China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2013

The Board of Directors (the "Board") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 30 June 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Year ended 30 June** **2013** *RMB'000*	**2012** *RMB'000*
Sales of milk produced	4	2,480,561	1,677,615
(Loss)/Gain arising from changes in fair value less costs to sell of dairy cows	12	(38,599)	131,481
Other income	5	106,343	116,551
Farm operating expenses	6	(1,655,803)	(1,148,697)
Employee benefits expense		(170,847)	(127,989)
Depreciation		(135,472)	(94,798)
Share of profit of an associate		3,371	1,983
Net foreign exchange gain/(loss)		9,127	(4,335)
Other gains and losses		(2,400)	(1,052)
Other expenses		(92,555)	(71,985)
Profit before finance costs and tax	7	503,726	478,774
Finance costs	8	(153,679)	(71,323)
Profit before tax		350,047	407,451
Income tax expenses	9	(8,051)	(143)
Profit and total comprehensive income for the year		341,996	407,308
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		323,832	398,482
Non-controlling interests		18,164	8,826
		341,996	407,308
Earnings per share (RMB)	11		
Basic		6.74 cents	8.30 cents
Diluted		6.67 cents	8.22 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2013 RMB'000	30 June 2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	3,772,270	2,964,585
Land use rights		67,098	67,577
Goodwill		310,426	310,426
Interest in an associate		26,594	15,483
Long-term prepaid rentals		—	65
Deposit for acquisition of biological assets		—	9,024
Biological assets	13	5,465,008	4,185,600
		9,641,396	7,552,760
CURRENT ASSETS			
Inventories		342,140	263,882
Trade and other receivables	14	357,683	181,037
Land use rights		1,667	1,696
Pledged bank balances		442,747	134,162
Cash and bank balances		378,030	518,277
		1,522,267	1,099,054
CURRENT LIABILITIES			
Trade and other payables	15	1,190,785	821,230
Amount due to an associate		63,116	7,888
Tax payable		4,785	—
Borrowings — due within one year		1,330,959	664,217
Short-term debenture		700,000	—
Deferred income		9,750	7,764
		3,299,395	1,501,099
NET CURRENT LIABILITIES		(1,777,128)	(402,045)
TOTAL ASSETS LESS CURRENT LIABILTIIES		7,864,268	7,150,715
CAPITAL AND RESERVES			
Share capital		414,564	413,075
Share premium and reserves		4,992,220	4,653,415
Equity attributable to owners of the Company		5,406,784	5,066,490
Non-controlling interests		101,940	66,226
		5,508,724	5,132,716
NON-CURRENT LIABILITIES			
Borrowings — due after one year		2,248,082	1,926,572
Deferred income		107,462	91,427
		2,355,544	2,017,999
		7,864,268	7,150,715

NOTES

1. **General information**

China Modern Dairy Holdings Ltd. (the "Company") is incorporated in the Cayman Islands with limited liability. Its registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in production and sales of milk in the PRC. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The annual results are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

2. **Basis of preparation**

In preparing the consolidated financial statements for the year ended 30 June 2013, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB1,777,128,000 as at 30 June 2013 (30 June 2012: RMB402,045,000). Having considered the secured credit facilities of approximately RMB2,216,902,000 which remains unutilised as at 30 June 2013, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The annual results have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations promulgated by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. **Principal accounting policies**

The annual results have been prepared on the historical cost basis except for the biological assets, which are measured at fair value less costs to sell. The accounting policies used in the annual results are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 30 June 2013.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has applied all the amendments to standards ("new and revised IFRSs") issued by the IASB, which are mandatorily effective for the Group's financial year beginning 1 July 2012.

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to IAS 1: Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments have been applied retrospectively, and hence the title of consolidated statement of comprehensive income is changed to consolidated statement of profit or loss and other comprehensive income.

The Group has not early applied the following new and revised standards, interpretations and amendments to standards that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transaction Disclosures[2]
Amendments to IFRS 10 IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10 IFRS 12 and IAS 27	Investment Entities[3]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (Revised 2011)	Separate Financial Statements[1]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[3]

Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[3]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]
IFRIC 21	Levies[3]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2015.
[3] Effective for annual periods beginning on or after 1 January 2014.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that IFRS 13 will be adopted by the Group for the annual period beginning on 1 July 2013 and that the application of the new standard will result in application of the new fair value measurements on its biological assets and more extensive disclosures in the consolidated financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised 2011) and IAS 28 (Revised 2011).

