SC China Holding Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
Sequoia Capital China Advisors Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
Sequoia Capital China Growth 2010, L.P.	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SNP China Enterprises Limited	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
SHEN Nanpeng (沈南鵬)	Interest of a controlled corporation	378,320,000(L)	5.95% (L)
The Goldman Sachs Group, Inc.	Beneficial Owner	405,551,200(L) 9,647,000(S)	6.38% (L) 0.15% (S)
Nong You Co., Ltd.	Beneficial Owner	1,301,651,000(L)	20.48%(L)
Beijing Zhi Nong Investment Co., Ltd.	Interest of a controlled corporation	1,301,651,000(L)	20.48%(L)

## 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技牧業有限公司)	30.00%
CHEN Qingjun (陳慶軍)	Bayannur Shengmu Hateng Farming Co., Ltd. (巴彥淖爾市聖牧哈騰牧業有限公司)	35.00% <sup>1</sup>
LI Yongqiang (李永強)	Bayannur Shengmu Taohai Farming Co., Ltd. (巴彥淖爾市聖牧套海牧業有限公司)	45.00% <sup>1</sup>
DING Gaohuai (丁高懷)	Bayannur Shengmu Liuhe Farming Co., Ltd. (巴彥淖爾市聖牧六和牧業有限公司)	35.00% <sup>1</sup>
WANG Qiang (王強)	Alxa Shengmu Wuxing Farming Co., Ltd. (阿拉善盟聖牧五星牧業有限公司)	35.00% <sup>1</sup>
LI Ruijun (李瑞軍)	Bayannur Shengmu Qixing Farming Co., Ltd. (巴彥淖爾市聖牧七星牧業有限公司)	35.00% <sup>1</sup>
YUAN Lun (院輪)	Bayannur Shengmu Beidou Farming Co., Ltd. (巴彥淖爾市聖牧北斗牧業有限公司)	35.00% <sup>2</sup>
WANG Lixin (汪立新)	Bayannur Shengmu Xinhe Farming Co., Ltd. (巴彥淖爾市聖牧新禾牧業有限公司)	35.00% <sup>1</sup>
CHANG Zhibi (常志拔)	Bayannur Shengmu Zhenghe Farming Co., Ltd. (巴彥淖爾市聖牧正和牧業有限公司)	15.48% <sup>1</sup>
HOU Liubin (侯留斌)	Bayannur Shengmu Weiye Farming Co., Ltd. (巴彥淖爾市聖牧偉業牧業有限公司)	35.00% <sup>1</sup>
GUO Yongfeng (郭永豐)	Alxa Shengmu Zhaofeng Farming Co., Ltd. (阿拉善盟聖牧兆豐牧業有限公司)	35.00% <sup>3</sup>
REN Junming (任俊明)	Bayannur Shengmu Sanli Farming Co., Ltd. (巴彥淖爾市聖牧三利牧業有限公司)	35.00% <sup>2</sup>
YU Gong (于工)	Bayannur Shengmu Shajin Farming Co., Ltd. (巴彥淖爾市聖牧沙金牧業有限公司)	35.00% <sup>2</sup>

## Notes:

1. In August 2017, the above shareholders transferred all shares of the joint venture farm held by them respectively to Inner Mongolia Shengmu Sand and Grass Industry Co., Ltd. (內蒙古聖牧沙草業有限公司) ("Shengmu Sand and Grass");
2. In August 2017, the above shareholders transferred 26.00% shares of the joint venture farm held by them respectively to Shengmu Sand and Grass, leading to its shareholding in the joint venture farm down to 9.00%;
3. In August 2017, the above shareholders transferred 23.40% shares of the joint venture farm held by them respectively to Shengmu Sand and Grass, leading to its shareholding in the joint venture farm down to 11.60%.

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, 2017, 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 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, as well as the 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 would lapse if not being exercised on or before November 4, 2015 under the Pre-IPO Share Option Scheme as adopted and approved on April 30, 2014.

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 ceased 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 ceased 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.



