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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

The board of directors (the “Directors”) of China Modern Dairy Holdings Ltd. (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2014, together with comparative figures, as follows:

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

	Notes	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Turnover	4	2,584,535	1,388,033
Cost of sales		<u>(1,579,185)</u>	<u>(1,023,680)</u>
Gross profit		1,005,350	364,353
Loss arising from changes in fair value			
less costs to sell of dairy cows	10	(84,559)	(66,343)
Other income		19,925	53,603
Selling and distribution expenses		(49,217)	(23,250)
Administrative expenses		(106,806)	(67,142)
Share of profit of an associate		2,796	847
Share of profit of joint ventures		1,943	—
Other gains and losses		(99,641)	3,622
Other expenses		<u>(2,924)</u>	<u>(2,379)</u>
Profit before finance costs and tax	5	686,867	263,311
Finance costs	6	<u>(134,892)</u>	<u>(94,878)</u>
Profit before tax		551,975	168,433
Income tax charge	7	<u>(6,598)</u>	<u>(4,696)</u>
Profit and total comprehensive income for the period		<u>545,377</u>	<u>163,737</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		523,163	153,563
Non-controlling interests		<u>22,214</u>	<u>10,174</u>
		<u>545,377</u>	<u>163,737</u>
Earnings per share (RMB)	9		
Basic		10.84 cents	3.19 cents
Diluted		<u>10.72 cents</u>	<u>3.16 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2014	As at 31 December 2013
	<i>Notes</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,113,612	4,032,642
Land use rights		65,496	66,261
Goodwill		310,426	310,426
Interest in an associate		28,517	25,722
Interest in joint ventures		90,148	32,829
Deposit for acquisition of biological assets		5,463	—
Biological assets	10	6,297,959	5,954,363
Other financial assets		<u>92,822</u>	<u>34,517</u>
		<u>11,004,443</u>	<u>10,456,760</u>
CURRENT ASSETS			
Inventories		558,286	691,108
Trade and other receivables	11	599,709	544,710
Land use rights		1,667	1,667
Pledged bank balances		557,147	430,535
Bank balances and cash		<u>457,837</u>	<u>369,041</u>
		<u>2,174,646</u>	<u>2,037,061</u>
CURRENT LIABILITIES			
Trade and other payables	12	1,161,229	1,386,430
Amount due to an associate		114,791	87,820
Tax payable		9,927	9,161
Borrowings - due within one year		2,641,122	1,788,799
Short-term debenture		1,100,000	1,200,000
Deferred income		<u>11,302</u>	<u>10,913</u>
		<u>5,038,371</u>	<u>4,483,123</u>
NET CURRENT LIABILITIES		<u>(2,863,725)</u>	<u>(2,446,062)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>8,140,718</u></u>	<u><u>8,010,698</u></u>

	As at 30 June 2014	As at 31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
CAPITAL AND RESERVES		
Share capital	415,261	415,261
Reserves	<u>5,867,894</u>	<u>5,327,763</u>
Equity attributable to owners of the Company	6,283,155	5,743,024
Non-controlling interests	<u>139,924</u>	<u>117,710</u>
	<u>6,423,079</u>	<u>5,860,734</u>
NON-CURRENT LIABILITIES		
Borrowings - due after one year	1,384,155	1,959,867
Deferred income	114,311	113,949
Other financial liabilities	<u>219,173</u>	<u>76,148</u>
	<u>1,717,639</u>	<u>2,149,964</u>
	<u>8,140,718</u>	<u>8,010,698</u>

NOTES

1. General information

China Modern Dairy Holdings Ltd. (the “Company”) is a public limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands and 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 raw milk and liquid milk products and breeding and sales of dairy cows. The Company and its subsidiaries are hereinafter collectively referred to as the “Group”.

The condensed 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. Basis of preparation

In preparing the condensed consolidated financial statements for the six months ended 30 June 2014, 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 RMB2,863,725,000 as at 30 June 2014 (31 December 2013: net current liabilities of RMB2,446,062,000). Having considered that the secured credit facilities of approximately RMB7,565,266,000 which remains unutilised as at 30 June 2014, the directors of the Company believe that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

In preparation of the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2014, management of the Company has changed the analysis and presentation of expenses recognised in profit or loss from using the classification by nature to using the classification by function. Comparative information for the six months ended 30 June 2013 has been presented on the same basis.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 “Interim Financial Reporting”.

3. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for: (i) the biological assets, which are measured at fair value less costs to sell; and (ii) other financial assets and other financial liabilities (derivative financial instruments), which are measured at fair value. Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Group’s consolidated financial statements for the six months ended 31 December 2013.