Key requirements of these five standards that are relevant to the Group are described below.

IFRS 10 replaces the parts of IAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and SIC 12 “Consolidation - Special Purpose Entities”. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company considered the application of these five standards will have no material impact on the results and financial position of the Group but will result in more extensive disclosure.

The directors of the Company anticipate that the application of other new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group upon initial application.

4. **Sales of milk produced and Segment Information**

Sales of milk produced include sales of raw milk, which represented mainly the fair value of milk produced at the point of harvest and sales of processed milk, which is measured at the fair value of the consideration received or receivable.

Included in the sales of milk produced:

	Year ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Sales of raw milk	2,307,227	1,647,652
Sales of processed milk	173,334	29,963
	2,480,561	1,677,615

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the chairman of the Group (the "Chairman"), in order to allocate resources and to assess performance. The operation of the Group constitutes one operating and reportable segment i.e. production and sales of milk produced in the PRC.

For the purpose of resources allocation and assessment of performance, the Chairman reviewed the profit before tax, assets and liabilities of the Group as a whole. The information reported to the Chairman for the purpose of resources allocation and assessment of performance is same as the amounts reported under IFRSs.

All external sales of milk produced by the Group during the year were sold to customers in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in the PRC by physical location of assets.

Sales of milk product of RMB1,962,159,000 (2012: RMB1,616,494,000) is to China Mengniu Dairy Company Limited ("Mengniu Company") and subsidiaries of Mengniu Company.

5. Other Income

	Year ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Government grant related to:		
- Biological assets (note i)	74,089	90,017
- Income (note ii)	9,698	4,595
- Other assets	8,645	5,391
Bank interest income	10,044	15,360
Write-off of payables	724	688
Others	3,143	500
	106,343	116,551

Notes:

(i) These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of supporting the Group to purchase dairy cows.

(ii) These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

6. Farm operating expenses

	Year ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Feeds	1,386,506	1,013,933
Utilities	56,609	39,258
Other farm operating expenses	212,688	95,506
Total farm operating expenses	1,655,803	1,148,697

7. **Profit before finance costs and tax**

	Year ended 30 June 2013 *RMB'000*	2012 *RMB'000*
Profit before finance costs and tax	503,726	478,774
Add: depreciation	135,472	94,798
Add/(Less) : Loss/(gain) arising from changes in fair value less costs to sell of dairy cows	38,599	(131,481)
CASH EBITDA[1]	677,797	442,091

Note (1): EBITDA before gain/loss arising from changes in fair value less costs to sell of dairy cows

Profit before finance costs and tax has been arrived at after charging:

	Year ended 30 June 2013 *RMB'000*	2012 *RMB'000*
Auditors' remuneration	2,881	2,956
Release of land use rights	1,650	1,554

8. **Finance costs**

	Year ended 30 June 2013 *RMB'000*	2012 *RMB'000*
Interest expenses on:		
Bank borrowings wholly repayable within five years	200,715	122,948
Bank borrowings wholly repayable after five years	—	6,351
Other borrowings wholly repayable within five years	2,392	49
Short-term debenture repayable within five years	9,121	—
Total borrowing costs	212,228	129,348
Less: Capitalised amount	(58,549)	(58,025)
	153,679	71,323

9. **Income tax expenses**

	Year ended 30 June 2013 *RMB'000*	2012 *RMB'000*
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	8,051	143

The tax charge for the year represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries established in the PRC.

Since 2008, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises. In addition, qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

As at 30 June 2013, deferred taxation has not been provided for in the consolidated financial statements in respect of undistributed profits of relevant PRC subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the profits generated since 1 January 2008 will not be distributed in the foreseeable future. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB1,081,091,000 (30 June 2012: RMB732,865,000) as at 30 June 2013.

10. Dividends

No dividends were paid, declared or proposed during both years. The directors of the Company do not recommend the payment of dividend for the year ended 30 June 2013.

