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)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

RESULTS HIGHLIGHTS

	For the year ended December 31,		
	2015	2014	**Movements**
	RMB'000	*RMB'000*	
Revenue	**3,100,711**	2,132,428	**45.4%**
Gross profit	**1,477,543**	1,069,808	**38.1%**
Profits attributable to the owners of the parent	**800,652**	711,228	**12.6%**

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 (the "**Board**") of directors (the "**Directors**") of China Shengmu Organic Milk Limited (the "**Company**") is pleased to announce the final consolidated financial results of the Company and its subsidiaries (collectively the "**Group**" or "**Shengmu**") for the year ended December 31, 2015, together with the comparative figures for the year ended December 31, 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended December 31, 2015 RMB'000	2014 RMB'000
REVENUE	4	**3,100,711**	2,132,428
Cost of sales		**(1,623,168)**	(1,062,620)
Gross profit		**1,477,543**	1,069,808
Gain arising from changes in fair value less costs to sell of biological assets		**52,722**	87,098
Other income and gains	4	**47,424**	28,405
Selling and distribution expenses		**(265,468)**	(128,111)
Administrative expenses		**(107,470)**	(101,733)
Finance costs	6	**(99,147)**	(60,272)
Share of profits and losses of associates		**(18,041)**	(7,651)
Gain on disposal of a subsidiary		**265**	—
PROFIT BEFORE TAX	5	**1,087,828**	887,544
Income tax expense	7	**(4,606)**	(3,736)
PROFIT FOR THE YEAR		**1,083,222**	883,808
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**1,893**	2,779
Net other comprehensive income to be reclassified to profit or loss in subsequent period		**1,893**	2,779
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,085,115**	886,587
Profit attributable to:			
Owners of the parent		**800,652**	711,228
Non-controlling interests		**282,570**	172,580
		1,083,222	883,808
Total comprehensive income attributable to:			
Owners of the parent		**802,545**	714,007
Non-controlling interests		**282,570**	172,580
		1,085,115	886,587
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**RMB0.126**	RMB0.118
Diluted		**RMB0.124**	RMB0.116

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31, 2015 RMB'000	As at December 31, 2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,093,230**	1,657,827
Prepaid land lease payments		**5,066**	5,252
Other intangible assets		**15,518**	15,969
Investments in associates		**32,055**	28,160
Available-for-sale investments		**1,404**	980
Biological assets	10	**3,285,436**	2,720,126
Prepayments for property, plant and equipment and biological assets		**15,690**	26,985
Deferred tax assets		**1,076**	910
Total non-current assets		**5,449,475**	4,456,209
CURRENT ASSETS			
Inventories		**824,514**	701,183
Trade and bills receivables	11	**915,312**	397,543
Prepayments, deposits and other receivables		**468,456**	185,175
Pledged deposits		**70,277**	16,431
Cash and bank balance		**1,731,759**	734,703
Total current assets		**4,010,318**	2,035,035
CURRENT LIABILITIES			
Trade and bills payables	12	**1,018,126**	423,963
Receipts in advance		**17,320**	32,440
Other payables and accruals		**338,293**	293,443
Interest-bearing bank and other borrowings		**1,599,855**	1,334,000
Income tax payable		**1,974**	2,299
Total current liabilities		**2,975,568**	2,086,145
NET CURRENT ASSETS/(LIABILITIES)		**1,034,750**	(51,110)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,484,225**	4,405,099
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**1,117,000**	150,000
Total non-current liabilities		**1,117,000**	150,000
Net assets		**5,367,225**	4,255,099

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	**As at December 31, 2015 RMB'000**	As at December 31, 2014 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital: nominal value	13	**50**	50
Reserves		**4,551,605**	3,721,848
		4,551,655	3,721,898
Non-controlling interests		**815,570**	533,201
Total equity		**5,367,225**	4,255,099

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Net cash flows from operating activities	**928,527**	426,686
Net cash flows used in investing activities	**(1,371,025)**	(1,914,605)
Net cash flows from financing activities	**1,118,751**	2,095,168
NET INCREASE IN CASH AND CASH EQUIVALENTS	**676,253**	607,249
Cash and cash equivalents at beginning of year	**734,703**	127,059
Effect of foreign exchange rate changes, net	**543**	395
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,411,499**	734,703

Notes:

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 the year, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China (the "**PRC**").

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

Basis of Preparation

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the "**Group**") for the year ended December 31, 2015.

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

Changes in Accounting Policies and Disclosures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 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.