## REPORT OF THE DIRECTORS

Apart from the above amendments, the other terms of the Pre-IPO Share Option Scheme as approved and adopted on April, 30, 2014 remain the same.

The table below sets out the particulars of changes of options granted under the Pre-IPO Share Option Scheme from January 1, 2017 to June 30, 2017:

Name or category of participant	Number of options			As at June 30, 2017	Date of grant of options	Exercise period of options (both dates inclusive)	Exercise price of options (HK\$)
	As at January 1, 2017	Exercised during the period	Lapsed/Cancelled during the period				
Directors of the Company							
YAO Tongshan	70,419,200	Nil	70,419,200	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
WU Jianye	64,876,800	Nil	64,876,800	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
GAO Lingfeng	31,992,000	Nil	31,992,000	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
CUI Ruicheng	31,992,000	Nil	31,992,000	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
Directors of subsidiaries of the Company not mentioned above	111,708,60	Nil	111,708,600	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
Other grantees who are employees of the Group	93,978,400	Nil	93,978,400	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
Other 6 grantees who are employees of Shengmu Forage	3,868,800	Nil	3,868,800	—	April 30, 2014	(1)May 4, 2016–May 4, 2017: 50%; (2)November 4, 2016 – May 4, 2017: 50% <sup>(1)</sup>	HK\$1.56
Total:	408,835,800 options eligible to subscribe for 408,835,800 shares of the Company	Nil	Total of 408,835,800 options (with rights to subscribe for 408,835,800 shares of the Company) have lapsed <sup>(1)</sup>	—			

Note:

- (1) As at May 4, 2017, 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 had been fully vested. As none of such 408,835,800 options were exercised on or prior to May 4, 2017, all such options had lapsed in accordance with the terms of the Pre-IPO Share Option Scheme as amended by way of shareholders' approval on November 3, 2015.

As illustrated in the table above, during the 2017 Interim Period, all outstanding options granted under the Pre-IPO Share Option Scheme have lapsed in their entirety. Pursuant to the terms of the Pre-IPO Share Option Scheme, no further share options may be granted under the Pre-IPO Share Option Scheme.

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.

### *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 any 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  
*Executive Director and Chief Executive Officer*

Hong Kong, August 29, 2017

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

	Notes	For the six-month period ended	
		June 30, 2017	June 30, 2016
		(unaudited) RMB'000	(unaudited) RMB'000
<b>REVENUE</b>	4	1,152,184	1,616,772
Cost of sales		(651,771)	(843,410)
Gross profit		500,413	773,362
Gain/(loss) arising from changes in fair value less costs to sell of biological assets		(61,925)	29,675
Other income and gains/(losses)	4	(85,435)	19,429
Selling and distribution expenses		(120,659)	(131,961)
Administrative expenses		(50,949)	(76,309)
Finance costs	6	(68,386)	(61,325)
Share of profits and losses of associates		(7,425)	(9,222)
<b>PROFIT BEFORE TAX</b>	5	105,634	543,649
Income tax credit/(expense)	7	25,754	(8,784)
<b>PROFIT FOR THE PERIOD</b>		<u>131,388</u>	<u>534,865</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange differences on translation of foreign operations		634	2,362
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		634	2,362
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u>132,022</u>	<u>537,227</u>