11. Earnings per share

The calculation of the basic and diluted earnings per share attributable to owners of the Company for the year is based on the following data:

	Year ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	323,832	398,482
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	4,804,337,058	4,800,000,000
Effect of share options issued by the Company	52,101,067	48,960,380
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,856,438,125	4,848,960,380

12. **Property, plant and equipment**

During the year ended 30 June 2013, the Group acquired property plant and equipment amounted to RMB1,073,888,000 (2012: RMB929,041,000) in order to increase its production capacity.

13. **Biological assets**

The fair value of the Group's dairy cows as at 30 June 2013 were based on the valuation carried out by a firm of independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal And Advisory Limited ("JLL"), which are determined with reference to the market-determined prices, if available, of items with similar age, breed and genetic merit. There are no market-determined prices of milkable cows. Therefore, JLL has applied net present value approach to calculate the fair value less costs to sell of these items. The resulting loss arising from changes in fair value less costs to sell of dairy cows of RMB38,599,000 (2012: gain arising from change in fair value less costs to sell of dairy cows RMB131,481,000) has been recognised directly in profit or loss for the year ended 30 June 2013. Such unexpected loss arising from changes in fair value less costs to sell of dairy cows was primarily due to adjustments in a number of principal valuation assumptions adopted by the valuer when determining the fair value of the dairy cows of the Group as at 30 June 2013. The Board was informed by the valuer that such adjustments are made so as to take into account the current prevailing market and industry conditions.

14. **Trade and other receivables**

The Group allows credit period of 60 to 120 days to its trade customers (30 June 2012: 60 days).

The following is an analysis of trade receivables presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates at the end of the reporting period:

	As at 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Trade receivables		
- Within 120 days based on invoice date	273,250	138,652
Advances to suppliers	76,952	35,844
Others	7,481	6,541
	357,683	181,037

Trade receivables at the end of the reporting period principally represent receivables from sales of raw milk and processed milk.

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables were RMB110,000,000 as at 30 June 2013 (30 June 2012: nil) pledged to a bank to secure the bank borrowings granted to the Group.

15. **Trade and other payables**

The credit period taken for the settlement of trade purchases is 60 days. The following is an aged analysis of trade and bills payable at the end of the reporting period:

	As at 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Trade and bills payables		
Within 60 days based on invoice date	493,106	345,278
Over 60 days based on invoice date	93,155	37,312
	586,261	382,590
Payable for acquisition of property, plant and equipment	429,330	267,738
Accrued staff costs	31,767	31,606
Advance payment from customers	94,246	103,770
Interest payable	14,311	1,978
Payable for transaction cost	—	6,139
Others	34,870	27,409
	604,524	438,640
	1,190,785	821,230

The increase in trade and other payables for the period was primarily due to the increase in payables for the purchase of property, plant and equipment. The credit period taken for the settlement of trade purchases is 60 days (2012: 60 days). Payables for the purchase of property, plant and equipment were mainly payables for capital expenditure. Such payments will be made according to the progress of the construction works, and the remaining quality assurance deposit will be paid upon the expiry of the construction warranty period.

16. **Operating lease commitments**

The Group as lessee

At the end of the reporting period, the Group has committed to making future minimum lease payments in respect of plant and vehicles rented under non-cancellable operating leases which fall due as follows:

	As at 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Within one year	873	1,022
In the second to fifth year inclusive	365	368
Over five years	793	885
	2,031	2,275

Operating lease payments represent rentals payable by the Group for certain of its plant and vehicles which are negotiated for an average term of five years and rentals are fixed for an average of five years.

The minimum lease payments paid under operating lease during the year ended 30 June 2013 are approximately RMB8,953,000 (2012: RMB9,791,000).

INDUSTRY OVERVIEW

During the year under review, despite the complex economic climate both domestically and internationally, the economy of China continued to maintain steady growth. In the dairy product industry, the State government and society continued to promote the development of a standardized industry through measures such as media supervision. Under the dual driving forces of the external environment and consumer demand, dairy product industry sales maintained steady growth. At the same time, because of the increased consumer demand for high-end dairy products, the internal product mix of the industry was further upgraded. High priced and value-added products increased in popularity. Enhancing the quality and safety of dairy products by focusing on milk sources, as well as developing self-owned dairy brands will become the dominant future trends of China's dairy industry.