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

For the year ended December 31, 2015	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	**1,445,022**	**1,655,689**	**3,100,711**
Intersegment sales	**1,076,373**	**—**	**1,076,373**
	2,521,395	**1,655,689**	**4,177,084**
Reconciliation:			
Elimination of intersegment sales			**(1,076,373)**
Revenue			**3,100,711**
Segment results	**996,931**	**110,668**	**1,107,599**
Reconciliation:			
Elimination of intersegment results			**(72,596)**
Gain arising from changes in fair value less costs to sell of biological assets			**52,722**
Corporate and other unallocated expenses			**(4,503)**
Profit for the year			**1,083,222**
As at December 31, 2015			
Segment assets	**8,347,005**	**1,537,127**	**9,884,132**
Reconciliation:			
Elimination of intersegment receivables			**(551,363)**
Corporate and other unallocated assets			**127,024**
Total assets			**9,459,793**
Segment liabilities	**3,560,796**	**1,083,123**	**4,643,919**
Reconciliation:			
Elimination of intersegment payables			**(551,363)**
Corporate and other unallocated liabilities			**12**
Total liabilities			**4,092,568**

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

5. PROFIT BEFORE TAX

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

	For the year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Cost of inventories sold	**1,623,168**	1,062,620
Gains arising from changes in fair value less costs to sell of biological assets	**(52,722)**	(87,098)
Depreciation of items of property, plant and equipment	**105,046**	58,953
Amortisation of prepaid land lease payments	**186**	97
Amortisation of other intangible assets	**1,454**	988
Research and development costs	**8,981**	3,591
Minimum lease payments under operating leases	**9,532**	8,932
Auditors' remuneration	**3,450**	2,750
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries, bonuses and allowances	**236,787**	161,694
Other social insurances and benefits	**12,504**	8,391
Pension scheme contributions	**9,434**	7,073
Equity-settled share option expenses	**27,011**	23,396
	285,736	200,554

6. FINANCE COSTS

	For the year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Interest on bank loans	**107,319**	68,798
Interest on short-term notes	**250**	—
Less: Interest capitalised	**(8,422)**	(8,526)
	99,147	60,272

7. INCOME TAX EXPENSE

	For the year ended December 31, 2015	2014
	RMB'000	RMB'000
Current	**4,772**	4,459
Deferred	**(166)**	(723)
	4,606	3,736

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

	For the year ended December 31, 2015	2014
	RMB'000	RMB'000
Profit before tax	**1 087 828**	887 544
Tax at the statutory tax rate (note (i))	**271,957**	221,886
Income not subject to tax (note (ii))	**(266,858)**	(217,232)
Lower tax rate for specific provinces (note (iii))	**(4,073)**	(2,699)
Expenses not deductible for tax, net (note (iv))	**5,083**	2,093
Adjustments in respect of current tax of previous periods	**(1,503)**	(_312)
Tax charge at the Groups' effective rate of 0.4% (2014: 0.4%)	**4,606**	3,736

Notes:

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

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

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

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

8. DIVIDENDS

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

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

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

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

	Number of shares For the year ended December 31,	
	2015	2014
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**6,354,400,000**	6,018,136,320
Effect of dilution of share options	**86,155,092**	114,264,051
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**6,440,555,092**	6,132,400,371

10. 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 at December 31, 2015 and 2014 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.

	As at	
	December 31, 2015	December 31, 2014
	Head	Head
Dairy cows		
Milkable cows	**66,790**	55,032
Heifers and calves	**44,605**	48,220
Total dairy cows	**111,395**	103,252

10. BIOLOGICAL ASSETS (CONTINUED)

(B) Value of biological assets

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

	As at	
	December 31, 2015	December 31, 2014
	RMB'000	RMB'000
Dairy cows		
Milkable cows	**2,359,795**	1,775,096
Heifers and calves	**925,641**	945,030
Total value of dairy cows	**3,285,436**	2,720,126

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

11. TRADE AND BILLS RECEIVABLES

	As at	
	December 31, 2015	December 31, 2014
	RMB'000	RMB'000
Trade receivables	**915,181**	393,443
Bills receivable	**500**	4,100
Impairment	**(369)**	—
	915,312	397,543

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.

11. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	As at December 31, 2015	December 31, 2014
	RMB'000	RMB'000
Within 3 months	**627,740**	336,882
4 to 6 months	**224,208**	46,383
7 to 12 months	**60,042**	13,688
Over 1 year	**3,322**	590
	915,312	397,543

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

12. TRADE AND BILLS PAYABLES

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

	As at December 31, 2015	December 31, 2014
	RMB'000	RMB'000
1 to 3 months	**680,070**	406,785
4 to 6 months	**191,138**	13,224
7 to 12 months	**137,390**	2,470
1 to 2 years	**8,183**	1,451
2 to 3 years	**1,312**	33
Over 3 years	**33**	—
	1,018,126	423,963

13. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As at December 31, 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 December 31, 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

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

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

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

BUSINESS REVIEW

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

China Shengmu currently operates the largest "desert-based grass-to-glass organic production model" in China. As the leading organic dairy company in China, it plays a dominant role in various areas in the industry. China Shengmu is the largest organic dairy company in China in 2015 in terms of the herd size of organic dairy cows and the production volume of organic raw milk. China Shengmu is the only vertically integrated organic dairy company in China that meets E.U. organic standards. It is also the only dairy company in China that offers branded organic dairy products that are 100% processed from raw milk produced by self-owned certified organic dairy farms and the only sizeable dairy company in China to operate a "desert-based grass-to-glass organic production model". In 2015, China Shengmu was once again awarded China International Organic Food Expo Gold Medal (中國國際有機食品博覽會金獎) jointly by the China Green Food Development Center (中國綠色食品發展中心) and the NürnbergMesse Group for the fourth time. Throughout the years, China Shengmu has received unanimous approval at home and abroad, representing the highest quality of the PRC dairy.

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

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

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

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

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

In 2015, China Shengmu continued to implement its grass-to-glass organic quality control across the whole production process from farming of organic cows to production of organic liquid milk through developing organic environment, monitoring the growing of organic forage and establishing self-owned dairy farms. In addition, China Shengmu provides organic cow dung to Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("**Shengmu Forage**") as fertilizer. With such recycling model, a complete organic ecological circle is accomplished. This recycling model not only solve the problems relating to the disposal of biological waste, but also improve the quality of desert soil. It is an innovative initiative in the animal husbandry. In addition to protecting the environment, such complete organic ecological circle facilitates transforming of desert into oasis and improves its ecological system.

Farming Business

Organic Dairy Farming

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

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

Herd Size and Production

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

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

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

Organic Forage Planting

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

Liquid Milk Business

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

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

Organic Quality Control

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

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

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

Innovative Business Management Models and Unique Approach of Corporate Culture Construction

Innovative Business Model and Management System

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

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

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

Construction of Corporate Culture

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

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

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

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

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

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

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

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

Innovation of Sales Channels Development Strategy

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

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

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

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

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

Innovation of Marketing Strategy and Brand Promotion Strategy

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

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

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

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

FINANCIAL REVIEW

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

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

Revenue

Unit: RMB in thousands, except percentages

	Dairy farming business				Liquid milk business				
For the year ended December 31,	Segment revenue	Inter-segment sales[(1)]	External sales	External sales as % of total revenue	Segment revenue	Inter-segment sales	External sales	External sales as % of total revenue	Total revenue
2015	**2,521,395**	**1,076,373**	**1,445,022**	**46.6%**	**1,655,689**	–	**1,655,689**	**53.4%**	**3,100,711**
2014	1,810,035	416,918	1,393,117	65.3%	739,311	–	739,311	34.7%	2,132,428

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

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

Dairy Farming Business

	For the year ended December 31,							
	2015				2014			
	Revenue (RMB'000)	**Sales volume (Tonnes)**	**Average selling price (RMB/ Tonne)**	**Revenue as % of dairy farming segment revenue**	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/ Tonne)	Revenue as % of dairy farming segment revenue
Organic raw milk								
External sales	**712,677**	**139,290**	**5,116**	**28.3%**	731,806	132,906	5,506	40.5%
Inter-segment sales[1]	**1,076,373**	**202,352**	**5,319**	**42.7%**	416,918	72,586	5,744	23.0%
Subtotal	**1,789,050**	**341,642**	**5,237**	**71.0%**	1,148,724	205,492	5,590	63.5%
Premium non-organic raw milk	**732,345**	**173,026**	**4,233**	**29.0%**	661,311	139,204	4,751	36.5%
Dairy farming segment	**2,521,395**	**514,668**	**4,899**	**100.0%**	1,810,035	344,696	5,251	100.0%

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

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

Liquid Milk Business

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

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

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

Unit: RMB in thousands, except percentages

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

Cost of Sales, Gross Profit and Gross Margin

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

Notes:

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

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

The Group's cost of sales increased from RMB1,062.6 million in 2014 to RMB1,623.2 million in 2015. Its gross profit increased from RMB1,069.8 million in 2014 to RMB1,447.5 million in 2015, and the gross margin slightly decreased from 50.2% in 2014 to 47.7% in 2015.

