现代牧业

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 SIX MONTHS PERIOD ENDED 31 DECEMBER 2013

The board (the "Board") of directors (the "Directors") 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 six months period ended 31 December 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the 6 months ended 31 December 2013** *RMB'000 (Audited)*	**For the 6 months ended 31 December 2012** *RMB'000 (Unaudited)*	**For the 12 months ended 30 June 2013** *RMB'000 (Audited)*
Sales of milk produced	5	1,901,248	1,092,528	2,480,561
(Loss)/Gain arising from changes in fair value less costs to sell of dairy cows	14	(16,408)	27,744	(38,599)
Other income	6	15,902	52,740	106,343
Farm operating expenses	7	(1,132,588)	(756,275)	(1,655,803)
Employee benefits expense		(115,573)	(77,705)	(170,847)
Depreciation		(91,482)	(58,092)	(135,472)
Share of (loss)/profit of an associate		(872)	2,524	3,371
Share of loss of a joint venture company		(287)	—	—
Net foreign exchange gain		4,855	4,326	9,127
Other gains and losses		(42,417)	(1,221)	(2,400)
Other expenses		(59,741)	(46,154)	(92,555)
Profit before finance costs and tax	8	462,637	240,415	503,726
Finance costs	9	(113,505)	(58,801)	(153,679)
Profit before tax		349,132	181,614	350,047
Income tax expenses	10	(5,875)	(3,355)	(8,051)
Profit and total comprehensive income for the period/year		343,257	178,259	341,996

	Notes	For the 6 months ended 31 December 2013 *RMB'000* *(Audited)*	For the 6 months ended 31 December 2012 *RMB'000* *(Unaudited)*	For the 12 months ended 30 June 2013 *RMB'000* *(Audited)*
Profit and total comprehensive income for the period/year attributable to:				
Owners of the Company		327,487	170,269	323,832
Non-controlling interests		15,770	7,990	18,164
		343,257	178,259	341,996
Earnings per share (RMB)	12			
Basic		6.79 cents	3.55 cents	6.74 cents
Diluted		6.72 cents	3.51 cents	6.67 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2013 RMB'000 (Audited)	As at 30 June 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	13	4,032,642	3,772,270
Land use rights		66,261	67,098
Goodwill		310,426	310,426
Interest in an associate		25,722	26,594
Interest in a joint venture		32,829	—
Biological assets	14	5,954,363	5,465,008
Other financial assets		34,517	—
		10,456,760	9,641,396
CURRENT ASSETS			
Inventories		691,108	342,140
Trade and other receivables	15	544,710	357,683
Land use rights		1,667	1,667
Pledged bank balances		430,535	442,747
Cash and bank balances		369,041	378,030
		2,037,061	1,522,267
CURRENT LIABILITIES			
Trade and other payables	16	1,386,430	1,190,785
Amount due to an associate		87,820	63,116
Tax payable		9,161	4,785
Borrowings — due within one year		1,788,799	1,330,959
Short-term debenture		1,200,000	700,000
Deferred income		10,913	9,750
		4,483,123	3,299,395
NET CURRENT LIABILITIES		(2,446,062)	(1,777,128)
TOTAL ASSETS LESS CURRENT LIABILTIIES		8,010,698	7,864,268

	Notes	As at 31 December 2013 RMB'000 (Audited)	As at 30 June 2013 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital		415,261	414,564
Share premium and reserves		5,327,763	4,992,220
Equity attributable to owners of the Company		5,743,024	5,406,784
Non-controlling interests		117,710	101,940
		5,860,734	5,508,724
NON-CURRENT LIABILITIES			
Borrowings — due after one year		1,959,867	2,248,082
Deferred income		113,949	107,462
Other financial liabilities		76,148	—
		2,149,964	2,355,544
		8,010,698	7,864,268

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 consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the "functional currency").