In the current interim period, the Group has also applied, for the first time, a new Interpretation and certain amendments to International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”) that are mandatorily effective for the current interim period.

The application of the above new Interpretation and amendment to IFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

4. **Segment information**

The Group manages its business by lines of products. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management, being the chief operating decision maker (“the CODM”) of the Group, for the purposes of resource allocation and performance assessment. The Group has presented the following two reportable segments, which are dairy farming and liquid milk products. Each reportable segment is a separate business unit which offers different products, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Group’s management to make decisions about resources to be allocated to each segment and assess its performance.

- Dairy farming: breeding dairy cows to produce and distribute raw milk and selling self-breeding dairy cows;
- Liquid milk products: producing and distributing processed liquid milk.

Sales of milk produced of RMB1,623,312,000 is from a single external customer (six months ended 30 June 2013: RMB1,014,847,000) for the six months ended 30 June 2014.

Segment revenue, results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group’s CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of goodwill, other financial assets and other head office or corporate assets. Segment liabilities include all current and non-current liabilities with the exception of other financial liability and other head office or corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

Unallocated expense consists of selling and distribution expenses, administrative expenses of head office and other non-operating segment.

The following is an analysis of the Group's revenue and results by reportable segment:

Segment revenue, results, assets and liabilities

	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
<u>For the six months ended 30 June 2014</u>			
(unaudited)			
Segment revenue from sales of			
- Milk produced	2,420,321	284,639	2,704,960
- Dairy cows	49,321	—	49,321
Less: Inter-segment revenue	<u>(169,746)</u>	<u>—</u>	<u>(169,746)</u>
Net external revenue	<u>2,299,896</u>	<u>284,639</u>	<u>2,584,535</u>
Segment cost of sales of			
- Milk produced	1,478,523	216,478	1,695,001
- Dairy cows	49,321	—	49,321
Less: Inter-segment cost of sales	<u>(165,137)</u>	<u>—</u>	<u>(165,137)</u>
Net external cost of sales	<u>1,362,707</u>	<u>216,478</u>	<u>1,579,185</u>
Reportable segment profit	<u>722,117</u>	<u>47,079</u>	<u>769,196</u>
Loss arising from changes in fair value less costs to sell of dairy cows			(84,559)
Unallocated share of profit of an associate			2,796
Unallocated share of profit of joint ventures			1,943
Unallocated other income			2,684
Unallocated other gains and losses			(84,952)
Unallocated expense			<u>(55,133)</u>
Profit before tax			<u>551,975</u>
<u>As at 30 June 2014 (unaudited)</u>			
Segment assets	11,405,998	620,055	12,026,053
Elimination of inter-segment receivables			(344,158)
Unallocated assets			<u>1,497,194</u>
Consolidated assets			<u>13,179,089</u>
Segment liabilities	6,425,635	479,581	6,905,216
Elimination of inter-segment payables			(344,158)
Unallocated liabilities			<u>194,952</u>
Consolidated liabilities			<u>6,756,010</u>

	Dairy farming <i>RMB'000</i>	Liquid milk products <i>RMB'000</i>	Total <i>RMB'000</i>
<u>For the six months ended 30 June 2013</u> (unaudited)			
Segment revenue from sales of			
- Milk produced	1,318,340	117,002	1,435,342
Less: Inter-segment revenue	<u>(47,309)</u>	<u>—</u>	<u>(47,309)</u>
Net external revenue	<u>1,271,031</u>	<u>117,002</u>	<u>1,388,033</u>
Segment cost of sales of			
- Milk produced	983,984	87,005	1,070,989
Less: Inter-segment cost of sales	<u>(47,309)</u>	<u>—</u>	<u>(47,309)</u>
Net external cost of sales	<u>936,675</u>	<u>87,005</u>	<u>1,023,680</u>
Reportable segment profit	<u>223,801</u>	<u>25,324</u>	<u>249,125</u>
Loss arising from changes in fair value less costs to sell of dairy cows			(66,343)
Unallocated share of profit of an associate			847
Unallocated other income			7,637
Unallocated expense			<u>(22,833)</u>
Profit before tax			<u>168,433</u>
<u>As at 31 December 2013 (audited)</u>			
Segment assets	11,085,279	446,997	11,532,276
Elimination of inter-segment receivables			(216,470)
Unallocated assets			<u>1,178,015</u>
Consolidated assets			<u>12,493,821</u>
Segment liabilities	6,433,677	347,004	6,780,681
Elimination of inter-segment payables			(216,470)
Unallocated liabilities			<u>68,876</u>
Consolidated liabilities			<u>6,633,087</u>

Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and all the non-current assets are obtained and located in mainland China while all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, there is no information separated by different geographical locations within mainland China provided to the Group's management.