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

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

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

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

Net gains or losses arising from changes in fair value less costs to sell of biological assets represents fair value changes in the dairy cows, due to the changes in physical attributes and market prices of and discounted future cash flow to be generated by those cows. In general, when a heifer becomes a milkable cow, its value increases as the discounted cash flow from milkable cow is higher than the selling price of heifer. Further, when a milkable cow is ousted and sold, its value decreases. The Group recorded net gains arising from changes in fair value less costs to sell of biological assets of RMB52.7 million in 2015 and RMB87.1 million in 2014.

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

Share of Profits and Losses of Associates

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

Income Tax Expense

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

In accordance with "The Notice of Tax Policies Relating To the Implementation of the Western China Development Strategy"jointly issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Group's taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

Income tax expenses of the Group were RMB4.6 million and RMB3.7 million in 2015 and 2014, respectively. Based on the percentage of the income tax expense of the profit before tax, the effective enterprise income tax rate of the Group was 0.4% in both 2015 and 2014.

Profit Attributable to Non-Controlling Interests

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

ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

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

Cash and Bank Balance and Significatnt Fund Raising Activities

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

Trade and bills receivables

Unit: RMB in thousands, except percentages

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

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

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

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

Prepayments, Deposits and Other Receivables

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

Current Liabilities

As at December 31, 2015, the total current liabilities of the Group amounted to RMB2,975.6 million (as compared to RMB2,086.1 million as at December 31, 2014), primarily consisting of trade and bills payables of RMB1,018.1 million (as compared to RMB424.0 million as at December 31, 2014), receipts in advance of RMB17.3 million (as compared to RMB32.4 million as at December 31, 2014), other payables and accruals of RMB338.3 million (as compared to RMB293.4 million as at December 31, 2014), interest-bearing bank and other borrowings of RMB1,599.9 million (as compared to RMB1,334.0 million as at December 31, 2014), and income tax payable of RMB2.0 million (as compared to RMB2.3 million as at December 31, 2014).

Foreign Exchange Risk

The Group's businesses are principally located in mainland China and substantially all transactions are conducted in RMB. As at December 31, 2015, the Group did not have significant foreign currency exposure from its operations, except certain bank balances equivalent to approximately RMB1.1 million and RMB14.0 million which were denominated in United States dollars and Hong Kong dollars, respectively. In 2015, the Group did not enter into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Charge on Assets

As at December 31, 2015, the Group has pledged deposits in an aggregate amount of approximately RMB70.3 million (as compared to RMB16.4 million as at December 31, 2014) to banks in the PRC as deposits for the issuance of letters of credit and bank drafts.

Liquidity, Financial Resources and Capital Structure

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

Capital Commitments

As at December 31, 2015, the Group's capital commitments amounted to RMB201.2 million (as compared to RMB243.0 million as at December 31, 2014), primarily relating to the construction and acquisition of plants and the purchase of machinery for the expansion of liquid milk production capacity. The Group has sufficient internal and financial resources to fund its capital expenditures.

Human Resources

As at December 31, 2015, the Group had a total of 3,713 employees (as compared to 3,288 employees as at December 31, 2014). Total staff costs for 2015 (including the emoluments of directors and senior management of the Company) amounted to RMB258.7 million (excluding equity-settled share option expenses) (as compared to RMB177.2 million in 2014). The significant increase in total staff costs as compared to the corresponding period last year was mainly due to larger scale and increased number of employees and increased average salary of the Company.

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

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

Contingent Liabilities

As at December 31, 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 in 2015.

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

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

OUTLOOK

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

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

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

Implement Technology Innovation and Develop New Organic Liquid Milk Products

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

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

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

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

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

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 Hong Kong 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 year ended December 31, 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 at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of 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 throughout the period ended December 31, 2015.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Company's Global Offering amounted to approximately RMB801.2 million. Such net proceeds are intended to be or have been applied in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated June 30, 2014.

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

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

AUDIT COMMITTEE

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, re-appointment and removal 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 about the internal control and financial reporting matters, including the review of the annual results for 2015.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the announcement of the Group's results for the year ended December 31, 2015 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. 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 results announcement.

DIVIDEND DISTRIBUTION

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

ANNUAL GENERAL MEETING

The 2016 annual general meeting will be held on or before June 30, 2016. A notice convening the 2016 annual general meeting will be published on the website of the Hong Kong Stock Exchange and the Company and dispatched to the Shareholders on or before April 30, 2016.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.youjimilk.com. The annual report of the Company for the year of 2015 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, March 30, 2016

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; the non-executive directors of the Company are Mr. Dong Xianli, 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.