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

	Notes	For the six-month period ended	
		June 30, 2017	June 30, 2016
		(unaudited) RMB'000	(unaudited) RMB'000
Profit attributable to:			
Owners of the parent		6,381	402,345
Non-controlling interests		125,007	132,520
		<u>131,388</u>	<u>534,865</u>
Total comprehensive income attributable to:			
Owners of the parent		7,015	404,707
Non-controlling interests		125,007	132,520
		<u>132,022</u>	<u>537,227</u>
Earnings per share attributable to ordinary equity holders of the parent:	8		
– Basic		<u>RMB0.001</u>	<u>RMB0.063</u>
– Diluted		<u>RMB0.001</u>	<u>RMB0.063</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
	Notes	June 30, 2017	December 31, 2016
		(unaudited) RMB'000	(audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	2,711,901	2,710,368
Prepaid land lease payments		36,577	37,566
Other intangible assets		14,234	14,847
Investments in associates		105,233	112,658
Available-for-sale investments		2,007	1,427
Biological assets	11	4,170,273	3,884,257
Prepayments for property, plant and equipment and biological assets	13	7,164	11,963
Long term receivables		16,484	19,684
Deferred tax assets		50,536	24,634
Other non-current assets		23,683	16,565
Total non-current assets		7,138,092	6,833,969
<b>CURRENT ASSETS</b>			
Inventories		862,178	928,816
Trade and bills receivables	12	1,444,766	1,108,787
Prepayments, deposits and other receivables	13	442,008	393,550
Pledged deposits	14	82,731	66,791
Available-for-sale investments		31,000	120,000
Cash and bank balances	14	1,202,376	1,047,382
Total current assets		4,065,059	3,665,326
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	917,090	920,631
Receipts in advance		33,779	13,152
Other payables and accruals	16	328,631	438,550
Interest-bearing bank and other borrowings	17	1,634,418	918,404
Income tax payable		1,581	1,581
Total current liabilities		2,915,499	2,292,318
<b>NET CURRENT ASSETS</b>		<b>1,149,560</b>	<b>1,373,008</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>8,287,652</b>	<b>8,206,977</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables		81,482	107,900
Interest-bearing bank and other borrowings	17	1,727,021	1,751,950
Total non-current liabilities		1,808,503	1,859,850
Net assets		6,479,149	6,347,127
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital	18	50	50
Reserves		5,346,004	5,338,989
Non-controlling interests		5,346,054	5,339,039
Total equity		1,133,095	1,008,088
		6,479,149	6,347,127



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent									Total equity RMB'000
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	
At January 1, 2017	50	1,757,767	423,317	95,558	412,737	16,830	2,632,780	5,339,039	1,008,088	6,347,127
Profit for the period	—	—	—	—	—	—	6,381	6,381	125,007	131,388
Other comprehensive income for the period	—	—	—	—	—	634	—	634	—	634
Total comprehensive income for the period	—	—	—	—	—	634	6,381	7,015	125,007	132,022
At June 30, 2017 (unaudited)	50	1,757,767*	423,317*	95,558*	412,737*	17,464*	2,639,161*	5,346,054	1,133,095	6,479,149
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 for the period	—	—	—	—	—	2,362	—	2,362	—	2,362
Total comprehensive income for the period	—	—	—	—	—	2,362	402,345	404,707	132,520	537,227
Equity-settled share option arrangements	—	—	—	31,420	—	—	—	31,420	—	31,420
Capital injection	—	—	—	—	—	—	—	—	(45,065)	(45,065)
Gain arising from acquisition of non-controlling interests	—	—	49,482	—	—	—	—	49,482	(49,482)	—
At June 30, 2016 (unaudited)	50	1,757,767*	423,339*	81,827*	303,376*	7,034*	2,463,871*	5,037,264	853,543	5,890,807

# As at June 30, 2017, these reserve accounts comprise the consolidated reserves of RMB5,346,004,000 (June 30, 2016: RMB5,037,214,000) in the interim consolidated statement of financial position.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2017	June 30, 2016
	(unaudited) RMB'000	(unaudited) RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	105,634	543,648
Adjustments for:		
(Gain)/loss arising from changes in fair value less costs to sell of biological assets	61,925	(29,675)
Interest income	(4,051)	(2,136)
Finance costs	68,386	61,325
Share of profits and losses of associates	7,425	9,222
Depreciation	90,899	70,738
Amortisation of prepaid land lease payments	1,438	56
Amortisation of other intangible assets	693	441
Loss on disposal of items of property, plant and equipment	1,992	106
Equity-settled share option expenses	—	31,420
Foreign exchange differences, net	(1,893)	(78)
	332,448	685,067
Increase in inventories	66,638	49,115
Increase in trade and bills receivables	(335,980)	(318,711)
Increase in prepayments, deposits and other receivables	(17,657)	(178,135)
(Increase)/decrease in pledged deposits	(15,940)	14,507
Increase/(decrease) in trade and bills payables	51,090	(176,360)
Increase/(decrease) in receipts in advance	2,936	(13,519)
Increase/(decrease) in accruals and other payables	(75,783)	(20,953)
	7,752	41,011
Cash generated from operations	7,752	41,011
Interest received	20,545	10,569
Income taxes paid	—	(9,897)
	28,297	41,683
Net cash flows from operating activities	28,297	41,683