In recent years, China's dairy product industry has engaged in self-review and is seeking a breakthrough. Development models such as "milk source first, market later" and "self-developed farms", etc. gradually became popular. Leading enterprises of the dairy industry invested heavily to develop their own farms and some even constructed plants overseas to secure premium quality milk sources. However, because general price levels rose continuously, the feeding costs of farms increased rapidly. Correspondingly raw milk prices inflated. Faced with intense competition from international players, standardized farming provided domestic enterprises with a key competitive edge.

In January 2013, in order to ensure the healthy and sustainable development of China's dairy product industry, the General Office of the State Council issued Central File No. 1, which expressly states that "a new round of the Non-staple Food Project will be implemented with force, enhanced and the scale of construction of pilot fields for standardized raising and breeding of livestock and poultry will be expanded. The fine breeding project for raising crops will be promoted and the construction of the plantation bases for crops and exemplary fields for the introduction of new breeds will be accelerated".

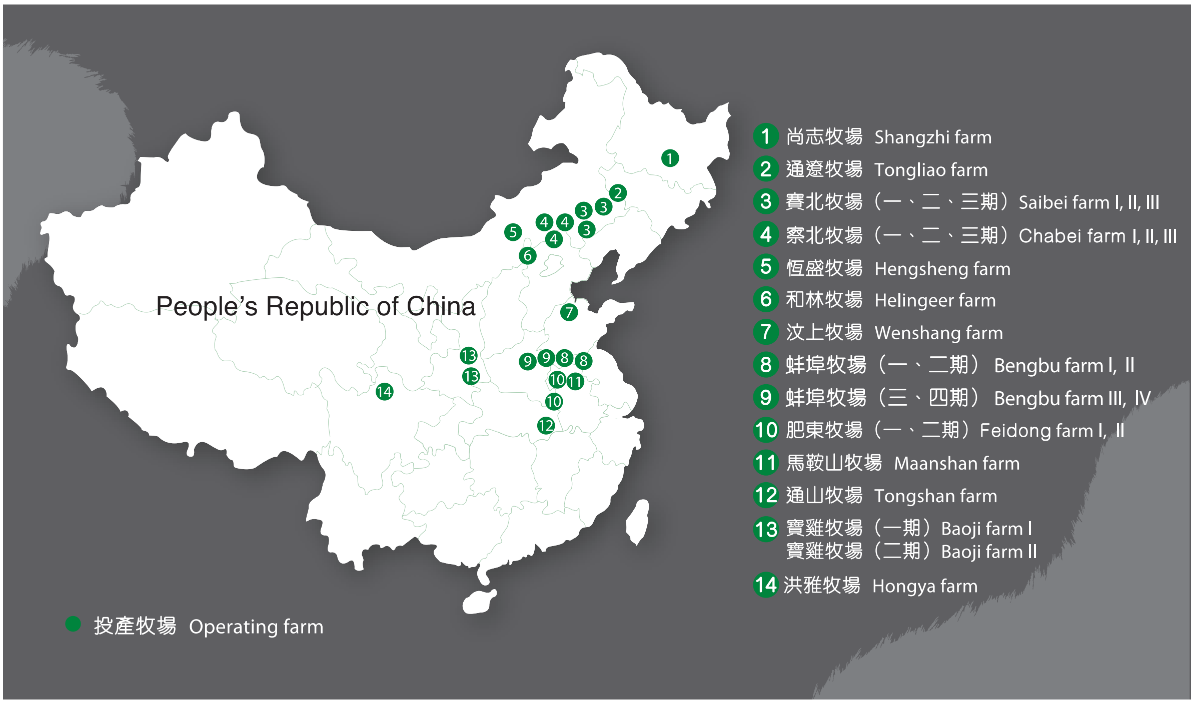
In early 2012, the Ministry of Agriculture pointed out with its "Development Plan for the Grain-saving Animal Husbandry Industry in China (2011-2020)" that the dairy industry is a key component of our national grain-saving animal husbandry industry, and that more resources should be invested in the industry. This includes infrastructure for breeding fine dairy cattle to enhance China's breeding capabilities in general. The Development Plan also stated that the scope of subsidies for raising fine cattle breed will be expanded, while full subsidies for raising fine dairy cattle breed will continue to be provided. Foreign dairy cattle breeds will also be gradually imported into China in an attempt to introduce better genes into the local genepool. It is targeted that dairy output will reach 50 million tons and 64 million tons by 2015 and 2016 respectively.