2. Change of Financial Year End Date

On 20 November 2013, the board of directors of the Company decided to change the financial year end date of the Company and the Group from 30 June to 31 December. As the PRC Subsidiaries are statutorily required to have their financial year end date set at 31 December, such change of financial year end date is to align the financial year end date of the Company with that of the PRC Subsidiaries. Accordingly, the consolidated financial statements for the current period cover a six-month period from 1 July 2013 to 31 December 2013. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a twelve-month period from 1 July 2012 to 30 June 2013 and therefore may not be comparable with amounts shown for the current period. For providing additional information purpose only, this announcement also presents financial information about the corresponding period of unaudited comparative amounts for consolidated statement of profit or loss and other comprehensive income for the period from 1 July 2012 to 31 December 2012.

3. Basis of preparation

In preparing the consolidated financial statements for the period from 1 July 2013 to 31 December 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 RMB2,446,062,000 as at 31 December 2013 (30 June 2013: RMB1,777,128,000). Having considered the credit facilities of approximately RMB3,668,079,000 which remains un-utilised as at 31 December 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").

4. **Principal accounting policies**

The annual results have been prepared on the historical cost basis except for (i) the biological assets, which are measured at fair value less costs to sell, (ii) Financial assets at FVTPL and Financial Liabilities at FVTPL, which are measured at fair value. 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 International Accounting Standards Board, which are mandatorily effective for the Group's financial year beginning 1 July 2013.

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

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 application of the new standard results 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. The application of these five standards has no material impact on the results and financial position of the Group but results in more extensive disclosure.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial liabilities[1]
Amendments to IAS 36	Recoverable Amount disclosures for Non-financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]

IFRIC 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014

[2] Effective for annual periods beginning on or after 1 July 2014

[3] Available for application — the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

[4] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

[5] Effective for first annual IFRS financial statements beginning on or after 1 January 2016

Other than as further explained below, the directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of IFRS 9 in the future would not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2013.

5. **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:

	For the 6 months ended 31 December 2013	**For the 6 months ended 31 December 2012**	**For the 12 months ended 30 June 2013**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Sales of raw milk	1,696,925	1,036,196	2,307,227
Sales of processed milk	204,323	56,332	173,334
	1,901,248	1,092,528	2,480,561

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 raw milk of RMB1,345,269,000 (For the six months ended 31 December 2012: RMB947,312,000) is to China Mengniu Dairy Company Limited ("Mengniu") and subsidiaries of Mengniu.

6. **Other Income**

	For the 6 months ended 31 December 2013 *RMB'000* *(Audited)*	For the 6 months ended 31 December 2012 *RMB'000* *(Unaudited)*	For the 12 months ended 30 June 2013 *RMB'000* *(Audited)*
Government grant related to:			
- Biological assets (note i)	—	41,600	74,089
- Income (note ii)	851	2,505	9,698
- Other assets	5,155	3,901	8,645
Bank interest income	8,255	3,628	10,044
Write-off of payables	25	—	724
Others	1,616	1,106	3,143
	15,902	52,740	106,343

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.

7. **Farm operating expenses**

	For the 6 months ended 31 December 2013 *RMB'000* *(Audited)*	For the 6 months ended 31 December 2012 *RMB'000* *(Unaudited)*	For the 12 months ended 30 June 2013 *RMB'000* *(Audited)*
Feeds	927,649	661,486	1,386,506
Utilities	38,422	24,496	56,609
Other farm operating expenses	166,517	70,293	212,688
Total farm operating expenses	1,132,588	756,275	1,655,803

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

	For the 6 months ended 31 December 2013	For the 6 months ended 31 December 2012	For the 12 months ended 30 June 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Profit before finance costs and tax	462,637	240,415	503,726
Add: depreciation	91,482	58,092	135,472
Add/(Less) : Loss/(gain) arising from changes in fair value less costs to sell of dairy cows	16,408	(27,744)	38,599
Add: Other gains and losses	42,417	1,221	2,400
CASH EBITDA[1]	612,944	271,984	680,197

