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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 2015**

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 2015, together with comparative figures, as follows:

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

	Notes	Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	2,437,320	2,584,535
Cost of sales before biological fair value adjustments		(1,548,426)	(1,579,185)
Biological fair value adjustments included in cost of sales		(636,944)	(903,699)
Loss arising from changes in fair value less costs to sell of dairy cows	10	(199,269)	(84,559)
Gain arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		636,944	903,699
Other income		14,708	19,925
Selling and distribution expenses		(67,688)	(49,217)
Administrative expenses		(111,485)	(106,806)
Share of profit of an associate		1,432	2,796
Share of profit of joint ventures		2,569	1,943
Other gains and losses		148,733	(99,641)
Other expenses		(5,854)	(2,924)
Profit before finance costs and tax	5	672,040	686,867
Finance costs	6	(150,126)	(134,892)
Profit before tax		521,914	551,975
Income tax charge	7	(14,600)	(6,598)
Profit and total comprehensive income for the period		<u>507,314</u>	<u>545,377</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		476,952	523,163
Non-controlling interests		30,362	22,214
		<u>507,314</u>	<u>545,377</u>
Earnings per share (RMB)	9		
Basic		9.88 cents	10.84 cents
Diluted		9.80 cents	10.72 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2015 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2014 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS			
		4,484,901	4,457,970
Property, plant and equipment		69,937	64,868
Land use rights		310,426	310,426
Goodwill		20,363	18,931
Interest in an associate		165,444	95,208
Interest in joint ventures	10	6,762,218	6,530,814
Biological assets		—	93,743
Other financial assets		<u> </u>	<u> </u>
		<u>11,813,289</u>	<u>11,571,960</u>
CURRENT ASSETS			
Inventories		463,247	640,581
Trade and other receivables	11	1,006,381	826,772
Land use rights		1,830	1,667
Pledged bank balances		128,763	612,909
Bank balances and cash		605,215	556,964
		<u>2,205,436</u>	<u>2,638,893</u>
CURRENT LIABILITIES			
Trade and other payables	12	1,220,429	1,403,003
Tax payable		5,014	2,787
Borrowings - due within one year		2,009,257	1,858,398
Short-term debentures		300,000	1,100,000
Deferred income		12,351	11,493
		<u>3,547,051</u>	<u>4,375,681</u>
NET CURRENT LIABILITIES		<u>(1,341,615)</u>	<u>(1,736,788)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,471,674</u>	<u>9,835,172</u>
CAPITAL AND RESERVES			
Share capital		415,261	415,261
Reserves		6,539,992	6,094,978
Equity attributable to owners of the Company		6,955,253	6,510,239
Non-controlling interests		176,075	145,713
TOTAL EQUITY		<u>7,131,328</u>	<u>6,655,952</u>
NON-CURRENT LIABILITIES			
Borrowings - due after one year		3,025,170	2,829,450
Medium-term notes		200,000	—
Deferred income		115,176	108,928
Other financial liabilities		—	240,842
		<u>3,340,346</u>	<u>3,179,220</u>
		<u>10,471,674</u>	<u>9,835,172</u>

NOTES

1. General information

China Modern Dairy Holdings Ltd. (the “Company”) is a 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, Uglan House, Grand Cayman, KYI-1104, Cayman Islands. The principal place of business of the Company 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. 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 2015, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB1,341,615,000 as at 30 June 2015 (31 December 2014: net current liabilities of RMB1,736,788,000). Having considered the credit facilities of approximately RMB9,419,460,000 which remains unutilised as at 30 June 2015, 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.

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 instrument), 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 2015 are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2014.

In the current interim period, the Group has also applied, for the first time, 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 amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

4. **Segment information**

The Group’s most senior executives is identified as the chief operating decision maker (the “CODM”) of the Group for the purposes of resources allocation and performance assessment. For the Group’s dairy farming and liquid milk businesses, the CODM reviews operating results and financial information on an entity by entity basis and each entity is identified as an operating segment. Since the group companies engaged in the dairy farming business and liquid milk business are operating in similar business model with similar target group of customers, and under the same regulatory environment, respectively, they are aggregated as two reportable segments.

