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## **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)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2015**

	For the six-month period ended		Movements
	June 30, 2015	June 30, 2014	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	<b>1,383,627</b>	905,629	<b>+52.8%</b>
Gross profit	<b>637,465</b>	443,725	<b>+43.7%</b>
Profits attributable to the owners of the parent	<b>333,609</b>	279,090	<b>+19.5%</b>

In this announcement “we”, “us” and “our” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (“**Board**”) of directors (the “**Directors**”) of China Shengmu Organic Milk Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2015, together with the comparative figures for the corresponding period in 2014 as follows:

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

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

	<b>For the six-month period ended</b>	
Notes	<b>June 30, 2015 (unaudited) RMB'000</b>	June 30, 2014 (unaudited) RMB'000
<b>OTHER COMPREHENSIVE INCOME</b>		
Exchange differences on translation of foreign operations	<u>32</u>	<u>3,613</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>460,934</u></b>	<b><u>359,270</u></b>
Profit attributable to:		
Owners of the parent	<u>333,609</u>	279,090
Non-controlling interests	<u>127,293</u>	76,567
	<b><u>460,902</u></b>	<b><u>355,657</u></b>
Total comprehensive income attributable to:		
Owners of the parent	<u>333,641</u>	282,703
Non-controlling interests	<u>127,293</u>	76,567
	<b><u>460,934</u></b>	<b><u>359,270</u></b>
Earnings per share attributable to ordinary equity holders of the parent:		
Basic	<u>RMB0.053</u>	<u>RMB0.049</u>
Diluted	<u>RMB0.052</u>	<u>RMB0.049</u>

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		As at	
	Notes	June 30, 2015 (unaudited) RMB'000	December 31, 2014 (audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,927,526	1,657,827
Prepaid land lease payments		5,196	5,252
Other intangible assets		15,979	15,969
Investments in associates		34,941	28,160
Available-for-sale investments		1,404	980
Biological assets	8	2,992,481	2,720,126
Prepayments for property, plant and equipment and biological assets		19,701	26,985
Deferred tax assets		1,077	910
Total non-current assets		<u>4,998,305</u>	<u>4,456,209</u>
<b>CURRENT ASSETS</b>			
Inventories		646,316	701,183
Trade and bills receivables		632,562	397,543
Prepayments, deposits and other receivables		268,945	185,175
Pledged deposits		41,577	16,431
Cash and bank balances		749,475	734,703
Total current assets		<u>2,338,875</u>	<u>2,035,035</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables		538,141	423,963
Receipts in advance		22,619	32,440
Other payables and accruals		296,368	293,443
Interest-bearing bank and other borrowings		1,616,052	1,334,000
Tax payable		382	2,299
Total current liabilities		<u>2,473,562</u>	<u>2,086,145</u>
<b>NET CURRENT LIABILITIES</b>		<u>(134,687)</u>	<u>(51,110)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,863,618</u>	<u>4,405,099</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		137,000	150,000
Total non-current liabilities		<u>137,000</u>	<u>150,000</u>
Net assets		<u>4,726,618</u>	<u>4,255,099</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital: nominal value	9	50	50
Reserves		4,066,275	3,721,848
<b>Non-controlling interests</b>		<u>4,066,325</u>	<u>3,721,898</u>
		<u>660,293</u>	<u>533,201</u>
Total equity		<u>4,726,618</u>	<u>4,255,099</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>For the six-month period ended</b>	
	<b>June 30, 2015 (unaudited) RMB'000</b>	<b>June 30, 2014 (unaudited) RMB'000</b>
Net cash flows from operating activities	<u>394,417</u>	<u>258,793</u>
Net cash flows used in investing activities	<u>(837,165)</u>	<u>(788,470)</u>
Net cash flows from financing activities	<u>218,201</u>	<u>717,138</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(224,547)</b>	<b>187,461</b>
Cash and cash equivalents at beginning of period	<b>734,703</b>	<b>127,059</b>
Effect of foreign exchange rate changes, net	<u>395</u>	<u>11,066</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>510,551</u></b>	<b><u>325,586</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

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

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

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

### *Basis of preparation*

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

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

### *Going concern*

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

Having considered the cash inflow from operations, and the bank facilities of RMB748,948,000 granted by banks with expiry dates not earlier than June 30, 2016, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

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

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

The new standards or amendments are listed below:

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

### **3. OPERATING SEGMENT INFORMATION**

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

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

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

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

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

For the six-month period ended June 30, 2014 (unaudited)	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
<b>Segment revenue:</b>			
Sales to external customers	662,058	243,571	905,629
Intersegment sales	122,984	—	122,984
	<hr/>	<hr/>	<hr/>
	785,042	243,571	1,028,613
<i>Reconciliation</i>			
Elimination of intersegment sales			<hr/> (122,984)
			<hr/> <u>905,629</u>
<b>Segment results</b>	295,447	50,194	345,641
<i>Reconciliation</i>			
Gain arising from changes in fair value less costs to sell of biological assets			<hr/> 10,016
<b>Profit for the period</b>			<hr/> <u>355,657</u>
As at December 31, 2014 (audited)			
<b>Segment assets</b>	5,870,719	701,917	6,572,636
<i>Reconciliation:</i>			
Elimination of intersegment receivables			<hr/> (217,494)
Corporate and other unallocated assets			<hr/> 136,102
Total assets			<hr/> <u>6,491,244</u>
<b>Segment liabilities</b>	1,960,303	490,019	2,450,322
<i>Reconciliation:</i>			
Elimination of intersegment payables			<hr/> (217,494)
Corporate and other unallocated liabilities			<hr/> 3,317
Total liabilities			<hr/> <u>2,236,145</u>

#### 4. REVENUE, OTHER INCOME AND GAINS

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

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

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

#### 5. INCOME TAX EXPENSE

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

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

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

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

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

## 7. DIVIDEND

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

## 8. BIOLOGICAL ASSETS

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

### (A) Quantity of biological assets

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

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

### (B) Value of biological assets

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

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

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

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

## 9. ISSUED CAPITAL

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

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

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

### Business Review

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

### ***Herd Size and Production Volume***

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

### ***Distribution Network***

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

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

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

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

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

## Financial Review

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

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

### Revenue

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

Unit: RMB in thousands, except percentages

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

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

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

### ***Dairy farming business***

	For the six months ended June 30,							
	2015 (Unaudited)				2014 (Unaudited)			
	Revenue	Sales volume	Average selling price	Revenue as % of dairy farming segment revenue	Revenue	Sales volume	Average selling price	Revenue as % of dairy farming segment revenue
	(RMB'000)	(Tonnes)	(RMB/Tonne)		(RMB'000)	(Tonnes)	(RMB/Tonne)	
<b>Organic raw milk</b>								
External sales	356,779	67,645	5,274	28.1%	337,913	60,330	5,601	43.0%
Inter-segment sales <sup>(1)</sup>	561,426	103,109	5,445	44.2%	122,984	21,356	5,759	15.7%
Subtotal	<u>918,205</u>	<u>170,754</u>	<u>5,377</u>	<u>72.3%</u>	<u>460,897</u>	<u>81,686</u>	<u>5,642</u>	<u>58.7%</u>
<b>Premium non-organic raw milk</b>								
	352,114	80,697	4,363	27.7%	324,145	67,263	4,819	41.3%
<b>Dairy farming segment</b>	<u>1,270,319</u>	<u>251,451</u>	<u>5,052</u>	<u>100.0%</u>	<u>785,042</u>	<u>148,949</u>	<u>5,271</u>	<u>100.0%</u>

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

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

## Liquid milk business

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

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

## Revenue from organic/non-organic business and their ratio percentage

Unit :RMB in thousands, except percentages

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

**Cost of sales, gross profit and gross margin**

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

- (1) Represents gross profit after elimination of internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is calculated as the difference of (i) the inter-segment sales of organic raw milk used in our liquid milk business and (ii) the production costs for such organic raw milk calculated as the product of (a) total cost of sales of organic raw milk plus (b) the volume of raw milk sold to our liquid milk business divided by total sales volume of organic raw milk.
- (2) Represents gross profit after adding back the internal profit attributable to inter-segment sales of organic raw milk. Such internal profit is arrived at by calculating the difference of (i) the inter-segment sales of organic raw milk used in this segment and (ii) the production costs for such organic raw milk, calculated using the formula in note (1) above.

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

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

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

### ***Other Income and Gains***

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

### ***Selling and Distribution Expenses***

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

### ***Administrative Expenses***

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

### ***Finance Costs***

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

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

Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows, due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases. The Group recorded net gains arising from changes in fair value less costs to sell of biological assets of RMB10.0 million in the 2014 Interim Period and RMB33.4 million in the 2015 Interim Period. The increase of net gains arising from changes in fair value less costs to sell of biological assets in the 2015 Interim Period as compared to the 2014 Interim Period was mainly due to: (1) significant increase in the number of milkable cows in herd size of the Group as compared with the corresponding period in last year from 44,619 milkable cows as at June 30, 2014 to 64,405 milkable cows as at June 30, 2015; (2) enhanced productivity of milkable cow.