The series of policies and measures implemented by the government shows that China's dairy product industry is undergoing a fast consolidation. Market competition will also play a more significant role than ever. Large-scale dairy corporations that possess strong financial bases, well-known reputation, advanced technologies and economies of scale will benefit from the growth of the dairy industry. As a well-known and leading enterprise in the nationwide dairy farming industry, we carried out strict quality control, implemented comprehensive and modern scientific farm management techniques to enhance operation efficiency, and diversified our revenue streams through the development of new businesses and products. This allowed us to lay a solid foundation for the Group so as to consolidate our position as an industry leader and for our development in future.

BUSINESS REVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. During the financial year ended 30 June 2013, the Group's operating results reached a historical high due to increases in productivity and the increased demand for high-end dairy products in China. The Group also completed the construction of two new farms. As of 30 June 2013, the Group had 22 farms in operation in China with approximately 177,921 dairy cows in total. Our farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources. Total sales volume for the Group amounted to 567,021 tons. This represented an increase of 31.4% from 431,394 tons in the last fiscal year and indicates that the Group has established a stable and leading market position in China's raw milk market. Owing to the quality of our Group's raw milk, we hold majority of the high-end milk source market share in China. In terms of production, our Group accounted for 70% of the milk source supply of Milk Deluxe, Mengniu Group's premium brand of milk. For other third parties, our raw milk is also used for the production of premium milk. The sales volume of premium milk has increased at levels consistently above 10% in recent years. Looking forward, our Group's emphasis on quality and premium milk sales remains the growth engine of the future.

Our farms



Our financial results are directly affected by our milk yield per cow. In general, as the milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield per cow of 8.23 tons for the Review Year. This represents an increase of 1.7% from 8.09 tons last year. Such a result is attributable to effective herd management, genetic improvement of our cows across generations and the increase in number of cows reaching the peak stage of lactation.

The EBIT margin of the Group decreased to 20.3% for the financial year ended 30 June 2013 from 28.5% last year. Cash EBITDA (EBITDA before gains arising from changes in fair values less costs to sell of dairy cows) increased by 53.3% from RMB442.1 million last year to RMB677.8 million for the year ended 30 June 2013.

PROSPECTS

Looking ahead, with per capita disposable income and consumer spending continuously rising in China, as well as more attention being paid to health, it is expected that the demand for high quality raw milk will increase. Regulation and supervision continue to promote the development of a standardized industry. Product mix within the industry was enhanced, with high quality and high value-added products gradually receiving market attention. Under the twin driving forces of the external environment and consumer demand, dairy product sales maintained steady growth, and the demand for and prices of raw milk continue to increase. The above factors create a sound environment for development of the Group.

In recent years, the central government has been promoting healthy and sustainable growth of the dairy product industry through various policy documents. In September 2011, the government promulgated the "Twelfth Five-year Plan for the National Development of the Animal Husbandry Industry (2011-2015)", which expressly stated that the development objective of the animal husbandry industry during the Twelfth Five-year Plan period was to remarkably improve the quality of the animal husbandry industry. Standardized large-scale farming would be the key development focus during the Twelfth Five-year Plan period. By 2015, the proportion of large-scale livestock farming in China will increase by 10% to 15% and the percentage of farms nationwide with over 100 dairy cows will exceed 38%. The document also emphasized that China will continue to increase financial support in key animal husbandry areas such as grassland ecology, breeding of fine livestock and forage grass production. At the end of 2011, the government announced the "Development Plan for the Grain-saving Animal Husbandry Industry in China (2011-2020)" yet again. The Plan stated that the dairy industry is a key component of our national grain-saving animal husbandry industry, and that better infrastructure for original and fine breed farms for grain-saving livestock and poultry (including dairy cattle) was needed to improve proprietary breeding capabilities. It also emphasized that the government will continue to increase support for the dairy industry and expand the scope of subsidies to fine breeding. In January 2013, the General Office of the State Council issued Central File No. 1 which clearly states that implementation efforts for a new round of the "Non-staple Food" project will be increased, and that the scale of construction of standardized farms for animal husbandry will be expanded. Support for the fine breed farming project will also be enhanced, and the construction of plantation bases for agricultural crops and exemplary farms for the introduction of new breeds will be accelerated. These policy documents give strong driving force for industry integration and ensure the optimization of large-scale livestock farming and environmental benefits. Further, they enhance consumer confidence in Chinese dairy products, and establish a solid foundation for strengthening the industry-leading position and sustainable growth of the Group.