The Group’s reportable segments for segment reporting purpose are as follows:

- Dairy farming: breeding dairy cows to produce and sell raw milk; and
- Liquid milk products: producing and sell processed liquid milk.

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

Segment revenue, results, assets and liabilities

	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 2015</u> (unaudited)			
Segment revenue	2,031,191	789,493	2,820,684
Less: Inter-segment revenue	<u>(383,364)</u>	<u>—</u>	<u>(383,364)</u>
Net external revenue	<u>1,647,827</u>	<u>789,493</u>	<u>2,437,320</u>
Segment cost of sales before biological fair value adjustment	1,364,963	564,266	1,929,229
Less: Inter-segment cost of sales	<u>(380,803)</u>	<u>—</u>	<u>(380,803)</u>
Net external cost of sales	<u>984,160</u>	<u>564,266</u>	<u>1,548,426</u>
Reportable segment profit	<u>439,891</u>	<u>171,281</u>	611,172
Elimination of inter-segment results			(2,561)
Loss arising from changes in fair value less costs to sell of dairy cows			(199,269)
Share of profit of an associate			1,432
Share of profit of joint ventures			2,569
Unallocated other income			7,644
Unallocated other gains and losses			150,491
Unallocated expenses			<u>(49,564)</u>
Profit before tax			<u>521,914</u>
<u>As at 30 June 2015 (unaudited)</u>			
Segment assets	<u>12,029,249</u>	<u>1,198,159</u>	13,227,408
Elimination of inter-segment balances			(366,698)
Unallocated assets			<u>1,158,015</u>
Consolidated assets			<u>14,018,725</u>
Segment liabilities	<u>6,760,975</u>	<u>462,877</u>	7,223,852
Elimination of inter-segment balances			(359,536)
Unallocated liabilities			<u>23,081</u>
Consolidated liabilities			<u>6,887,397</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 2014</u> (unaudited)			
Segment revenue	2,469,642	284,639	2,754,281
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 before biological fair value adjustment			
— milk produced	1,527,844	216,478	1,744,322
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>726,726</u>	<u>47,079</u>	773,805
Elimination of inter-segment results			(4,609)
Loss arising from changes in fair value less costs to sell of dairy cows			(84,559)
Share of profit of an associate			2,796
Share of profit of joint ventures			1,943
Unallocated other income			2,684
Unallocated other gains and losses			(84,952)
Unallocated expenses			<u>(55,133)</u>
Profit before tax			<u>551,975</u>
<u>As at 31 December 2014 (audited)</u>			
Segment assets	<u>12,207,104</u>	<u>937,065</u>	13,144,169
Elimination of inter-segment balances			(560,024)
Unallocated assets			<u>1,626,708</u>
Consolidated assets			<u>14,210,853</u>
Segment liabilities	<u>7,137,792</u>	<u>676,946</u>	7,814,738
Elimination of inter-segment balances			(555,423)
Unallocated liabilities			<u>295,586</u>
Consolidated liabilities			<u>7,554,901</u>

Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and most of 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, no geographic information by segment is presented.

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

	For the six months ended 30 June	
	2015 <i>RMB'000</i> <i>(Unaudited)</i>	2014 <i>RMB'000</i> <i>(Unaudited)</i>
Profit before finance costs and tax	672,040	686,867
Add: Depreciation	132,448	107,632
Add: Loss arising from changes in fair value less costs to sell of dairy cows	199,269	84,559
Add: Fair value loss from derivative financial assets	93,743	—
Add: Fair value loss from derivative financial liabilities	—	143,025
Less: Fair value gain from derivative financial assets	—	58,305
Less: Fair value gain from derivative financial liabilities	240,842	—
Add: Net loss on disposal of property, plant and equipment	<u>1,276</u>	<u>2,912</u>
Cash EBITDA ⁽¹⁾ — unaudited	<u><u>857,934</u></u>	<u><u>966,690</u></u>