5. Profit before finance costs and tax

	Six months ended	
	30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit before finance cost and tax	686,867	263,311
Add: Depreciation	107,632	77,380
Add: Loss arising from changes in fair values less costs to sell of dairy cows	84,559	66,343
Add: Loss arising on financial liabilities designated at fair value through profit or loss (FVTPL)	143,025	—
Less: Gain arising on financial assets designated at FVTPL	(58,305)	—
Add: Net loss on disposal of property, plant and equipment	2,912	1,179
Add: Realised changes in fair value of dairy cows recognised in cost of sales	<u>15,207</u>	<u>—</u>
Cash EBITDA ⁽¹⁾	<u><u>981,897</u></u>	<u><u>408,213</u></u>

Note (1): It represents EBITDA before loss arising from changes in fair values less costs to sell of dairy cows, loss arising on financial liabilities designated at FVTPL, gain arising on financial assets designated at FVTPL, net loss on disposal of property, plant and equipment and realised changes in fair value of dairy cows recognised in cost of sales.

	Six months ended	
	30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of sales:		
Breeding costs to produce raw milk	1,313,386	936,675
Production costs for liquid milk products	216,478	87,005
Cost of sales of dairy cows*	<u>49,321</u>	<u>—</u>
	<u>1,579,185</u>	<u>1,023,680</u>
Other gains and losses:		
Gain arising on financial assets designated at FVTPL	(58,305)	—
Loss arising on financial liabilities designated at FVTPL	143,025	—
Net foreign exchange loss (gain)	12,009	(4,801)
Loss on disposal of property, plant and equipment, net	<u>2,912</u>	<u>1,179</u>
	<u>99,641</u>	<u>(3,622)</u>
Depreciation of property, plant and equipment	107,632	77,380
Employee benefits expenses	149,804	93,142
Auditor's remuneration	600	2,021
Release of land use rights	<u>766</u>	<u>825</u>

* Among the cost of sales of dairy cows, the feeding cost of dairy cows is RMB34,114,000.

6. Finance costs

	Six months ended	
	30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	119,529	106,316
Bank borrowings wholly repayable after five years	—	2,392
Short-term debt securities repayable within five years	<u>30,366</u>	<u>9,121</u>
Total borrowing cost	149,895	117,829
Less: capitalised amount for construction of property, plant and equipment	<u>(15,003)</u>	<u>(22,951)</u>
	<u>134,892</u>	<u>94,878</u>

The borrowing costs were capitalised based on the terms of the specific bank borrowings in respect of construction in progress.

7. Income tax charge

	Six months ended	
	30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	<u>6,598</u>	<u>4,696</u>

The tax charge for the period under review 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.

According to the prevailing tax rules and regulation in the PRC, certain entities of the Group operating in agricultural business are exempted from enterprise income tax.

8. Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

9. Earnings per share

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<u>523,163</u>	<u>153,563</u>

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	4,827,338,751	4,808,746,000
Effect of dilutive potential ordinary share options	<u>51,903,704</u>	<u>51,758,234</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,879,242,455</u>	<u>4,860,504,234</u>

10. Biological assets

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2014 while the fair value of the Group's dairy cows at 31 December 2013 has been arrived at on the basis of a valuation carried out by independent qualified professional valuer. As at 30 June 2014 the fair value less costs to sell of 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 for milkable cows are not available, the directors of the Company have applied 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 RMB84,559,000 (six months ended 30 June 2013: Loss of RMB66,343,000) has been recognised directly in profit or loss for the six months ended 30 June 2014.

The principal valuation assumptions affecting the estimation of the fair value of dairy cows by applying the net present value approach are the same as those set out in note 23 of Group's consolidated financial statements for the year ended 31 December 2013.

For the fair value measurements of the Group's calves, heifers and milkable cows, any change in the significant unobservable inputs might result in a significantly higher or lower fair value measurement.

11. Trade and other receivables

The Group allows credit period of 60 to 120 days to its trade customers.

