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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-MONTH PERIOD ENDED JUNE 30, 2017

FINANCIAL HIGHLIGHTS

	For the six-month period ended		
	June 30, 2017	June 30, 2016	**Movements**
	RMB' 000	RMB' 000	
Revenue	**1,152,184**	1,616,772	**-28.7%**
Gross profit	**500,413**	773,362	**-35.3%**
Profit for the period	**131,388**	534,865	**-75.4%**
Profit attributable to owners of the parent	**6,381**	402,345	**-98.4%**

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).

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purpose only.

The board (the "**Board**") of directors (the "**Directors**") of China Shengmu Organic Milk Limited (the "**Company**" or "**China Shengmu**") herein presents the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**"or "**Shengmu**") for the six-month period ended June 30, 2017, together with the comparative figures for the corresponding period in 2016 as follows:

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

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at June 30, 2017 (unaudited) RMB'000	As at December 31, 2016 (audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,711,901**	2,710,368
Prepaid land lease payments		**36,577**	37,566
Other intangible assets		**14,234**	14,847
Investments in associates		**105,233**	112,658
Available-for-sale investments		**2,007**	1,427
Biological assets	8	**4,170,273**	3,884,257
Prepayments for property, plant and equipment and biological assets		**7,164**	11,963
Long term receivables		**16,484**	19,684
Deferred tax assets		**50,536**	24,634
Other non-current assets		**23,683**	16,565
Total non-current assets		**7,138,092**	6,833,969
CURRENT ASSETS			
Inventories		**862,178**	928,816
Trade and bills receivables		**1,444,766**	1,108,787
Prepayments, deposits and other receivables		**442,008**	393,550
Pledged deposits		**82,731**	66,791
Available-for-sale investments		**31,000**	120,000
Cash and bank balances		**1,202,376**	1,047,382
Total current assets		**4,065,059**	3,665,326

	Notes	As at June 30, 2017 (unaudited) RMB'000	As at December 31, 2016 (audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables		**917,090**	920,631
Receipts in advance		**33,779**	13,152
Other payables and accruals		**328,631**	438,550
Interest-bearing bank and other borrowings		**1,634,418**	918,404
Income tax payable		**1,581**	1,581
Total current liabilities		**2,915,499**	2,292,318
NET CURRENT ASSETS		**1,149,560**	1,373,008
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,287,652**	8,206,977
NON-CURRENT LIABILITIES			
Long term payables		**81,482**	107,900
Interest-bearing bank and other borrowings		**1,727,021**	1,751,950
Total non-current liabilities		**1,808,503**	1,859,850
Net assets		**6,479,149**	6,347,127
EQUITY			
Equity attributable to owners of the parent			
Share capital	9	**50**	50
Reserves		**5,346,004**	5,338,989
		5,346,054	5,339,039
Non-controlling interests		**1,133,095**	1,008,088
Total equity		**6,479,149**	6,347,127

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six-month period ended	
	June 30, 2017	June 30, 2016
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Net cash flows from operating activities	**28,297**	41,683
Net cash flows used in investing activities	**(667,027)**	(642,472)
Net cash flows from/(used in) financing activities	**785,671**	(109,502)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**146,941**	(710,291)
Cash and cash equivalents at beginning of period	**932,382**	1,411,499
Effect of foreign exchange rate changes, net	**1,893**	78
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,081,216**	701,286

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During 2017 Interim Period, the Company's subsidiaries were primarily engaged in the production and distribution of raw milk and dairy products in the People's Republic of China (the "**PRC**").

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

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended June 30, 2017 (the"**Interim Period**") have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2016.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of new and revised IFRSs effective as at January 1, 2017. The Group has no early applied any other standards and amendments that have been issued but are not yet effective.

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

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

3. OPERATING SEGMENT INFORMATION

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the period. The adjusted profit/(loss) for the period is measured consistently with the Group's profit after tax except that gain/(loss) 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 prices internally agreed between dairy farming segment and liquid milk products segment.