Leveraging on this, the Group will focus on nurturing its own quality dairy breeds, and adopt comprehensive, modern and scientific breeding and feeding techniques to consistently improve the quality of raw milk. The focus of our Group will also shift from simply acquiring cows till each of our farms have in excess of 10,000 cows to sustainable growth of herd headcount through organic growth. This strategy will not only help the Group gradually reduce capital expenditure on dairy cows, it will also promote sustained development of our farms and maximize their scale and operational efficiency. In respect of farm management, we will emphasize our comprehensive, modern and scientific farm management practices to enhance efficiency. Also we will develop new business initiatives and products to diversify our revenue stream.

FINANCIAL OVERVIEW

Herd size

	As at	
	30 June 2013	**30 June 2012**
	Head	*Head*
Dairy cows		
Milkable cows	86,710	70,793
Heifers and calves	91,211	88,554
Total dairy cows	177,921	159,347

The Group purchased 11,442 heifers and milkable cows for the financial year ended 30 June 2013. As at 30 June 2013, the current herd size is 177,921 compared to 159,347 as at 30 June 2012. Since January 2013 onwards, the Group ceased to import heifers and relied on organic growth. This strategy helped the Group reduce capital expenditure on dairy cows and enhanced herd mix, resulting in the high core profits of the Company.

Sales of milk produced

The Company entered into a 10-year agreement to supply raw milk to our primary customer China Mengniu Dairy Company Ltd ("Mengniu") in October 2008. During the financial year ended 30 June 2013, 83.7% of the Group's sales volume of milk was sold to Mengniu (2012: 97.8%). In the same year, the Group acquired several new customer accounts and continuously expanded the market share of the Group's own brand. Our total sales of milk produced increased by 47.9 % from RMB1,677.6 million in the last fiscal year to RMB2,480.6 million for the the year ended 30 June 2013. Sales of our own brand of milk increased by 479.6% from RMB29.9 million in the last fiscal year to RMB173.3 million for the year ended 30 June 2013. The increase in sales revenue is mainly due to an increase in sales volume of milk by 31.4% from 431,394 tons in the last fiscal year to 567,021 tons for the the year ended 30 June 2013. The sales volume of our own brand of milk increased by 624.6% from 2,101 tons in the last fiscal year to 15,223 tons for the year ended 30 June 2013. The increase in sales volume is attributable to the expansion of our herd size and an increase in average milk yield per cow. Currently, the raw milk produced by the Group is mainly used for the production of Mengniu Group's Milk Deluxe and other high quality lines of milk.

In addition, since the introduction of UHT milk packs of our own brand in 2012 which account for 7% of total sales, the Group has actively increased its market share. The freshness and purity of our products are highly valued by our customers. Sales of our own brand of milk increased by 479.6% from RMB29.9 million in the last fiscal year to RMB173.3 million for the financial year ended 30 June 2013. After a trial which lasted more than a year, our products are now highly recognized by consumers. We have also successfully challenged the traditional sales model, which stipulates that products cannot be sold without advertisements. Our sales model is marketing by words of mouth, which is a method of marketing by passing the relevant information about the commodity verbally from person to person through consumers' trust in our products.

Gain arising from changes in fair value less costs to sell of dairy cows

As at 30 June 2013, the biological assets of the Group were valued at RMB5,465.0 million (2012: RMB4,185.6 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal And Advisory Limited. Loss arising from changes in the fair value of biological assets was RMB38.6 million for the financial year ended 30 June 2013 (2012: Gain arising from changes in fair value of biological assets RMB131.5 million). The decrease was primarily due to the stabilizing of herd mix. This affected a number of principal valuation assumptions adopted by the Valuer when determining the fair value of the dairy cows of the Group as at 30 June 2013. Such adjustments are made taking into account the current prevailing market and industry conditions.

Other Income

Other income for the year mainly consists of government grants amounting to RMB92.4 million (2012: RMB100.0 million). Majority of the government grants were unconditional subsidies for the purchase of quality breed heifers. The remainder consisted of subsidies for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy, straw utilization subsidy and sizable farm subsidy, etc.). Categories of such subsidies will continue to increase as the State emphasizes the importance of the agricultural sector.