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2017	June 30, 2016
	(unaudited) RMB'000	(unaudited) RMB'000
Net cash flows from operating activities	28,297	41,683
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(183,156)	(328,417)
Additions to other intangible assets	(79)	(99)
Purchases of biological assets	(82,239)	(27,295)
Payments for breeding calves and heifers	(615,251)	(483,309)
Proceeds from disposal of biological assets	129,365	77,051
Proceeds from disposal of items of property, plant and equipment	2,073	98
Acquisition of associates	(580)	(78,501)
Disposal of available-for-sale investments	120,000	—
Acquisition of available-for-sale investments	(31,000)	—
Purchases of time deposits with original maturity of more than three months	(121,160)	(122,260)
Disposal of time deposits with original maturity of more than three months	115,000	320,260
Net cash flows used in investing activities	(667,027)	(642,472)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital injection by investors	—	(45,065)
Capital injection by non-controlling interests	—	1,355
Acquisition of non-controlling interests	—	(46,420)
New bank loans	906,136	504,500
New other loans	572,745	595,800
Repayment of bank loans	(613,791)	(1,070,854)
Repayment of other loans	(24,163)	(60,750)
Interest paid	(55,256)	(33,133)
Net cash flows (used in)/from financing activities	785,671	(109,502)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	146,941	(710,291)
Cash and cash equivalents at beginning of period	932,382	1,411,499
Effect of foreign exchange rate changes, net	1,893	78
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,081,216</b>	<b>701,286</b>

# 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 address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. During 2017 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 (the "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, 2017 (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, 2016.

### 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, 2016, except for the adoption of new and revised IFRSs effective as at January 1, 2017. The Group has not early adopted any other standards or amendments that have been issued but are not yet effective.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 Included in Annual Improvements 2014-2016 Cycle	<i>Disclosure of Interests in Other Entities</i>

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

## NOTES TO THE INTERIM 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.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>1</sup></i>
Amendments to IFRS 4	<i>Applying with IFRS 4 Insurance Contracts<sup>1</sup></i>
IFRS 9	<i>Financial Instruments<sup>1</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>
IFRS 16	<i>Leases<sup>2</sup></i>
Amendments to IAS 40	<i>Transfers of Investment Property<sup>1</sup></i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>
Amendments to IFRS 1 Included in Annual Improvements 2014-2016 Cycle	<i>First-time Adoption of International Financial Reporting Standards<sup>1</sup></i>
Amendments to IAS 28 included in Annual Improvements 2014-2016 Cycle	<i>Investments in Associates and Joint Ventures<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2018

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2019

<sup>3</sup> 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 organised into business units based on their products and services and has two reportable operating segments as follows:

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

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

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

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



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. OPERATING SEGMENT INFORMATION (continued)

Intersegment sales and transfers are transacted with reference to the prices internally agreed between dairy farming segment and liquid milk products segment.

For the six-month period ended June 30, 2017 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
<b>Segment revenue</b>			
Sales to external customers	454,814	697,370	1,152,184
Intersegment sales	880,239	—	880,239
	1,335,053	697,370	2,032,423
<i>Reconciliation</i>			
Elimination of intersegment sales			(880,239)
Revenue			1,152,184
<b>Segment results</b>	517,653	(162,539)	355,114
<i>Reconciliation</i>			
Elimination of intersegment results			(155,475)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets			(61,925)
Corporate and other unallocated expenses			(6,326)
<b>Profit for the period</b>			131,388
<b>As at June 30, 2017 (unaudited)</b>			
<b>Segment assets</b>	10,063,146	2,745,620	12,808,766
<i>Reconciliation</i>			
Elimination of intersegment receivables			(1,906,206)
Corporate and other unallocated assets			300,591
<b>Total assets</b>			11,203,151
<b>Segment liabilities</b>	3,938,863	2,336,278	6,275,141
<i>Reconciliation</i>			
Elimination of intersegment payables			(1,906,206)
Corporate and other unallocated liabilities			355,067
<b>Total liabilities</b>			4,724,002