The following is an analysis of trade receivables at the end of respective reporting periods:

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables		
- within 120 days based on invoice date	512,788	462,775
Advances to suppliers	62,511	69,464
Others	<u>24,410</u>	<u>12,471</u>
	<u>599,709</u>	<u>544,710</u>

12. 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 payables and bills payable at the end of the respective reporting periods:

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade payables and bills payable		
Within 60 days based on invoice date	588,880	682,985
Over 60 days based on invoice date	<u>51,297</u>	<u>42,379</u>
	640,177	725,364
Payable for acquisition of property, plant and equipment	356,786	479,318
Accrued staff costs	52,301	45,321
Advance payment from customers	41,504	55,949
Interest payable	17,980	35,447
Others	<u>52,481</u>	<u>45,031</u>
	<u>1,161,229</u>	<u>1,386,430</u>

BUSINESS REVIEW

The Group is primarily engaged in two principal business segments: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products and sell self-breeding dairy cows; and (ii) liquid milk products business, under which we mainly produce and sell liquid milk products. The demand for high-end dairy products has continued to grow at a rapid pace in the PRC due to various factors in the PRC market, including the rising per capita disposable income and the increasing awareness of food safety. This is a key driver for the demand for our quality raw milk products. Since the dairy farming industry in China is largely fragmented and the supply of high-end quality raw milk is very limited, we believe there are significant growth opportunities for the Group to expand its market share in China.

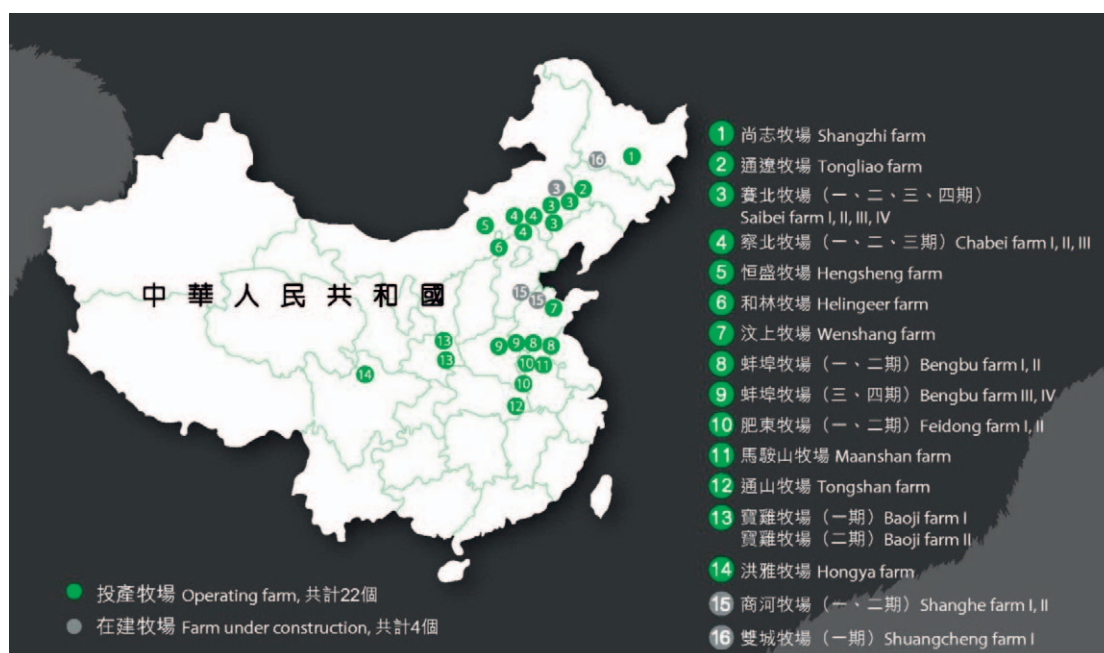
We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. During the six months ended 30 June 2014, the Group's operating results reached a historical high due to increases in productivity and the increased demand for high-end dairy products in the PRC. As of 30 June 2014, 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 190,027 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. Sales of milk produced for the Group amounted to 463,991 tons for the six months ended 30 June 2014. This represents an increase of 51.6% from 306,115 tons in the corresponding period of 2013 and indicates that the Group has established a stable and leading market position in China's raw milk market. In terms of production, the 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 ahead, the Group's emphasis on quality and premium milk sales remains the growth engine of the future.

Turnover of the Group reached RMB2,585 million for the six months ended 30 June 2014, representing a growth of 86.2% from RMB1,388 million in the corresponding period of 2013. This was primarily attributable to significant increase of sales volume of our products during the reporting period.

Cash EBITDA (earnings before loss arising from changes in fair values less costs to sell of dairy cows, loss arising on financial liabilities designated at FVTPL, gain arising on financial assets designated at FVTPL, net loss on disposal of property, plant and equipment, realised changes in fair value of dairy cows recognised in cost of sales, interest, taxes, depreciation and amortization) increased by 140.5% from RMB408.2 million in the corresponding period last year to RMB981.9 million for the six months ended 30 June 2014. Cash EBITDA margin increased from 29.4% in the corresponding period last year to 38.0% for the six months ended 30 June 2014. The Company considers that such increase for the six months ended 30 June 2014 was mainly due to (i) the expansion of the number of milkable cows and continuous improvement in the milk yield per milkable cow, (ii) an increase in sales of our branded milk, (iii) persistent increase in both the production volume and the unit price of raw milk, and (iv) effective control of costs and expenses.