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

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

	For the six months ended 30 June	
	2015 <i>RMB'000</i> <i>(Unaudited)</i>	2014 <i>RMB'000</i> <i>(Unaudited)</i>
Cost of sales before biological fair value adjustment:		
Breeding costs to produce raw milk	984,160	1,313,386
Production costs for liquid milk products	564,266	216,478
Cost of sales of dairy cows	<u>—</u>	<u>49,321</u>
	<u><u>1,548,426</u></u>	<u><u>1,579,185</u></u>
Other gains and losses:		
Fair value loss (gain) from derivative financial assets	93,743	(58,305)
Fair value (gain) loss from derivative financial liabilities	<u>(240,842)</u>	<u>143,025</u>
	<u>(147,099)</u>	<u>84,720</u>
Net foreign exchange (gain) loss	(2,850)	12,009
Loss on disposal of property, plant and equipment, net	1,276	2,912
Others	<u>(60)</u>	<u>—</u>
	<u><u>(148,733)</u></u>	<u><u>99,641</u></u>
Depreciation of property, plant and equipment	132,448	107,632
Employee benefits expenses	147,466	149,804
Auditor's remuneration	700	600
Release of land use rights	<u>1,268</u>	<u>766</u>

6. Finance costs

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	122,641	119,529
Short-term debentures repayable within five years	26,490	30,366
Medium-term notes repayable within five years	<u>5,233</u>	<u>—</u>
Total borrowing cost	154,364	149,895
Less: capitalised amount for construction of property, plant and equipment	<u>(4,238)</u>	<u>(15,003)</u>
	<u><u>150,126</u></u>	<u><u>134,892</u></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

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Income tax recognised in profit or loss:		
Current tax:		
PRC enterprise income tax	<u>14,600</u>	<u>6,598</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.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB1,288,307,000 (31 December 2014: RMB1,018,615,000) as at 30 June 2015. As at 30 June 2015, no liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

8. **Dividend**

The directors of the Company do not recommend the payment of an interim dividend for the six months period ended 30 June 2015 (for the six months ended 30 June 2014: Nil). During the current reporting period, a final dividend of RMB0.01 per share in 2014 was declared and paid to the shareholders of the Company through the Company's share premium account. The aggregate amount of the final dividend paid in the current period amounted to RMB49,003,000.

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:

	For the six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<i>Earnings</i>		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>476,952</u>	<u>523,163</u>
	For the six months ended 30 June	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,827,338,751	4,827,338,751
Effect of dilutive potential ordinary share options	<u>41,807,458</u>	<u>51,903,704</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,869,146,209</u>	<u>4,879,242,455</u>

10. **Biological assets**

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2015 while the fair value of the Group's dairy cows at 31 December 2014 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), an independent qualified professional valuer. As at 30 June 2015, 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 RMB199,269,000 (for the six months ended 30 June 2014: loss of RMB84,559,000) has been recognised directly in profit or loss for the six months ended 30 June 2015.

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 32 of Group's consolidated financial statements for the year ended 31 December 2014.

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 period:

	As at	
	30 June 2015	31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables		
- Within 120 days based on invoice date	812,065	636,715
- Over 120 days based on invoice date	<u>2,392</u>	<u>—</u>
	814,457	636,715
Advances to suppliers	115,874	126,425
Receivable in respect of sales of self-reproduced dairy cows	59,073	27,469
Input value added tax recoverable	11,003	7,888
Interest receivable	2,229	22,850
Others	<u>3,745</u>	<u>5,425</u>
	<u><u>1,006,381</u></u>	<u><u>826,772</u></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:

	As at	
	30 June 2015	31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade payables		
Within 60 days based on invoice date	584,552	696,563
Over 60 days based on invoice date	78,462	40,786
Bill payables (Note)	<u>99,501</u>	<u>104,827</u>
	762,515	842,176
Payable for acquisition of property, plant and equipment	324,480	382,405
Accrued staff costs	49,899	56,960
Advance payment from customers	21,933	28,941
Interest payable	18,577	56,480
Others	<u>43,025</u>	<u>36,041</u>
	<u>1,220,429</u>	<u>1,403,003</u>

Note: Bill payables are bank accepted notes and mature within six months from the respective issuance dates.