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

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

	For the 6 months ended 31 December 2013	For the 6 months ended 31 December 2012	For the 12 months ended 30 June 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Auditors' remuneration	2,761	860	2,881
Release of land use rights	837	825	1,650

9. **Finance costs**

	For the 6 months ended 31 December 2013	For the 6 months ended 31 December 2012	For the 12 months ended 30 June 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Interest expenses on:			
Bank borrowings wholly repayable within five years	113,210	94,399	200,715
Other borrowings wholly repayable within five years	692	—	2,392
Short-term debenture repayable within five years	20,249	—	9,121
Total borrowing costs	134,151	94,399	212,228
Less: Capitalised amount	(20,646)	(35,598)	(58,549)
	113,505	58,801	153,679

10. **Income tax expenses**

	For the 6 months ended 31 December 2013	For the 6 months ended 31 December 2012	For the 12 months ended 30 June 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Income tax recognised in profit or loss:			
Current tax:			
PRC Enterprise Income Tax	5,875	3,355	8,051

The tax charge for the period/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 31 December 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 RMB1,609,717,000 (30 June 2013: RMB1,081,091,000) as at 31 December 2013.

11. **Dividends**

The Board does not recommend the payment of final dividend for the period ended 31 December 2013 (year ended 30 June 2013: Nil).

12. **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:

	For the 6 months ended 31 December 2013 *RMB'000* *(Audited)*	**For the 6 months ended 31 December 2012** *RMB'000* *(Unaudited)*	**For the 12 months ended 30 June 2013** *RMB'000* *(Audited)*
Earnings			
Earnings for the purpose of basic and diluted earnings per share	327,487	170,269	323,832
Number of shares			
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	4,820,592,960	4,800,000,000	4,804,337,058
Effect of share options issued by the Company	51,866,777	50,703,246	52,101,067
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,872,459,737	4,850,703,246	4,856,438,125

13. **Property, plant and equipment**

During the six months ended 31 December 2013, the Group acquired property plant and equipment amounted to RMB428,293,000 (twelve months ended 30 June 2013: RMB1,073,888,000) in order to increase its production capacity.

14. **Biological assets**

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal And Advisory Limited ("JLL"), a firm of independent qualified professional valuers, who has appropriate qualifications and recent experiences in valuation of biological assets. The fair value less costs to sell of the heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less cost to sell of these items. The resulting loss arising from changes in fair value less costs to sell of dairy cows of RMB16,408,000 (twelve months ended 30 June 2013: loss arising from change in fair value less costs to sell of dairy cows RMB38,599,000) has been recognised directly in profit or loss for the six months ended 31 December 2013. This was mainly attributable to the increase in ratio of milkable cows among our herd across generations, and after producing milk of milkable cows and along with increase of lactation period, impairment will be occurred as cash flow generated in the future will be reduced.

15. **Trade and other receivables**

The Group allows credit period of 60 to 120 days to its trade customers (30 June 2013: credit period of 60 to 120 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	
	31 December 2013	**30 June 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Trade receivables		
- Within 120 days based on invoice date	462,775	273,250
Advances to suppliers	69,464	76,952
Others	12,471	7,481
	544,710	357,683

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 31 December 2013 (30 June 2013: 110,000,000) pledged to a bank to secure the bank borrowings granted to the Group.

16. **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	
	31 December 2013	**30 June 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Trade and bills payables		
Within 60 days based on invoice date	682,985	493,106
Over 60 days based on invoice date	42,379	93,155
	725,364	586,261
Payable for acquisition of property, plant and equipment	479,318	429,330
Accrued staff costs	45,321	31,767
Advance payment from customers	55,949	94,246
Interest payable	35,447	14,311
Others	45,031	34,870
	661,066	604,524
	1,386,430	1,190,785

The increase in trade and other payables for the period was primarily due to the increase in payables for the purchase of feeds. The credit period taken for the settlement of trade purchases is 60 days. Payables for the acquisition 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.