During the period, the Group's own brand of milk was awarded gold prize in the food category by Monde Selection, the International Institute for Quality Selections. As an independent international organization jointly established by the European Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利時經貿部) in 1961, the International Institute for Quality Selections is currently the oldest, the most representative and the most authoritative food quality testing organization in the world. Its prizes are awarded for the purpose of monitoring food quality and are regarded as the "Nobel Prize" in the international food sector. The contest awards prizes after conducting strict reviews and inspections of the safety, taste, packaging and raw materials of food products. This gold prize further proves that the Group's own brand of milk has won international recognition for its high quality in purity and freshness, and adds confidence and momentum to the future development of the PRC dairy industry.

Our Farms



As of 30 June 2014, 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 190,027 dairy cows in own farms in total. There are approximately 2,544 dairy cows in total through the joint venture.

Herd size

	As of 30 June 2014 <i>Heads</i>	31 December 2013 <i>Heads</i>
Dairy cows		
Milkable cows	107,516	98,791
Heifers and calves	<u>82,511</u>	<u>88,047</u>
Total dairy cows	<u>190,027</u>	<u>186,838</u>

As at 30 June 2014, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. As at 30 June 2014, the current herd size is 190,027 compared to 186,838 as at 31 December 2013.

Milk Yield

Our financial results are directly affected by our milk yield per cow. In general, as 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 of 9.0 tons for the six months ended 30 June 2014, representing an increase of 7.1% from 8.4 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation.

Financial Overview

Turnover

The following table sets out the breakdown of our consolidated turnover by our two operating segments for the six months ended 30 June 2014 and 30 June 2013:

	Six months ended 30 June					
	2014			2013		
	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000
Sales of raw milk business	2,250,575	169,746	2,420,321	1,271,031	47,309	1,318,340
Liquid milk products business	284,639	—	284,639	117,002	—	117,002
Sales of dairy cow business	<u>49,321</u>	<u>—</u>	<u>49,321</u>	<u>—</u>	<u>—</u>	<u>—</u>
Consolidated turnover	<u>2,584,535</u>	<u>169,746</u>	<u>2,754,281</u>	<u>1,388,033</u>	<u>47,309</u>	<u>1,435,342</u>

Our turnover increased by 86.2% from RMB1,388 million for the six months ended 30 June 2013 to RMB2,585 million for the six months ended 30 June 2014 primarily due to significant increase in our sales of raw milk and liquid milk products.

- *Dairy farming business*

Turnover from our dairy farming business increased substantially primarily due to growth of our cow herd and increase in average selling price of our quality raw milk as a result of the shortage of raw milk in the market.

The following table sets out the sales amount, sales volume and average selling price (ASP) per tonne of our raw milk for the periods indicated:

	Six months ended 30 June					
	2014			2013		
	Sales	Sales	ASP	Sales	Sales	ASP
	Amount	Volume	ASP	Amount	Volume	ASP
	RMB'000	Tonne	RMB'000/ Tonne	RMB'000	Tonne	RMB'000/ Tonne
Raw Milk						
External Sales	2,250,575	438,142	5.14	1,271,031	295,746	4.30
Internal						
Supplies	<u>169,746</u>	<u>31,387</u>	<u>5.41</u>	<u>47,309</u>	<u>10,696</u>	<u>4.42</u>
Subtotal	<u>2,420,321</u>	<u>469,529</u>	<u>5.15</u>	<u>1,318,340</u>	<u>306,442</u>	<u>4.30</u>

Turnover attributable to the internal use of raw milk increased substantially due to strong growth of our liquid milk business. As the processing plant for producing liquid milk is currently located in southern area where milk price is generally higher than that in northern area, the selling price of raw milk for internal supplies is higher than the average selling price for external sales of national farms.

	Six months ended 30 June					
	2014			2013		
	Sales	Sales	ASP	Sales	Sales	ASP
	Amount	Volume	ASP	Amount	Volume	ASP
	RMB'000	Heads	RMB'000	RMB'000	Heads	RMB'000
Dairy cows	<u>49,321</u>	<u>2,549</u>	<u>19.3</u>	<u>—</u>	<u>—</u>	<u>—</u>

- *Liquid milk products business*

Turnover from our liquid milk products business increased by 143.2% from RMB117.0 million for the six months ended 30 June 2013 to RMB284.6 million for the six months ended 30 June 2014, which accounted for 11.0% and 8.4% of our consolidated turnover for the six months ended 30 June 2014 and 2013, respectively.