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

3. OPERATING SEGMENT INFORMATION (continued)

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

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

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

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

	For the six-month period ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Revenue		
– Sales of raw milk	**454,814**	557,980
– Sales of liquid milk products	**697,370**	1,058,792
	1,152,184	1,616,772
Other income and gains/(losses)		
– Government grants	**60**	11,994
– Bank interest income	**4,051**	2,136
– Impairment of trade receivables	**(72,234)**	(1,284)
– Profit or loss from sales of raw materials	**(17,030)**	—
– Others	**(282)**	6,583
	(85,435)	19,429
	1,066,749	1,636,201

5. INCOME TAX (CREDIT)/EXPENSE

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

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

The basic earnings per share amount for the six-month period ended June 30, 2017 is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent of RMB6,381,000 (for the six-month period ended June 30, 2016: RMB 402,345,000),by the weighted average number of ordinary shares of 6,354,400,000 (for the six-month period ended June 30, 2016: 6,354,400,000) of the Company in issue during the period.

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

	Number of shares For the six-month period ended June 30,	
	2017	2016
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**6,354,400,000**	6,354,400,000
Effect of dilution of share options	**—**	12,696,765
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**6,354,400,000**	6,367,096,765

7. DIVIDEND

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

8. BIOLOGICAL ASSETS

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

(A) Quantity of biological assets

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

	As at	
	June 30, 2017	December 31, 2016
	(unaudited)	(audited)
	Head	Head
Dairy cows		
Milkable cows	**67,222**	69,887
Heifers and calves	**66,731**	59,442
Total dairy cows	**133,953**	129,329

(B) Value of biological assets

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

	As at	
	June 30, 2017	December 31, 2016
	(unaudited)	(audited)
	RMB'000	RMB'000
Milkable cows	**2,700,716**	2,632,009
Heifers and calves	**1,469,557**	1,252,248
Total value of dairy cows	**4,170,273**	3,884,257

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

The valuation techniques and principal valuation assumptions used in the determination of the fair value of dairy cows are the same as those set out in the Group's 2016 annual report.

9. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on December 11, 2013. As at June 30, 2017 and December 31, 2016, the Company has authorized share capital of HK$300,000, divided into 30,000,000,000 shares with a par value of HK$0.00001 each.

As at June 30, 2017 and December 31, 2016, the Company's issued share capital was HK$63,544 with 6,354,400,000 shares in issuance.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

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

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

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

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

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

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

BUSINESS REVIEW

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

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

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

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

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

Herd Size and Production Volume

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

Distribution Network

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

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

FINANCIAL REVIEW

The Group recorded a revenue of RMB1,152.2 million in the 2017 Interim Period, representing a decrease of 28.7% from RMB1,616.8 million in the 2016 Interim Period. Gross profit of the Group decreased by 35.3% from RMB773.4 million in the 2016 Interim Period to RMB500.4 million in the 2017 Interim Period. Profit decreased by 75.4% from RMB534.9 million in the 2016 Interim Period to RMB131.4 million in the 2017 Interim Period. Profit attributable to owners of the parent decreased by 98.4% from RMB402.3 million in the 2016 Interim Period to RMB6.4 million in the 2017 Interim Period.

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

Revenue

Unit: RMB in thousands, except percentages

	For the six-month period ended June 30	
	2017 (Unaudited)	2016 (Unaudited)
Dairy farming business	**454,814**	557,980
Liquid milk business	**697,370**	1,058,792
Total	**1,152,184**	1,616,772

	Dairy farming business				Liquid milk business				
For the six-month period ended June 30,	**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**
2017 (Unaudited)	**1,335,053**	**880,239**	**454,814**	**39.5%**	**697,370**	**—**	**697,370**	**60.5%**	**1,152,184**
2016 (Unaudited)	1,316,862	758,882	557,980	34.5%	1,058,792	—	1,058,792	65.5%	1,616,772

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

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

Dairy farming business

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

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

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

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

Liquid milk business

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

Organic liquid milk business

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

REVENUE FROM ORGANIC/NON-ORGANIC BUSINESS AND PERCENTAGES

Unit: RMB in thousands, except percentages

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

Cost of Sales, Gross Profit and Gross Margin

Unit: RMB in thousands, except percentages

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

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

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

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

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

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

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

Other Income and Gains/(Losses)

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

Selling and Distribution Expenses

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

Administrative Expenses

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

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

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

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

Share of Profits and Losses of Associates

The Group's associates mainly include: (a) the companies that were jointly established by the Group and its premium distributors in its key distribution cities to distribute the liquid milk products with the Group's self-owned brand; (b) Bayannur Shengmu High-tech Ecological Forage Co., Ltd. (巴彥淖爾市聖牧高科生態草業有限公司) and its subsidiary ("**Shengmu Forage**") in which the Group invested and held minority interests; and (c) Food Union Shengmu Dairy Co., Ltd. ("**Food Union Shengmu**") and Inner Mongolia Shengmu Low Temperature Dairy Product Company Limited (內蒙古聖牧低溫乳品有限公司) in which the Group invested and held minority interests and which produces dairy products with the raw milk to be purchased by it from the Group. In the 2017 Interim Period and the 2016 Interim Period, the Group recorded share of losses of associates of RMB7.4 million and RMB9.2 million respectively.