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 (ii) our own brand of liquid milk products business, under which we mainly produce and sell liquid milk products. China's dairy industry faces many new challenges and is undergoing a critical period of transformation and upgrading. The Group also grasped market trends to actively promote the healthy development of raw milk and our own brand of milk.

Directed by our cutting-edge operation design of “integration of forage grass planting, dairy farming and milk processing”, the Group strives to integrate the whole industry chain. Analysing the interests of each party concerned in a systematic way the Group minimises the risk in each component to ensure product safety and better quality. With refined processing management, the Group is capable of producing “Two Hours” milk (2小時活牛奶), i.e. it takes no more than two hours to deliver qualified raw milk from our farm through sealed pipes directly to our workshop for processing into final products, which can significantly prevent milk from thermal injury.

As of 30 June 2015, the Group had 24 farms operating and 1 farm under construction in the PRC with approximately 197,833 dairy cows in total. In addition, we had 2 farms in operation invested through the joint ventures with approximately 16,166 dairy cows in total.

We strategically arrange our production base according to the development of dairy industry and market demand for dairy products, and the farms of our Group are currently located in eight provinces in the PRC, which lays a solid foundation for Modern Dairy to broaden the scope of fresh milk delivery and develop its nationwide brand of pasteurized milk. Milking at 2:00 a.m., processing completed by 4:00 a.m., and delivery to consumers' dining table at 9:00 a.m., our fresh pasteurized milk truly delivers a high quality of “purity, genuineness, freshness and vitality”. Currently, the production and sales of fresh pasteurized milk has commenced in the Group's Saibei Farm located in Zhangjiakou.

In the first half of 2015, the sales of dairy products in domestic market slumped, coupled with significant impact to the imports of dairy products, the dairy industry is facing challenges. But the Group still recorded growth in liquid milk products business. For the six months ended 30 June 2015, sales of the Group's liquid milk products business amounted to RMB789.5 million, representing an increase of 177.4% comparing to the same period of 2014. The liquid milk products business accounted for 32.4% of the total revenue of the Group. The rapid growth of own brand of liquid milk has enriched the business portfolio, improved flexibility and increased profit and shareholder returns of the Group .

The sales of raw milk for the six months ended 30 June 2015 amounted to RMB1,647.8 million and accounted for 67.6% of the total revenue of the Group. We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China.

The Group's financial results are directly affected by our milk yield per cow, as the costs of production per unit of milk fluctuates with the milk yield per cow. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, heredity and feed mix. We have achieved an average annual milk yield per cow of 9.1 tons for the six months ended 30 June 2015, representing an increase of 1.1% from 9.0 tons for the first half of 2014. Turnover amounted to RMB2,437.3 million for the six months ended 30 June 2015, representing a decrease of 5.7% compared to RMB2,584.5 million for the six months ended 30 June 2014. Cash EBITDA⁽¹⁾ decreased by 11.3% from RMB966.7 million for the same period last year to RMB857.9 million for the six months ended 30 June 2015. The Group's cash EBITDA margin decreased to 35.2% for the six months ended 30 June 2015 from 37.4% for the same period in 2014, mainly due to the lower selling price of raw milk. Selling price of raw milk decreased by 11.7% to RMB4.54 per kg for the six months ended 30 June 2015 from RMB5.14 per kg for the same period last year.