17. **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	
	31 December 2013	**30 June 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Within one year	579	873
In the second to fifth year inclusive	364	365
Over five years	756	793
	1,699	2,031

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 current period are approximately RMB8,451,000 (twelve months ended 30 June 2013: RMB8,953,000).

INDUSTRY OVERVIEW

During the period under review, the PRC government continued to implement guidelines which aim to make progress while also striving to maintain stable socio-economic development. The Third Plenary Session of the 18th Central Committee of the Communist Party proposed "letting the market play a decisive role in the allocation of resources".This motto was in line with the increasing consumers demand for high-end dairy products in recent years and thus became a beacon in the overall Chinese dairy industry. While introducing new policies, the PRC government also continued to promote normative development of the industry by strengthening regulatory and media supervision. In this environment, the operating structure of dairy enterprises continued to be upgraded, and there is a clear trend that a growing number of mergers and acquisitions will take place in the domestic dairy industry. Leading enterprises with scale, high-quality internal control and brand advantages in the dairy industry are expected to emerge through merger with and acquisition of other smaller enterprises. As a result of the external economic environment and increasing market demand, enhancing the quality and safety of dairy products by focusing on the construction of milk source base, as well as developing self-owned dairy brands will become the dominant focus of the entire dairy industry in China.

In recent years, the sight of "shortages" in the dairy industry has been obvious. On the one hand, during the reporting period, the price of feeds has been increasing and the quality control of raw milk by the PRC government became more stringent, which has limited the room for survival of dairy farmers. Coupled with rising beef prices, many dairy farmers chose to sell their dairy cows and seek alternative career instead of engaging in the business of raising cows. With the rapid decrease of the number of dairy farmers, and given the fact that the construction of large raising farms was slower than the rate of decrease of the number of dairy farmers, the number of dairy cows dropped on a nationwide basis. This has led to a trend of milk supply shortage in China.

With the accelerated urbanization in China in recent years, the dietary habit of urban consumers is beginning to resemble the habit of those in the developed countries, thus further increasing the demand for high-end raw milk. On 15 November 2013, after the Third Plenary Session of the 18th Central Committee of the Communist Party, the PRC government issued the "Notice of the CPC Central Committee on Certain Major Issues regarding Deepening the Reform in an All-round Way" which proposed to implement a new policy of allowing couples with one child to have an additional child. Following the introduction of this "two children" policy, it is expected the demand for dairy products will continue to rise, but supply will unlikely increase substantially in the short term. The gap between raw milk supply and demand remains large. Against this backdrop, the rising trend of milk prices is expected to persist.

Meanwhile, environment problem also continues to gather attention. It is reported that in the past few years, the scale of poultry raising has continued to expand and has become a major source of pollution in agricultural and rural areas. On 8 October 2013, Regulations on the Prevention and Control of Pollution Caused by Large-scale Breeding of Livestock and Poultry (Draft) was considered and approved at the State Council executive meeting chaired by Li Keqiang, Premier of the State Council. The regulation aims to facilitate livestock and poultry pollution prevention and control, as well as the healthy development of the animal husbandry industry and promote the transformation and upgrade of the animal husbandry industry. Being the largest dairy farming company and the largest producer of raw milk in the PRC, the Group is in the forefront of the industry and has already invested large amounts of capital in the construction of dung treatment facilities and farms construction. Waste pollutants generated from livestock and poultry farming, including fecal waste and sewage are collected and converted into useful resources (such as biogas produced from cow manure through fermentation which can be used for power generation or conversion into energy). The remaining materials can be used as, amongst others, fertilizers and cow mattress materials. While complying with the prevailing national policies, this also allows us to consolidate our position as an industry leader, which is conducive to our development in the 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 six months ended 31 December 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 the PRC. As of 31 December 2013, the Group had 22 farms operating, 2 farms under construction invested through the joint venture and 2 farms under construction by the Group in the PRC with approximately 186,838 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 372,647 tons for the six months ended 31 December 2013. This represented an increase of 42.8% from 260,906 tons in the corresponding period of 2012 and indicates that the Group has established a stable and leading market position in China's raw milk market. In terms of production, our Group accounted for more than 70% of the milk source supply of Milk Deluxe, Mengniu Group's premium brand of milk. For other independent third parties, our raw milk is also used for the production of premium milk. The sales volume of premium milk in the PRC has increased consistently for more than 15% 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 8.51 tons for the six months ended 31 December 2013. This represents an increase of 7.2% from 7.94 tons in the corresponding period last year. Such a result is attributable to effective herd management, genetic improvement of our cows across generations and the increase in the number of cows reaching the peak stage of lactation.