The strong growth of our liquid milk products business was a result of strong market demand for our liquid milk products. The total volume of liquid milk sold increased by 149.3% from 10,369 tonnes for the six ended 30 June 2013 to 25,849 tonnes for the six months ended 30 June 2014. The following table sets out the breakdown of sales amount, sales volume and average selling price per tonne of our liquid milk products for the periods indicated:

	Six months ended 30 June					
	2014			2013		
	Sales Amount	Sales Volume	ASP	Sales Amount	Sales Volume	ASP
	RMB'000	Tonne	RMB'000/ Tonne	RMB'000	Tonne	RMB'000/ Tonne
Liquid Milk Products	<u>284,639</u>	<u>25,849</u>	<u>11.01</u>	<u>117,002</u>	<u>10,369</u>	<u>11.28</u>

Cost of sales

Our cost of sales primarily consisted of dairy farming cost and liquid milk products cost. Costs of sales of dairy farming business include feeds cost, labor cost, utilities, depreciation and other costs of farms. Costs of sales of liquid milk products business include raw materials, labor cost, depreciation, utilities and other processing costs. The following table sets forth a breakdown of our cost of sales for our products for the periods indicated:

Costs of sales of dairy farming business

	Six months ended 30 June			
	2014		2013	
	RMB'000	%	RMB'000	%
Costs of sales of raw milk business:				
Feeds cost	1,152,786	78.0%	759,432	77.2%
Labor cost	80,890	5.5%	51,637	5.2%
Utilities	34,996	2.4%	28,076	2.9%
Depreciation	84,447	5.7%	57,135	5.8%
Other costs of farms	<u>125,404</u>	<u>8.4%</u>	<u>87,704</u>	<u>8.9%</u>
Subtotal of costs of sales of raw milk business	<u>1,478,523</u>	<u>100%</u>	<u>983,984</u>	<u>100%</u>
Inter-segment cost	<u>(165,137)</u>		<u>(47,309)</u>	
Costs of sales of raw milk external, net	<u>1,313,386</u>		<u>936,675</u>	
Dairy cow business	<u>49,321</u>		<u>—</u>	
Total cost of sales of dairy farming business	<u>1,362,707</u>		<u>936,675</u>	

With the expansion of our herd size and general increase in market price of feeds, total feed costs (before offsetting the internal relative costs of sales of the supply of raw milk) for the six months ended 30 June 2014 increased to RMB1,152.8 million from RMB759.4 million for the same period last year, representing an increase of 51.8%. Sales of raw milk (before offsetting the internal relative sales income from the supply of raw milk) increased by 83.6% to RMB2,420.3 million for the six months ended 30 June 2014 from RMB1,318.3 million for the same period last year.

Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before offsetting the internal relative costs of sales of the supply of raw milk) decreased by 1.9% from RMB3,025 for the same period last year to RMB2,969 for the six months ended 30 June 2014, mainly due to the increase in the annual milk yield per cow by 7.1% from 8.4 tons for the same period last year to 9.0 tons for the six months ended 30 June 2014.

Costs of sales of liquid milk product business

	Six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Raw materials	189,630	87.6%	66,663	76.6%
Labor cost	6,891	3.2%	5,394	6.2%
Depreciation	9,095	4.2%	9,602	11.0%
Utilities	4,447	2.1%	2,257	2.6%
Other processing costs	<u>6,415</u>	<u>2.9%</u>	<u>3,089</u>	<u>3.6%</u>
	<u>216,478</u>	<u>100%</u>	<u>87,005</u>	<u>100%</u>

With the increase in sales volume of liquid milk and the price hike of raw milk, raw material cost for the six months ended 30 June 2014 increased from RMB66.7 million for the same period last year to RMB189.6 million, representing an increase of 184.3%. Sales of liquid milk increased by 143.2% to RMB284.6 million for the six months ended 30 June 2014 from RMB117.0 million for the same period last year.

Due to the price hike of raw milk, cost (excluding depreciation) per ton of liquid milk sold increased by 7.5% from RMB7,465 for the same period last year to RMB8,023 for the six months ended 30 June 2014.