During the reporting period, the Group conducted active marketing activities to enhance its brand and to further increase sales of its own brand of milk. The Group first established its brand slogan of "Our milk is different (我們的牛奶與眾不同)" and applied it in domestic sales channels. Subsequently, the Group sponsored the "Jingji Winter Joy" (《京冀冬樂圖》) scroll creation, a public activity in support of Beijing's bid to host the 2022 Winter Olympics, and launched a series of consumer experience activities, which attracted extensive concern in the market. In addition, in the first half of 2015, many national ministries, the National People's Congress and provincial leaders visited the farms of Modern Dairy for survey and study, and highly recognized Modern Dairy's production model of "zero-distance integration of forage grass planting, cow breeding and milk processing within two hours (種養加一體化零距離2小時)", indicating that Modern Dairy's production model is one of the main production models. Meanwhile, media-based public relations work is also under way. The Group gradually forms a system of social media marketing, with more and more followers on WeChat forming a powerful support for Modern Dairy brand.

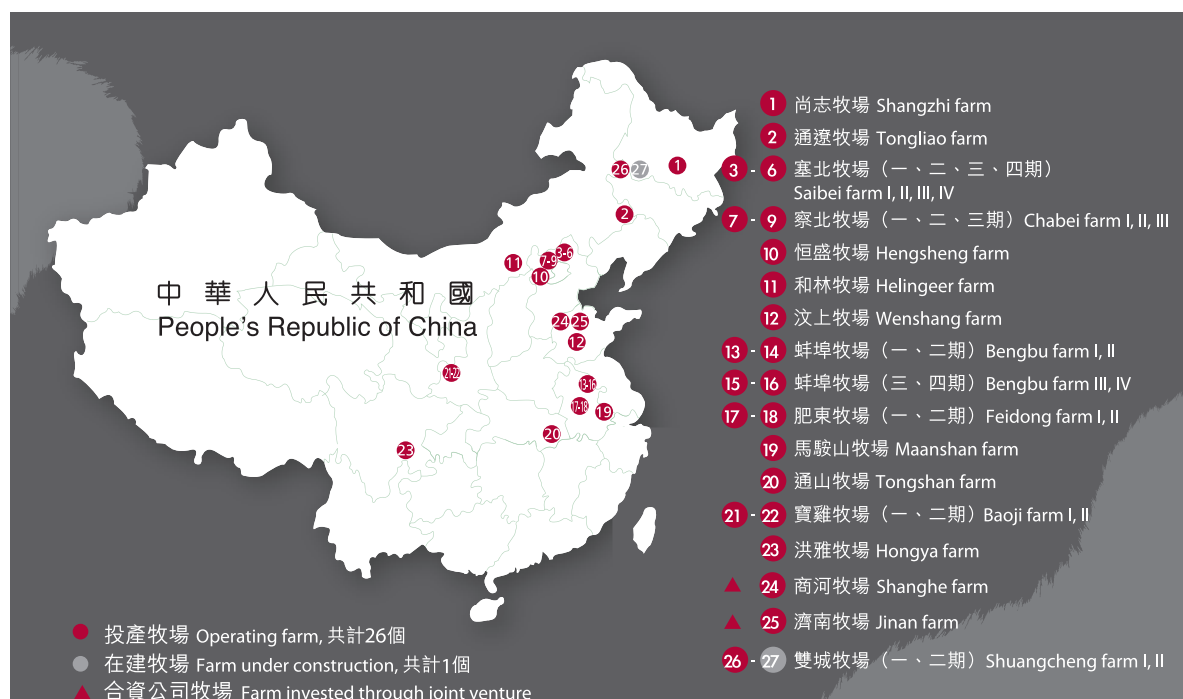
Note 1: It represents EBITDA before loss arising from changes in fair value less costs to sell of dairy cows, fair value gain from derivative financial assets, fair value loss from derivative financial liabilities, net loss on disposal of property, plant and equipment.