Income Tax Credit/(Expense)

All profits of the Group were derived from its operations in the PRC. According to the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), the Group's subsidiaries in the PRC are generally subject to a corporate income tax at a rate of 25%. According to the preferential provisions of the EIT Law, the Group's income arising from agricultural activities, such as dairy farming and processing of raw agricultural products, is exempted from enterprise income tax. Under the PRC tax laws and regulations, there is no statutory time limit for such tax exemption as long as the relevant PRC subsidiaries of the Group complete filings with the relevant tax authorities as required.

In accordance with "The Notice of Tax Policies Relating to the Implementation of the Western China Development Strategy" jointly issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation (Cai Shui [2011] No.58) (財政部、海關總署、國家稅務總局《關於深入實施西部大開發戰略有關稅收政策問題的通知》(財稅[2011]58號)), the Group's taxable income arising from processing of non-raw agricultural products is subject to preferential tax rate of 15% from 2013 to 2020.

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

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

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

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

ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current Assets

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

Trade and bills receivables

Unit: RMB in thousands

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

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

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

Prepayments, Deposits and Other Receivables

The Group's aggregate amount of prepayments, deposits and other receivables were RMB442.0 million and RMB393.6 million as at June 30, 2017 and December 31, 2016, respectively, primarily due to the increase in the prepayments as a result of the increased purchase by the Group from Shengmu Forage.

Current Liabilities

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

Non-Current Liabilities

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

Foreign Exchange Risk

The Group's businesses are principally located in the mainland China and substantially all transactions are conducted in RMB. As at June 30, 2017, the Group did not have any significant foreign currency exposure from its operations, nor has it entered into any arrangements to hedge against any fluctuation in foreign exchange.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Credit risk of the Group's other financial assets arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognized and creditworthy third parties, collateral is generally not required.

Charge on Assets

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

Liquidity, Financial Resources and Capital Structure

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

Capital Commitments

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

HUMAN RESOURCES

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

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

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

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not make any material acquisitions and disposals of subsidiaries and associated companies in the 2017 Interim Period.

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

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

OUTLOOK

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

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

Launch Strategic Organic "Naijue" Product Series

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

Continue to Put Efforts in Market Development of Organic Yogurt

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

Speed up the Construction of Projects for Organic Infant Formulas

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

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

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

Put Greater Efforts in Propagation and Promotion of Brand

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During 2017 Interim Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, during 2017 Interim Period, the Company has adopted, applied and complied with the code provisions contained in the Code except the code provision A.2.1 of the Code as disclosed below.

Pursuant to code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As at 29 June 2017, the board of directors announced that, for the purposes of enhancing corporate governance, and with a view to separating the roles of the chairman of the Board and the chief executive officer of the Company under the requirement of code provision A2.1 of the Code, Mr. Yao Tongshan has tendered his resignation from the office of chairman of the Board and Mr. Shao Genhuo, a non-executive Director, has been appointed as the chairman of the Board, with effect from 29 June 2017. Following his resignation, Mr. Yao Tongshan will continue to serve the Company as an executive director of the Company and the chief executive officer of the Company.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control and financial reporting matters, including the review of the unaudited interim results for the 2017 Interim Period.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by its Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific queries to the Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code during the 2017 Interim Reriod.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the 2017 Interim Period (the 2016 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 and on the website of the Company at www.youjimilk.com. The interim report of the Company for the 2017 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
Executive Director and Chief Executive Officer

Hong Kong, 29 August 2017

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. Wen Yongping, Mr. Fan Xiang, Mr. Cui Guiyong, Mr. Sun Qian, Mr. Shao Genhuo and Mr. Zhang Jiawang; and the independent non-executive directors of the Company are Mr. Li Changqing, Ms. Ge Xiaoping, Mr. Fu Wenge, Mr. Wang Liyan and Mr. Li Xuan.