Gross profit and gross margin

The following table sets forth the breakdown of our gross profit by our two operating segments as well as their respective gross margin, for the years indicated:

	Six months ended 30 June			
	2014		2013	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	<i>RMB'000</i>		<i>RMB'000</i>	
Dairy farming business				
Before offsetting	941,798	38.1%	334,356	25.4%
After offsetting	937,189	40.7%	334,356	26.3%
Liquid milk products business	68,161	23.9%	29,997	25.6%

- *Dairy farming business*

Gross profit of our dairy farming business (before offsetting the internal relative costs of sales of the supply of raw milk) increased by 181.7% from RMB334.3 million for the six months ended 30 June 2013 to RMB941.8 million for the six months ended 30 June 2014. The increase was primarily due to the substantial increase in the sales volume and the average selling price of our raw milk.

Gross margin of our dairy farming business (before offsetting the internal relative costs of sales of the supply of raw milk) remained at a high level at 38.1% for the six months ended 30 June 2014 compared to 25.4% for the six months ended 30 June 2013, primarily due to increase of average selling price of raw milk and milk yield per cow.

- *Liquid milk products business*

Gross profit of our liquid milk products business increased by 127.3% from RMB30.0 million for the six months ended 30 June 2013 to RMB68.2 million for the six months ended 30 June 2014. The increase was primarily due to the increase in sales volume our branded milk products.

Gross margin of our liquid milk products business decreased from 25.6% for the six months ended 30 June 2013 to 23.9%, mainly due to the increase of market price of raw milk.

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

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2014 while the fair value of the Group's dairy cows at 31 December 2013 has been arrived at on the basis of a valuation carried out by independent qualified professional valuer. Loss arising from changes in the fair value of biological assets was RMB84.6 million for the six months ended 30 June 2014 (six months ended 30 June 2013: loss was RMB66.3 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

For the six months ended 30 June 2014, other income amounted to RMB 19.9 million (six months ended 30 June 2013: RMB 53.6 million). Other income mainly consisted of government grants and interest income, among others, interest income for the six months ended 30 June 2014 amounted to RMB 11.3 million (six months ended 30 June 2013: RMB 6.4 million), in which government grants for the six months ended 30 June 2014 amounted to RMB6.3 million (six months ended 30 June 2013: RMB44.4 million). Government grants mainly consisted of subsidies for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy, straw utilization subsidy and sizable farm subsidy, etc.).

Operating expenses

	Six months ended	
	30 June,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Selling and distribution expenses	49,217	23,250
Administrative expenses	<u>106,806</u>	<u>67,142</u>
Total operating expenses	<u>156,023</u>	<u>90,392</u>

Our operating expenses increased from RMB90.4 million for the six months ended 30 June 2013 to RMB156.0 million for the six months ended 30 June 2014. Selling and distribution expenses mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among others, transportation costs was increased from RMB 19.6 million in the corresponding period last year to RMB 44.0 million for the six months ended 30 June 2014, mainly due to increase in sales volume of raw milk and liquid milk products.

Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, among others, salaries (excluding equity-based share option expenses) of management was increased from RMB30.8 million in the corresponding period last year to RMB42.8 million for the six months ended 30 June 2014.

Equity-based share option expenses included in the administrative expenses for the period increased from RMB3.4 million for the corresponding period last year to RMB17.0 million for the six months ended 30 June 2014, mainly due to the granting of 80 million options to employees pursuant to the employee share option incentive scheme on 6 June 2014.

Other Gains and Losses

Losses arising from other gains and losses amounted to RMB99.6 million (for the six months ended 30 June 2013: gains arising from other gains and losses amounted to RMB3.6 million). This is mainly due to a loss of RMB84.7 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 put options and call options in future period as assessed during the period. Those two types options were the put options granted to Success Dairy II Limited by the Company and the call options 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 two joint venture companies on 23 September 2013.

Finance costs

Finance costs increased from RMB94.9 million for the last corresponding period to RMB134.9 million for the six months ended 30 June 2014. 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 the Owners of the Company

Taking into account of all the above factors, the Group's profit attributable to the owners of the Company was RMB523.2 million for the six months ended 30 June 2014. This represents an increase of 240.6% from RMB153.6 million for corresponding period last year.

Basic earnings per share were approximately RMB10.84 cents (2013: RMB3.19 cents).

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2014, the Group's cash flow from operating activities amounted to RMB1,037.1 million, as compared to RMB368.2 million in the corresponding period last year.

As at 30 June 2014, the Group's available and un-utilised banking facilities amounted to approximately RMB7,565.3 million (31 December 2013: RMB3,668.1 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 the dates indicated below.