During the reporting period, the Group received various honors at home and abroad. On 9 January 2015, "Efficient Application of Cow Feeds and the Development and Application of Precise Feeding Technology" (奶牛飼料高效利用及精准飼養技術創建與應用), a collaborative research project jointly conducted by the Group and several institutions including China Agricultural University, won the second prize in the State Science and Technology Awards (國家科學技術進步二等獎), and was the only project relating to dairy industry that have won such award. Such recognition of the Group from national authorities also has positive effect on the PRC dairy

industry. On 25 January 2015, the Group was recognized as one of the Top 10 Innovative PRC Enterprises (中國經濟十大創新企業) at the China Economic Summit Forum 2014 & the 12th Annual Meeting of China Economic Characters, and our CEO, Ms. GAO Lina, was recognized as one of the Top 10 Business Leaders in China. The Group is the only enterprise that has received both enterprise and individual awards at the meeting, which indicates the recognition of the Group's business model and brings confidence and driving force for the Group's future development. On 9 June 2015, the Group was once again awarded gold prize in the food category by Monde Selection, the International Institute for Quality Selections, indicating that the quality of the Group's dairy products has met the international top tier standards, and representing recognition to our creative "zero-distance integration" (零距離一體化) production model. Further, it means the quality and safety of Chinese milk is approaching the international standards, with ability to provide high quality dairy products of our own brand with purity, nutrition, hygiene and safety to consumers. The Group will take the opportunities under this new stage to achieve new great-leap-forward development of the PRC dairy industry and to bring the PRC dairy industry to global dairy market with its high quality.

On 6 July 2015, the Company entered into a share purchase agreement with Success Dairy, JV Company I and JV Company II, pursuant to which the Company has agreed to purchase 82% shareholding in the two joint ventured farms established with Success Dairy (the "Acquisition"). The transaction was completed on 20 July 2015. Immediately after the completion, 100% of the total issued share capital (i.e. the entire equity interests of the two farms) in each of JV Company I and JV Company II was owned by the Company, which in turn will be owned as to 9% of its enlarged equity interests by KKR, a private equity fund, and CDH. As of 2 July 2015, there were 16,268 cattle in the two farms, representing 8.2% of the herd size of the Company. The Directors believe that the Acquisition would strengthen the Group's market position as a leading dairy farming company and raw milk producer in the PRC for the following reasons: (i) the Acquisition would drive the future growth of the Company as JV Company I and JV Company II are both in the phase of fast ramp-up and dairy herd expansion; (ii) the Acquisition would be able to create synergy effects with the Group's overall businesses and increase the Group's productivity and the Acquisition would acquire a first-class management team and facilitate integrated planning of the Group's business, enhance management efficiency and improve overall operational performance of the Group; (iii) the Acquisition would allow the Group to improve its gearing ratio and enhance capability for bank financing to fund further business expansion, as both JV Company I and JV Company II are debt-free and (iv) it can improve the Group's production of raw milk in Shandong, and will safeguard the establishment of brand milk production lines in such area in the future with the brand milk workshops reserved by such joint ventured farms.

Our farms



As of 30 June 2015, the Group had 24 farms self-operating and 1 farm under construction in the PRC with approximately 197,833 dairy cows in own farms in total. The Group had 2 joint ventured farms in operation with approximately 16,166 dairy cows in total.

Herd size

	30 June 2015	As at 31 December 2014
	<i>Head</i>	<i>Head</i>
Dairy cows		
Milkable cows	102,593	107,578
Heifers and calves	<u>95,240</u>	<u>93,929</u>
Total dairy cows	<u>197,833</u>	<u>201,507</u>

As at 30 June 2015, 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 2015, the current herd size is 197,833 compared to 201,507 as at 31 December 2014.