Cash EBITDA (EBITDA before gains/(loss) arising from changes in fair values less costs to sell of dairy cows and other gains and losses) increased by 125.3% from RMB272.0 million in the corresponding period last year to RMB612.9 million for the six months ended 31 December 2013. Cash EBITDA margin increased from 24.9% in the corresponding period last year to 32.2% for the six months ended 31 December 2013.

On 23 September 2013, the Group entered into two agreements with Success Dairy II Limited ("Success Dairy") in respect of the formation of two joint venture companies to design, construct and operate new dairy farms. The Group owns 18% of the issued share capital of each of the joint venture company and Success Dairy owns the remaining 82% of the issued share capital. The total investment of these joint ventures is US$140 million. We believe that the formation of the joint venture is in the best interests of the Group. In contrast with setting up dairy farms by itself, using the structure of a joint venture reduces short term capital expenditure and improves the Company's cash flow. According to the relevant co-operation agreement, the joint venture entity will purchase a total of approximately 13,200 dairy cows from the Company, which will utilize excess heifers of the Group resulted from its natural herd growth. Moreover, the proceeds received from the sale of dairy cows will have positive contribution to the Company's revenue. Pursuant to the call option arrangement as agreed between the joint venture partners, the Company may acquire the remaining 82% of the equity interests in each of the joint venture companies in the future.

PROSPECTS

Outlook

Looking forward, with per capita disposable income and consumer spending continuously rising in the PRC, as well as increasing focus on health, the demand for high-end quality raw milk in the PRC will maintain strong growth. The government and media constantly promote standardized development of the dairy industry by strengthening the regulations and supervision. The product mix within the industry will be further upgraded, with high-priced and high value-added products gradually attracting market attention. Under the dual driving forces of increasing consumption and demand, the dairy industry will maintain steady growth in sales. With a continuous shortage of supply in raw milk which cannot be resolved within a short period of time, it is expected that there is still room for an increase in prices of raw milk. All the above factors will contribute to creating a favorable environment for the further development of the Group.

As the largest dairy farming company as well as the largest raw milk producer in the PRC (in terms of herd size), Modern Diary has been committed to providing high-end raw milk. In the future, the Group will actively seek opportunities for the development and construction of new dairy farms, and strive to improve the pure-bred yield of our dairy cows in order to meet rising market demand. As we continue to enhance our management techniques for large-scale dairy farms, it is expected that our herd size will maintain fast growth. At present, the proportion of milkable cows to calves is 53% to 47%. In the next two years, it is expected that this ratio will be further increased to 60% to 40%, achieving an optimal cow herd structure. For the six months ended 31 December 2013, we recorded an average annual milk yield per milkable cow of 8.51 tons, representing an increase of 7.2%

from 7.94 tons for the corresponding period last year. We are confident that we will be able to achieve our target of producing one million tons of milk in 2015. The comprehensive strength of our Group will be further enhanced, while Shareholders and investors will also benefit from the healthy development of the Company.

Meanwhile, the Group will actively expand its downstream business. Our own brand of UHT milk packs are highly recognized by consumers in the PRC, recording considerable growth in annual sales. It is expected that the sales network will further expand into most parts of China in 2014. We believe with the sustained and steady growth of the sales of premium milk in recent years, the sales volume of our own brand of milk will increase substantially, thereby making significant contributions to the profit of the Group.