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended June 30, 2016 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
<b>Segment revenue</b>			
Sales to external customers	557,980	1,058,792	1,616,772
Intersegment sales	<u>758,882</u>	<u>—</u>	<u>758,882</u>
	1,316,862	1,058,792	2,375,654
<i>Reconciliation</i>			
Elimination of intersegment sales			<u>(758,882)</u>
Revenue			<u>1,616,772</u>
<b>Segment results</b>	533,502	79,470	612,972
<i>Reconciliation</i>			
Elimination of intersegment results			(100,567)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets			29,675
Corporate and other unallocated expenses			<u>(7,215)</u>
<b>Profit for the period</b>			<u>534,865</u>
As at December 31, 2016 (audited)			
<b>Segment assets</b>	9,098,425	2,189,724	11,288,149
<i>Reconciliation</i>			
Elimination of intersegment receivables			(919,698)
Corporate and other unallocated assets			<u>130,844</u>
Total assets			<u>10,499,295</u>
<b>Segment liabilities</b>	3,488,046	1,512,368	5,000,414
<i>Reconciliation</i>			
Elimination of intersegment payables			(919,698)
Corporate and other unallocated liabilities			<u>71,452</u>
Total liabilities			<u>4,152,168</u>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains/(losses) is as follows:

	For the six-month period ended June 30,	
	2017	2016
	(unaudited) RMB'000	(unaudited) RMB'000
Revenue		
– Sales of raw milk	454,814	557,980
– Sales of liquid milk products	697,370	1,058,792
	<u>1,152,184</u>	<u>1,616,772</u>
Other income and gains/(losses)		
– Government grants	60	11,994
– Bank interest income	4,051	2,136
– Impairment of trade receivables	(72,234)	(1,284)
– Profit or loss from sales of raw materials	(17,030)	—
– Others	(282)	6,583
	<u>(85,435)</u>	<u>19,429</u>
	<u>1,066,749</u>	<u>1,636,201</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,	
	2017	2016
	(unaudited) RMB'000	(unaudited) RMB'000
Cost of inventories sold	651,771	843,410
(Gain)/loss arising from changes in fair value less costs to sell of biological assets	61,925	(29,675)
Depreciation of items of property, plant and equipment	90,899	70,738
Amortisation of prepaid land lease payments	1,438	56
Amortisation of other intangible assets	693	441
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	120,079	123,561
Other social insurances and benefits	12,049	6,828
Pension scheme contributions	6,820	5,540
Equity-settled share option expenses	—	31,420
	<u>138,948</u>	<u>167,349</u>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCE COSTS

	For the six-month period ended June 30,	
	2017	2016
	(unaudited) RMB'000	(unaudited) RMB'000
Interest expense on bank loans	27,631	32,787
Interest expense on bill discounting	3,808	3,023
Interest expense on ultra-short term/short-term notes	300	2,849
Interest expense on corporate bonds	38,361	25,695
Finance costs on long term payables	2,520	3,078
Less: Interest capitalised	(4,234)	(6,107)
	<u>68,386</u>	<u>61,325</u>

## 7. INCOME TAX CREDIT/(EXPENSE)

	For the six-month period ended June 30,	
	2017	2016
	(unaudited) RMB'000	(unaudited) RMB'000
Current - PRC	148	8,768
Deferred	(25,902)	16
	<u>(25,754)</u>	<u>8,784</u>