Milk Yield

Our 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 9.1 tons for the six months ended 30 June 2015, representing an increase of 1.1% from 9.0 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

Revenue

The table sets out the breakdown of our consolidated revenue by our two operating segments for the six months ended 30 June 2015 and 30 June 2014:

	Six months ended 30 June					
	2015			2014		
	External Sales	Internal Supplies	Subtotal	External Sales	Internal Supplies	Subtotal
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales of raw milk business	1,647,827	383,364	2,031,191	2,250,575	169,746	2,420,321
Sales of liquid milk products business	789,493	—	789,493	284,639	—	284,639
Sales of dairy cows business	—	—	—	49,321	—	49,321
Consolidated revenue	<u>2,437,320</u>	<u>383,364</u>	<u>2,820,684</u>	<u>2,584,535</u>	<u>169,746</u>	<u>2,754,281</u>

Our revenue decreased by 5.7% from RMB2,584.5 million for the six months ended 30 June 2014 to RMB2,437.3 million for the six months ended 30 June 2015 primarily due to the lower selling price of raw milk.

- *Dairy farming business*

Revenue from our dairy farming business decreased primarily due to decrease in average selling price of our quality raw milk as a result of the decrease in selling price of raw milk in the PRC.

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:

	For the six months ended 30 June					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG
Raw Milk						
External Sales	1,647,827	363,271	4.54	2,250,575	438,142	5.14
Internal Supplies	<u>383,364</u>	<u>87,537</u>	<u>4.38</u>	<u>169,746</u>	<u>31,387</u>	<u>5.41</u>
Subtotal	<u>2,031,191</u>	<u>450,808</u>	<u>4.51</u>	<u>2,420,321</u>	<u>469,529</u>	<u>5.16</u>

Revenue attributable to the internal use of raw milk increased substantially due to strong growth of our liquid milk business.

	2015			2014		
	Sales Amount RMB'000	Sales Volume Head	ASP RMB'000/ Head	Sales Amount RMB'000	Sales Volume Head	ASP RMB'000/ Head
	Daily Cows	<u>—</u>	<u>—</u>	<u>—</u>	<u>49,321</u>	<u>2,549</u>

- *Liquid milk products business*

Revenue from our liquid milk products business increased by 177.4% from RMB284.6 million for the six months ended 30 June 2014 to RMB789.5 million for the six months ended 30 June 2015, which accounted for 32.4% and 11.0% of our consolidated turnover for the six months ended 30 June 2015 and 2014, 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 220.4% from 25,849 tonnes for the six months ended 30 June 2014 to 82,818 tonnes for the six months ended 30 June 2015. 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:

	For the six months ended 30 June					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG
Liquid Milk Products	<u>789,493</u>	<u>82,818</u>	<u>9.53</u>	<u>284,639</u>	<u>25,849</u>	<u>11.01</u>

Cost of sales before biological fair value adjustment

Our cost of sales before biological fair value adjustment primarily consisted of dairy farming cost and liquid milk products cost. Costs of sales before biological fair value adjustment 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 before biological fair value adjustment of dairy farming business

	For the six months ended 30 June			
	2015		2014	
	RMB'000	%	RMB'000	%
Costs of sales before biological fair value adjustment of dairy farming business:				
Feeds cost	1,070,667	78.4%	1,152,786	78.0%
Labor cost	67,958	5.0%	80,890	5.5%
Utilities	29,347	2.2%	34,996	2.4%
Depreciation	89,170	6.5%	84,447	5.7%
Other costs of farms	<u>107,821</u>	<u>7.9%</u>	<u>125,404</u>	<u>8.4%</u>
Subtotal of costs of sales before biological fair value adjustment of dairy farming business	<u>1,364,963</u>	<u>100%</u>	<u>1,478,523</u>	<u>100%</u>
Inter-segment cost	<u>(380,803)</u>		<u>(165,137)</u>	
Costs of sales before biological fair value adjustment of dairy farming business, net	<u>984,160</u>		<u>1,313,386</u>	
Dairy farming business	<u>—</u>		<u>49,321</u>	
Total cost of sales of dairy farming business	<u>984,160</u>		<u>1,362,707</u>	

With decrease in the number of milkable cows and in the price of feeds, total feed costs (before eliminating the internal relative costs of sales of the supply of raw milk) for the six months ended 30 June 2015 decreased to RMB1,070.7 million from RMB1,152.8 million for the same period last year, representing a decrease of 7.1%.