FINANCIAL OVERVIEW

Herd size

	As at	
	31 December 2013	**30 June 2013**
	Head	*Head*
	(Audited)	*(Audited)*
Dairy cows		
Milkable cows	98,791	86,710
Heifers and calves	88,047	91,211
Total dairy cows	186,838	177,921

The Group did not purchase any heifers and milkable cows for the six months ended 31 December 2013. As at 31 December 2013, the current herd size is 186,838 compared to 177,921 as at 30 June 2013.

Sales of milk produced

The Company entered into a ten year agreement to supply raw milk to our primary customer China Mengniu Dairy Company Ltd ("Mengniu") in October 2008. As of the six months ended 31 December 2013, 75.7% of the Group's sales volume of milk was sold to Mengniu (twelve months ended 30 June 2013: 83.7%). Meanwhile, the Group has acquired several new customer accounts and continuously expanded the market share of the Group's own brand. Our total sales of milk increased by 74.0% from RMB1,092.5 million in the corresponding period of last year to RMB1,901.2 million for the six months ended 31 December 2013. Among others, sales of our own brand of milk increased by 262.9% from RMB56.3 million in the corresponding period last year to RMB204.3 million for the six months ended 31 December 2013. The increase in sales revenue is mainly due to an increase in sales volume of milk by 42.8% from 260,906 tons in the corresponding period of last year to 372,647 tons for the six months ended 31 December 2013. The sales volume of our own brand of milk increased by 278.9% from 4,830 tons in the corresponding period last year to 18,300 tons for the six months ended 31 December 2013. The increase in sales volume is attributable to the expansion of our herd size and an increase in average milk yield per dairy cow. Currently, the raw milk produced by the Group is mainly used for the production of Mengniu Milk Deluxe and other types of high quality dairy products.

Also, the Group actively expands the market share of its UHT milk packs under its own brand, sales of which accounted for 10.7% of its total sales . For the six months ended 31 December 2013, the freshness and quality of our products are highly valued by our customers. Sales of our own brand of milk increased by 262.9% from RMB56.3 million in the corresponding period of last year to RMB204.3 million for the six months ended 31 December 2013. Our products are highly recognized by consumers. We have also successfully challenged the traditional sales model, which relies heavily on advertisements as a marketing strategy. Our marketing is mainly conducted by words of mouth, which reduces costs and demonstrates consumers' trusts in our products.

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

As at 31 December 2013, the biological assets of the Group were valued at RMB5,954.0 million (30 June 2013: RMB5,465.0 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 RMB16.4 million for the six months ended 31 December 2013 (twelve months ended 30 June 2013: loss arising from changes in fair value less costs to sell of dairy cows RMB38.6 million). This was mainly attributable to the increase in ratio of milkable cows among our herd across generations, and after producing milk of milkable cows and along with increase of lactation period, impairment will be occurred as cash flow generated in the future will be reduced.

Other Income

Other income for the six months ended 31 December 2013 mainly consists of government grants which amounts to RMB6.0 million (six months ended 31

December 2012: RMB48.0 million). Government grants mainly consisted of subsidies for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy and standardizing sizable farm subsidy, etc.).

Farm operating expenses

	For the 6 months ended 31 December 2013	**For the 6 months ended 31 December 2012**	**For the 12 months ended 30 June 2013**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Feeds	927,649	661,486	1,386,506
Utilities	38,422	24,496	56,609
Other farm operating expenses	166,517	70,293	212,688
Total	1,132,588	756,275	1,655,803

With the expansion of our herd size and general increase in the market price of feeds, total feed costs for the six months ended 31 December 2013 increased to RMB927.6 million from RMB661.5 million in the last corresponding period. This represents an increase of 40.2% in the same period, our total sales of milk produced increased by 74.0% from RMB1,092.5 million in the last corresponding period to RMB1,901.2 million for the six months ended 31 December 2013.