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

The basic earnings per share amount for the six-month period ended June 30, 2017 is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent of RMB6,381,000 (for the six-month period ended June 30, 2016: RMB 402,345,000), by the weighted average number of ordinary shares of 6,354,400,000 (for the six-month period ended June 30, 2016: 6,354,400,000) 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,	
	2017	2016
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
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	<u>6,354,400,000</u>	<u>6,367,096,765</u>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six-month period ended June 30, 2017 (for the six-month period ended June 30, 2016: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

	For the six-month period ended June 30,	
	2017	2016
	(unaudited) RMB'000	(unaudited) RMB'000
Carrying amount at 1 January	2,710,368	2,093,230
Additions	93,408	428,692
Disposals	(976)	(204)
Depreciation provided for the period	(90,899)	(70,738)
Carrying amount at 30 June	<u>2,711,901</u>	<u>2,450,980</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, 2017	December 31, 2016
	(unaudited) Head	(audited) Head
Dairy cows		
Milkable cows	67,222	69,887
Heifers and calves	66,731	59,442
Total dairy cows	<u>133,953</u>	<u>129,329</u>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 11. BIOLOGICAL ASSETS (continued)

## (B) Value of biological assets

The value of Group's biological assets as at June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Milkable cows	2,700,716	2,632,009
Heifers and calves	1,469,557	1,252,248
Total value of dairy cows	<u>4,170,273</u>	<u>3,884,257</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 professional qualified valuers not connected with the Group, which has appropriate qualifications and recent experience in the 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 2016 annual report.

## 12. TRADE AND BILLS RECEIVABLES

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Trade and bills receivables	1,602,512	1,194,299
Impairment	(157,746)	(85,512)
	<u>1,444,766</u>	<u>1,108,787</u>

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



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade and bills receivables as at June 30, 2017 and December 31, 2016, based on the invoice dates and net of provision, is as follows:

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Within 3 months	584,092	484,116
4 to 6 months	296,596	331,798
7 to 12 months	467,377	268,863
Over 1 year	96,701	24,010
	<u>1,444,766</u>	<u>1,108,787</u>

During the Period, the Group provided for an impairment of RMB72,234,000 for trade receivables, which was included in the reduction of other income and gains.

## 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Prepayments	390,632	356,823
Deposits and other receivables	29,027	35,699
Prepaid expenses	29,513	12,991
	<u>449,172</u>	<u>405,513</u>
Non-current prepayments	(7,164)	(11,963)
Current portion	<u>442,008</u>	<u>393,550</u>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 14. CASH AND BANK BALANCES

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Cash and cash equivalents	1,081,216	932,382
Time deposits with original maturity of more than 3 months	121,160	115,000
Pledged deposits	82,731	66,791
Cash and bank balances and pledged deposits	1,285,107	1,114,173
Less: Pledged deposits	(82,731)	(66,791)
Cash and bank balances	1,202,376	1,047,382

## 15. TRADE AND BILLS PAYABLES

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

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
1 to 3 months	744,110	895,338
4 to 6 months	83,758	14,790
7 to 12 months	82,527	5,120
1 to 2 years	3,900	3,297
2 to 3 years	1,209	2,086
3 years and more	1,586	—
	917,090	920,631

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. OTHER PAYABLES AND ACCRUALS

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Payables for acquisition of property, plant and equipment	145,341	236,940
Payables for purchase of dairy cows	4,000	15,045
Payables for third parties' deposits	30,031	23,896
Payables for purchase of transportation services	46,980	61,715
Salary and welfare payables	41,611	37,702
Long term payables due within one year	23,900	23,900
Interest payables	26,790	16,876
Payables for taxes other than corporate income tax	951	15,365
Others	9,027	7,111
	<u>328,631</u>	<u>438,550</u>

Other payables are non-interest-bearing.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
<b>Current</b>		
Bank loans - unsecured	1,227,110	853,000
Bank loans - secured	—	60,000
Current portion of long term bank and other borrowings - unsecured	8,208	5,404
Ultra short - term notes - unsecured	399,100	—
	<u>1,634,418</u>	<u>918,404</u>
<b>Non-current</b>		
Bank and other loans - unsecured	133,783	160,427
Domestic corporate bonds - unsecured	1,593,238	1,591,523
	<u>1,727,021</u>	<u>1,751,950</u>
	<u><u>3,361,439</u></u>	<u><u>2,670,354</u></u>