	As at	
	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Bank borrowings	<u>4,025,277</u>	<u>3,748,666</u>
Unsecured borrowings	1,950,102	1,533,139
Secured borrowings	1,814,175	1,964,527
Guaranteed borrowings	<u>261,000</u>	<u>251,000</u>
	<u>4,025,277</u>	<u>3,748,666</u>
Carrying amount repayable:		
Within one year	2,641,122	1,788,799
Between one to two years	714,825	1,042,337
Between two to five years	<u>669,330</u>	<u>917,530</u>
	4,025,277	3,748,666
Less: Amounts due within one year shown under current liabilities	<u>(2,641,122)</u>	<u>(1,788,799)</u>
	<u>1,384,155</u>	<u>1,959,867</u>

As at 30 June 2014, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 38.9% (31 December 2013: 39.6%). The annual interest rate of the banks and other borrowings for the six months ended 30 June 2014 varied from 1.73% to 7.05% (six months ended 30 June 2013: 1.78% to 7.05%, six months ended 31 December 2013: 2.00% to 7.05%). As at 30 June 2014, all borrowings were denominated in Renminbi and United States Dollar (“US\$”).

PLEDGE OF ASSETS

As at 30 June 2014, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.0 million (31 December 2013: RMB10.2 million), RMB56.9 million (31 December 2013: RMB59.2 million) and RMB4,250.9 million (31 December 2013: RMB4,014.2 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2014, the Group has capital commitments of RMB299.5 million related to acquisition of property, plant and equipment and capital contribution to joint ventures.

The Group did not have any significant contingent liabilities as at 30 June 2014.

FINANCIAL MANAGEMENT POLICIES

The Group continues to closely manage financial risks to safeguard the interests of the shareholders of the Company. 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 5,129 employees (31 December 2013: 5,288) in mainland China and Hong Kong as at 30 June 2014. Total staff costs (including staff compensation capitalised to unmaturing dairy cows) for the six months ended 30 June 2014 were approximately RMB199.3 million (six months ended 30 June 2013: RMB137.0 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.

PROSPECTS

Looking ahead, with the continued increase in the consumption standard of residents in the PRC and their increasing health awareness, it is expected that the demand for high-end premium raw milk will continue to increase. The per capita milk consumption by residents in the PRC is still far lower than the world average level. It is anticipated that there is still much room for an increase in the demand for raw milk in the PRC. All these factors have contributed to a favourable external environment for the further development of the modern animal husbandry industry.

The Group's own brand of milk has undergone stringent reviews and was awarded gold prize in the food category by Monde Selection, the International Institute for Quality Selections, out of various products from all over the world in the competition. This entails the Group's own brand of milk has gained recognition and praise from countries around the world, including developed countries in food. Joseph Bessemans, President of Monde Selection, fully recognised and commended the Group's own brand of milk at the prize presentation ceremony. By leveraging on the momentum resulting from being awarded the gold prize at Monde Selection, the Group will step up its marketing efforts. It is expected that the sales of the Group's own brand of milk will experience noticeable growth.

In view of the increasing awareness of health quality and safety, the Group has strived to maintain good product quality control while actively developing the downstream business. During the period, the Group established a dedicated team which was mainly responsible for the sales of its own brand of milk and the Group planned to gradually expand its existing sales network from East China and North China to most regions of the PRC. With the continued expansion of the sales network, it is expected that the sales of the Group will continue to increase, generating considerable income for the Group.

In addition, the Group will establish a company to sell low-temperature branded milk using the pasteurised processing technology to develop a sales network for low-temperature branded milk.

The Group has been actively improving the structure of the herd of cows. So far, the Group has 190,027 dairy cows. It is expected that the average milk yield for the year can reach 8.7 tons. With the increasing yield per milkable cow, the Group is confident that the annual milk volume for 2015 will reach 1 million tons.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

CORPORATE GOVERNANCE

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). The Company has, throughout the six months ended 30 June 2014 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, among other things, that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Han Chunlin, the executive Director, Mr. Hui Chi Kin Max and Mr. Ding Sheng, the non-executive Directors and Mr. Liu Fu Chun, the independent non-executive Director, were not able to attend the annual general meeting of the Company held on 5 June 2014 due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding securities transactions by Directors. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2014.

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 during the six months ended 30 June 2014.

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements of the Group for the six months ended 30 June 2014 in accordance with Hong Kong Standard on Review Engagements 2014 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, have been reviewed by the Group’s auditor, Deloitte Touche Tohmatsu, and the audit committee of the Company (the “Audit Committee”).

The Audit Committee comprises Mr. Lee Kong Wai Conway, Mr. Hui Chi Kin Max and Mr. Zou Fei.

PUBLICATION OF THE INTERIM REPORT

The interim report of the Group for the six months ended 30 June 2014 will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.

GAO LINA

*Deputy Chairman, Chief Executive Officer
and Executive Director*

Hong Kong, 25 August 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. Wu Jingshui, the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. Zou Fei.