Meanwhile, cost (excluding employee benefit expenses and depreciation) per ton of raw milk sold increased by 4.8% from RMB2,899 in the last corresponding period to RMB3,039 for the six months ended 31 December 2013, which was driven by an increase in the price of feeds. The Company was, however, able to transfer the increase in costs effectively: (i) the price of raw milk (other than branded milk) increased by 18.3% from RMB4.05 in the corresponding period last year to RMB4.79 for the six months ended 31 December 2013, (ii) the annual average milk yield per cow of the Group increased by 7.2% from 7.94 tons in the corresponding period last year to 8.51 tons for the six months ended 31 December 2013.

Employee benefit expenses

As of 31 December 2013, our Group has 5,288 employees. This represents a 6.7% increase in headcount from 30 June 2013 and a 20.8% increase from 4,378 as at 31 December 2012. Our employee benefits expenses increased by 48.8% from RMB77.7

million in the last corresponding period to RMB115.6 million for the six months ended 31 December 2013. The increase was mainly due 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 57.5% from RMB58.1 million in the corresponding period last year to RMB91.5 million for the six months ended 31 December 2013. This is mainly due to an increase in farms being in operation and the increase in the proportion of milkable cows to the total number of dairy cows.

Other Gains and Losses

Other gains and losses increase by 3,433.3% from RMB1.2 million in the corresponding period last year to RMB42.4 million for the six months ended 31 December 2013. This is mainly due to a loss of RMB41.6 million arising from an one-off measurement at fair value accounted in the current loss in respect of the transaction cost payable to investing shareholders anticipated upon the exercise of a put option and a call option in future period as assessed during the period. Those two options were the put option granted to Success Dairy II Limited by the Company and the call option granted to the Company by the Success Dairy II Limited pursuant to the agreement entered into between the Company and Success Dairy II Limited for the establishment of a joint venture company on 23 September 2013.

Other expenses

Other expenses mainly consist of professional fees, milk transportation cost, travelling expenses and other office administrative expenses. The increase of 29.2% from RMB46.2 million in the corresponding period last year to RMB59.7 million for the six months ended 31 December 2013 was mainly due to increases in transportation costs following the increase in sales volume of milk. Transportation costs increased from RMB16.4 million in the corresponding period last year by 73.2% to RMB28.4 million for the six months ended 31 December 2013, mainly due to an increase in the sales volume of milk.

Finance costs

Finance costs increased from RMB58.8 million for the corresponding period last year to RMB113.5 million for the six months ended 31 December 2013. This was mainly attributable to the increase in bank loans and interest expense no longer being capitalized 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 RMB327.5 million for the six months ended 31 December 2013. This represents an increase of 92.3% from RMB170.3 million from the corresponding period last year.

Basic earnings per share were approximately RMB6.79 cents (six months ended 31 December 2012: RMB3.55 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 31 December 2013, the Group's cash flow from operations before the movements in working capital amounted to RMB604.3 million, as compared to RMB256.8 million in the corresponding period last year.

As at 31 December 2013, the Group's available and un-utilised banking facilities amounted to approximately RMB3,668.1 million (30 June 2013: RMB2,216.9 million). The Group's management are of the opinion that the working capital available to the Group is sufficient for its present needs.

The table below sets forth our short-term and long-term borrowings as at 31 December 2013.

	As at	
	31 December 2013	**30 June 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Bank borrowings	3,748,666	3,528,349
Other borrowings	—	50,692
	3,748,666	3,579,041
Unsecured borrowings	1,533,139	1,387,044
Secured borrowings	1,964,527	2,105,707
Guaranteed borrowings	251,000	86,290
	3,748,666	3,579,041
Carrying amount repayable:		
Within one year	1,788,799	1,330,959
Between one to two years	1,042,337	1,035,927
Between two to five years	917,530	1,212,155
	3,748,666	3,579,041
Less: Amounts due within one year shown under current liabilities	(1,788,799)	(1,330,959)
	1,959,867	2,248,082

As at 31 December 2013, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 39.6% (30 June 2013: 38.3%). The annual interest rate of the banks and other borrowings for the financial year ended 31 December 2013 varied from 2.0% to 7.05% (30 June 2013: 2.0%-7.05%). As at 31 December 2013, all borrowings were denominated in Renminbi and US$.