Farm operating expenses

	Year ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
Feeds	1,386,506	1,013,933
Utilities	56,609	39,258
Other farm operating expenses	212,688	95,506
Total	1,655,803	1,148,697

With the expansion of our herd size and general increase in the market price of feeds, total feed costs for the financial year ended 30 June 2013 increased to RMB1,386.5 million from RMB1,013.9 million in the last fiscal year. This represents an increase of 36.7%. In the same period, our total sales of milk produced increased by 47.9 % from RMB1,677.6 million in the last fiscal year to RMB2,480.6 million for the the year ended 30 June 2013.

Meanwhile, cost (excluding employee benefit expenses and depreciation) per ton of raw milk sold increased by 9.7% from RMB2,663 in the last fiscal year to RMB2,920 for the financial year ended 30 June 2013. This was driven by increases in the price of feeds. The Company was, however, able to transfer the increase in costs to customers effectively. The price of milk increased by 12.3% from RMB3.89 in the last fiscal year to RMB4.37 for the financial year ended 30 June 2013. This alleviates the pressure of rising costs, including rising feed costs.

Employee benefit expenses

As of 30 June 2013, our Group has 4,955 employees. This represents a 30.5% increase in headcount from 30 June 2012. Our employee benefits expenses increased by 33.4% from RMB128.0 million in the last fiscal year to RMB170.8 million for the financial year ended 30 June 2013. The increase was mainly related to the increased headcount as well as a general increase in basic salary following an increase in the proportion of milkable cows to total number of dairy cows.

Depreciation

Depreciation expense increased by 42.9% from RMB94.8 million in the last fiscal year to RMB135.5 million for the financial year ended 30 June 2013. This is mainly due to more farms being put into operation and the proportion of milkable cows to total number of dairy cows increasing.

Other expenses

Other expenses mainly consist of professional fees, milk transportation cost, travelling expenses and other office administrative expenses. The increase of 28.6% from RMB72.0 million in the last fiscal year to RMB92.6 million for the year ended 30 June 2013 was mainly due to increases in transportation costs following the increase in sales volume of milk. Transportation costs increased from RMB27.1 million in the last financial year by 32.5% to RMB35.9 million for the financial year ended 30 June 2013.

Finance costs

Finance costs increased from RMB71.3 million for the last fiscal year to RMB153.7 million for the year ended 30 June 2013. This was mainly attributable to the increase in bank loans and interest expense no longer being capitalised following the transfer of construction in progress to property, plant and equipment.

Profit attributable to owners of the Company

Taking into account all of the above factors, the Group's profit attributable to the owners of the Company was RMB323.8 million for the financial year ended 30 June 2013. This represents a decrease of 18.7% from RMB398.5 million from last year.

Basic earnings per share were approximately RMB6.74 cents (2012: RMB8.30 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the financial year ended 30 June 2013, the Group's net cash inflow from operating activities amounted to RMB665.6 million, as compared to RMB542.40 million in the last fiscal year.

During the year ended 30 June 2013, the first tranche of domestic short term debenture ("STD") with an aggregate principal amount of RMB0.7 billion was issued in the PRC by Modern Farming (Group) Co., Ltd., a non-wholly owned subsidiary of the Company. The first tranche of the STD is unsecured with a term of 1 year and bears a fixed interest rate of 4.99% per annum. This interest rate is more favourable compared to most of the bank loans of the Group. The Group issued the STD at a lower interest rate to optimize the debt structure. The net proceeds from the STD have been used to repay bank loans and as general working capital of the Group.

As at 30 June 2013, the Group's available and unutilised banking facilities amounted to approximately RMB2,216.9 million (2012: RMB740.0 million). The directors of the Company are of the opinion that the working capital available to the Group is sufficient for its present requirements.

The table below sets forth our short-term and long-term borrowings as at 30 June 2013.