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

The Group's associates include (a) the companies that were jointly established by the Group and the selected outstanding distributors in our key distribution cities to distribute the branded liquid milk products of the Group; and (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("Shengmu Forage"), in which the Group invested and held minority interests. The Group recorded share of losses of associates of RMB7.7 million and RMB3.7 million in the 2015 Interim Period and 2014 Interim Period, respectively, which was mainly because the Company participated in the investment and establishment of sales companies in key distribution areas including Chongqing, Anhui, Sichuan and Guangdong during the current period, while the newly established sales associates were in their initial stage of market development and therefore recorded losses.

### ***Income Tax Expense***

The profits generated by the Group were entirely derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (“EIT Law”), the Group’s subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group’s income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as our relevant PRC subsidiaries complete filings with the relevant tax authorities as required. In accordance with “The Notice of Tax Policies Relating To the Implementation of the Western China Development Strategy” (Caishui [2011] No. 58) (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)), the Group’s taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

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

### ***Profit Attributable to Non-controlling Interest***

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

### **Analysis on Consolidated Statement of Financial Position**

#### ***Current Assets***

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

### ***Trade and bills receivables***

Unit: RMB'000

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

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

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

### ***Prepayments, deposits and other receivables***

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

### ***Current Liabilities***

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

### ***Foreign Exchange Risk***

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

### ***Credit Risk***

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, we monitor the receivable balances on an on-going basis and the Group's exposure to bad debts is not significant. Credit risk relating to the Group's other financial assets arises from the default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

### ***Charge on Assets***

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

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

In the first half of 2015, the Group generally finances its daily operations from internally generated cash flows, bank borrowings and other financing. As of June 30, 2015, the Group had (a) cash and bank balances of RMB749.5 million (as compared to RMB734.7 million as of December 31, 2014), and (b) interest-bearing bank borrowings and other borrowings of RMB1,753.1 million (as compared to RMB1,484.0 million as of December 31, 2014), which were denominated in Renminbi, and RMB137.0 million of which are repayable within five years while the other remaining interest-bearing bank borrowings and other borrowings are repayable within one year. The gearing ratio (calculated as total debt (total borrowings) divided by total capital) was 37.1% as of June 30, 2015 (as compared to 34.9% as of December 31, 2014).

### ***Capital Commitments***

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

## ***Human Resources***

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

## ***Contingent Liabilities***

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

## **Material Acquisitions and Disposals**

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

## **Future Plans for Material Investments or Acquisition of Capital Assets and Expected Source of Funding**

Save for those disclosed above in connection with capital commitments under the paragraph headed “Capital Commitments” herein and those disclosed in the Prospectus under the section headed “Future Plans and Use of Proceeds”, as of the date of this announcement, the Group does not have any plan for material investments or acquisition of capital assets.

## **Outlook**

The Group’s long-term goal is to become a global leading organic dairy company. To achieve this goal, we will continue to expand the organic dairy farming operation and improve farming management to ensure product safety and quality, increase the production of and promotion investment in liquid milk, improve liquid milk processing capacity and expand premium organic product mix, establish a more extensive nationwide distribution network and fortify brand awareness.

## ***Improving Liquid Milk Processing Capacity***

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

### ***Enriching Premium Organic Product Mix***

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

### ***Establishing an Extensive Nationwide Distribution Network and Improving Brand Awareness***

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

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **CORPORATE GOVERNANCE PRACTICES**

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

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

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

## **AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS**

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board as to the appointment, renewal and resignation of the Company's independent auditors and the related remuneration and appointment terms. The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results for the 2015 Interim Period

## **SCOPE OF WORK OF ERNST & YOUNG**

The financial information in respect of the interim results announcement of the Group's results for the six-month period ended June 30, 2015 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft condensed consolidated financial statements for the period. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the interim results announcement.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions by its Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listing Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code for the six-month period ended June 30, 2015.

## **DIVIDEND DISTRIBUTION**

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

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.youjimilk.com](http://www.youjimilk.com). The interim report of the Company for the 2015 Interim Period containing all the information required by the Listing Rules will be dispatched to Shareholders and published on the above websites in due course.

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

Hong Kong, August 28, 2015

*As at the date of this announcement, the executive directors of the Company are Mr. Yao Tongshan, Mr. Wu Jianye, Ms. Gao Lingfeng and Mr. Cui Ruicheng; and the non-executive directors of the Company are Mr. Wu Jingshui, Mr. Fan Xiang, Mr. Cui Guiyong and Mr. Sun Qian; and the independent non-executive directors of the Company are Mr. Wong Kun Kau, Mr. Li Changqing, Ms. Ge Xiaoping and Mr. Yuan Qing.*