BUSINESS STRATEGIES

Further broaden our customer base

We will further strengthen our strategic partnership with Mengniu, also further develop strategic relationship with new customers and continuously increase the market share of the Group's own-brand dairy products. Currently the Company has entered into co-operation agreements with a number of renowned dairy manufacturers in the PRC such as Nestle, Shanxi Yinqiao, New Hope and Jule.

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

We have been improving 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 among all dairy companies in the PRC. 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 optimize 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 conduct 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 an aim to reduce the cost of transporting feed while maintaining the quality, nutritional content and stable supply of feed.

Continue to enhance the sales of branded milk

We will continue to expand our sales regions and widen the sales channels of our branded milk, which in turn will increase the Group's profitability as a whole. The Company plans to gradually expand into most parts of China during the year, beginning to sell its products to other parts of China in addition to existing eastern China and northern China. As more customers recognize its product quality, the Company believes it will record even higher revenue in the future.

PLEDGE OF ASSETS

As at 31 December 2013, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.2 million (30 June 2013: RMB10.3 million), RMB59.2 million (30 June 2013: RMB61.5 million) and RMB4,087.5 million (30 June 2013: RMB4,014.2 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2013, the Group has capital commitments of RMB199.2 million relating to the acquisition of property, plant and equipment and capital contribution to a joint venture.

The Group did not have any significant contingent liabilities as at 31 December 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 Group's management consider that the Group has limited foreign currency exposure in respect of its operations since its 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 its operations, the Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risks.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 5,288 employees (30 June 2013: 4,955) in the PRC and Hong Kong as at 31 December 2013. Total staff costs for the six months ended 31 December 2013 (excluding directors' fees) were approximately RMB113.1 million (six months ended 31 December 2012: RMB76.0 million).

The Group values recruiting, training and retaining quality personnel. We recruit talented employees from local universities, vocational schools and other technical schools, and we provide these employees with various pre-employment and on-the-job training. The Group also offers remuneration at competitive rates with the aim of retaining quality personnel.

DIVIDEND

The Board do not recommend the payment of a final dividend for the six months ended 31 December 2013 (30 June 2013: 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 six months ended 31 December 2013, complied with the code provisions set out in the CG Code except for the deviations from code provision A.6.7.

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 executive Director, one non-executive Director and one independent non-executive Director were not able to attend the annual general meeting of the Company held on 28 October 2013 due to other prior business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Mr. Liu Fuchun, our non-executive Director, ("Mr. Liu") was informed by his wife, Ms. Xiao Lanying, on 23 January 2014 that she had acquired an aggregate of 170,000 Shares between 25 November 2013 and 21 January 2014 in the open market on the Stock Exchange at a price range between HK$3.69 and HK$4.06 per Share. Immediately after becoming aware of the above dealings, Mr. Liu notified Mr. Wong Kai Hing, the company secretary of the Company, and made the relevant notifications to the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance. Save for the above, confirmations have been sought from all Directors that they have complied with the required standards set out in the Model Code throughout the six months ended 31 December 2013. The Company have reminded all the Directors of the rules and prohibitions as set out under the Model Code and the relevant procedures each Director shall follow before dealing in the Shares.

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 six months ended 31 December 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 six months ended 31 December 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 same year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect does 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 six months ended 31 December 2013, the Audit Committee has held meeting to review internal controls and financial reporting matters. The financial results for the six months ended 31 December 2013 have been reviewed by the Audit Committee.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for six months ended 31 December 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, 20 March 2014

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 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.