	As at 30 June 2013 *RMB'000*	As at 30 June 2012 *RMB'000*
Bank borrowings	3,528,349	2,589,982
Other borrowings	50,692	807
	3,579,041	2,590,789
Unsecured borrowings	1,387,044	1,080,459
Secured borrowings	2,105,707	1,440,330
Guaranteed borrowings	86,290	70,000
	3,579,041	2,590,789
Carrying amount repayable:		
Within one year	1,330,959	664,217
Between one to two years	1,035,927	643,442
Between two to five years	1,212,155	1,180,200
Over five years	—	102,930
	3,579,041	2,590,789
Less: Amounts due within one year shown under current liabilities	(1,330,959)	(664,217)
	2,248,082	1,926,572

As at 30 June 2013, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 38.3% (2012: 29.9%). The annual interest rate of the banks and other borrowings for the financial year ended 30 June 2013 varied from 2.0% to 7.05% (2012: 2.45 %- 7.05%). As at 30 June 2013, all borrowings were denominated in Renminbi, US$ and HK$.

BUSINESS STRATEGIES

Further broaden our customer base and expand our own brand

We will strengthen our strategic relationship with Mengniu, develop strategic relationships with new customers and continuously expand the Group's market share of products of our own brand.

zImprove our pure-bred yield and raw milk quality by continuing to adopt modern and scientific breeding and feeding techniques

We have continued to improve our operations since the commencement of business, and this has resulted in rising average annual milk yield. Currently, our average annual milk yield per milkable cow is among the highest in China. We believe that the yield and raw milk quality of our milkable cows will continue to rise as we improve the genetic mix of our herd across generations, increase the ratio of milkable cows to non-milkable cows among our herd and optimizing the mix of feed.

Continue to enhance feed nutrients and optimize the mix of feed by continuing the research on feed mix

We will continue to work closely with local farmers and agricultural institutes to research and grow plants and crops that are suitable for our dairy cows. In addition, based on the location of our farms, we will collaborate with local farmers in specific regions to establish a tailor-made feed supply chain, with the aim of reducing the cost of transporting feed and maintaining the quality, nutritional content and stable supply of the feed.

Continue to enhance the sales of branded milk

During the year, we will continue to expand our sales regions and widen the sales channels of our branded milk, hence improving the Company's profitability as a whole.

PLEDGE OF ASSETS

As at 30 June 2013, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.3 million, (2012: RMB10.5 million), RMB61.5 million (2012: RMB66.1 million) and RMB4,014.2 million (2012: RMB2,372.8 million), respectively , were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2013, the Group has capital commitments of RMB190 million relating to the acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 30 June 2013.

FINANCIAL MANAGEMENT POLICIES

The Group continues to closely manage financial risks to safeguard the interests of shareholders. The Group applies its cash flows generated from operation and bank loans to its operational and investment needs.

The Directors consider that the Group has limited foreign currency expsosure in respect of its operations since our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risks associated with concentrated feeds and farm facilities are not material. In view of the minimal foreign currency exchange risk related to operations, the Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 4,955 employees (30 June 2012: 3,798) in Mainland China and Hong Kong as at 30 June 2013. Total staff costs for the financial year ended 30 June 2013 (excluding directors' fees) were approximately RMB166.4 million (2012: RMB124.7 million).

The Group values recruiting and training quality personnel. We recruit talent from universities and technical schools, and we provide them with pre-employment and on-the-job training. The Group also offers remuneration at competitive rates with the aim of retaining quality personnel.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2013 (2012: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules. The Company has, throughout the year ended 30 June 2013, complied with the code provisions set out in the CG Code except for the deviations from code provision A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. One non-executive Director and one independent non-executive Director were not able to attend the extraordinary general meeting and the annual general meeting of the Company held on 30 November 2012 due to other personal business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the financial year ended 30 June 2013.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the financial year ended 30 June 2013.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 30 June 2013 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 as issued by the Hong Kong Institute of Certified Public Accountants. Consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises two independent non-executive director, Mr. LEE Kong Way Conway and Mr. LIU Fuchun, as well as an non-executive director, Mr. HUI Chi Kin Max. During the financial year ended 30 June 2013, the Audit Committee held two meetings to review internal controls and financial reporting matters. The financial results for the financial year ended 30 June 2013 have been reviewed by the Audit Committee.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 30 June 2013 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.
YU Xubo
Chairman

Hong Kong, 27 August 2013

As of the date of this announcement, the executive Directors are Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang, the non-executive Directors are Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max, Mr. LEI Yongsheng and Mr. DING Sheng, the independent non-executive Directors are Prof. LI Shengli, Mr. LEE Kong Wai Conway, Mr. LIU Fuchun and Mr. KANG Yan.