## Notes:

- (i) The Group's bank and other borrowings are denominated in RMB and bear fixed interest rates except for bank and other borrowings of RMB350,280,000 which are denominated in Euro and bear fixed interest rates. During the six-month period ended June 30, 2017, the annual interest rate of bank loans is 1.55% to 6.50% (for the six-month period ended June 30, 2016: 4.48% to 6.89%).
- (ii) Inner Mongolia Shengmu High-tech Farming Co., Ltd. (內蒙古聖牧高科技牧業有限公司), an indirect wholly-owned subsidiary of the Group, had been approved by the National Association of Financial Market Institutional Investors to issue domestic short-term debentures of an aggregate principal amount up to RMB1.7 billion in PRC. Completion of the issuance of the first tranche of debentures of an aggregate principal amount of RMB0.4 billion took place on June 23, 2017 with a term of 270 days from the date of issuance and bearing interests rate of 6.5% per annum.
- (iii) The Group's trade and bills receivables discounted but not qualified for derecognition of RMB60,000,000 as at December 31, 2016 expired and were qualified for derecognition in the 2017 Interim Period, accordingly, the bank borrowings of RMB60,000,000 pledged by the said trade and bills receivables had been derecognized.

## 18. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As at June 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, the Company's issued share capital was HK\$63,544 with 6,354,400,000 shares in issuance.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 19. COMMITMENTS

The Group had the following capital commitments as at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Contracted, but not provided for:		
Land and buildings	137,088	208,984
Plant and machinery	112,834	143,568
	<u>249,922</u>	<u>352,552</u>

## 20. 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.

		For the six-month period ended June 30,	
Note		2017	2016
		(unaudited) RMB'000	(unaudited) RMB'000
Associates:			
Sales of products	(i)	252,359	476,500
Purchases of raw materials	(i)	89,912	138,043
Sales of raw materials	(i)	7,297	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 2017 and 2016, 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 2017, the Group provided guarantees with an aggregate amount of RMB300,000,000 (During the interim period of 2016: RMB300,000,000) and RMB60,250,000 (During the interim period of 2016: Nil) for the bank loans of Shengmu Forage and Food Union Shengmu, respectively. As at June 30, 2017, the Group provided guarantees with an aggregate amount of RMB280,000,000 (As at June 30, 2016: RMB300,000,000) and RMB60,250,000 (As at June 30, 2016: Nil) for the bank loans of Shengmu Forage and Food Union Shengmu, respectively.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. RELATED PARTY DISCLOSURES (continued)

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

	For the six-month period ended June 30,	
	2017	2016
	(unaudited) RMB'000	(unaudited) RMB'000
Short term employee benefits	679	678
Pension scheme contributions	23	19
	<u>702</u>	<u>697</u>

## (D) Outstanding balances with related parties

	June 30, 2017	December 31, 2016
	(unaudited) RMB'000	(audited) RMB'000
Amounts owed by/(owed to) associates included in:		
– Trade and bills receivables	753,929	671,104
– Trade and bills payables	(6,459)	(26,729)
– Prepayments, deposits and other receivables	282,824	250,567
– Other payables and accruals	<u>(293)</u>	<u>(2,260)</u>

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



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	June 30, 2017		December 31, 2016	
	Carrying amounts RMB'000	Fair values RMB'000	Carrying amounts RMB'000	Fair values RMB'000
<b>Financial liabilities</b>				
Interest-bearing bank and other borrowings	3,361,439	3,357,829	2,670,354	2,727,672

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

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

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

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

The Group did not have any financial assets or liabilities measured at fair value for the six-month period ended June 30, 2017.

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

	Fair value measurement using significant unobservable inputs (Level 3)	
	June 30, 2017	December 31, 2016
	RMB'000	RMB'000
<b>Financial liabilities</b>		
Interest-bearing bank and other borrowings	3,357,829	2,727,672

## 22. 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 29, 2017.