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 4.7% from RMB2,969 for the same period last year to RMB2,830 for the six months ended 30 June 2015, mainly due to the increase in the annual milk yield per cow and the decrease in the price of feeds.

Costs of sales of liquid milk product business

	For the six months ended 30 June			
	2015		2014	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Raw materials	497,302	88.1%	189,630	87.6%
Labor cost	14,424	2.6%	6,891	3.2%
Depreciation	21,802	3.9%	9,095	4.2%
Utilities	12,601	2.2%	4,447	2.1%
Other processing costs	<u>18,137</u>	<u>3.2%</u>	<u>6,415</u>	<u>2.9%</u>
	<u>564,266</u>	<u>100%</u>	<u>216,478</u>	<u>100%</u>

With the increase in sales volume of liquid milk products, raw material cost for the six months ended 30 June 2015 increased from RMB189.6 million for the same period last year to RMB497.3 million, representing an increase of 162.2%. Sales of liquid milk increased by 177.4% to RMB789.5 million for the six months ended 30 June 2015 from RMB284.6 million for the same period last year.

Cost (excluding depreciation) per ton of liquid milk sold decreased from RMB8,023 for the same period last year to RMB6,550 for the six months ended 30 June 2015, representing a decrease of 18.4%. It was mainly due to a 19.0% decrease of internal prices of raw milk and 20.6% decrease of other cash costs (including labor cost, utilities and other processing cost).

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 periods indicated:

	For the six months ended 30 June			
	2015		2014	
	Gross Profit	Gross Margin	Gross Profit	Gross Margin
	<i>RMB'000</i>		<i>RMB'000</i>	
Dairy farming business				
Before elimination	666,228	32.8%	941,798	38.1%
After elimination	663,667	40.3%	937,189	40.7%
Liquid milk products business	225,227	28.5%	68,161	23.9%

- *Dairy farming business*

Gross profit of our daily farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased by 29.3% from RMB941.8 million for the six months ended 30 June 2014 to RMB666.2 million for the six months ended 30 June 2015. The decrease above was primarily due to the decrease in selling price of raw milk.

Gross margin of our dairy farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased from 38.1% for the six months ended 30 June 2014 to 32.8% for the six months ended 30 June 2015, primarily due to the decrease in selling price of raw milk.

- *Liquid milk products business*

Gross profit of our liquid milk products business increased by 230.4% from RMB68.2 million for the six months ended 30 June 2014 to RMB225.2 million for the six months ended 30 June 2015. The increase was primarily due to the increase in sales volume of our branded milk products.

Gross margin of our liquid milk products business increased from 23.9% for the six months ended 30 June 2014 to 28.5% for the six months ended 30 June 2015, mainly due to the decrease in selling price of raw milk and the enhanced effects of economies of scale.

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 2015 while the value of the Group's dairy cows at 31 December 2014 has been arrived at on the basis of a valuation carried out by JLL. Loss arising from changes in the fair value of biological assets was RMB199.3 million for the six months ended 30 June 2015 (six months ended 30 June 2014: loss arising from changes in the fair value of biological assets was RMB84.6 million), mainly attributable to the decrease in selling price of raw milk.

Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest

Our gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 29.5% to RMB 636.9 million for the six months end 30 June 2015 from RMB 903.7 million for the six months end 30 June 2014, mainly due to the decrease in the selling price of raw milk.

IFRSs required that raw milk gained was initially measured at fair value of market and the profit or loss was recognised on the differences between the fair value of market and the actually costs, and meanwhile the raw milk consumed will be initially recognised at the fair value of market and recognised as cost of sales in profit or loss.

Other income

For the six months ended 30 June 2015, other income amounted to RMB14.7 million (six months ended 30 June 2014: RMB19.9 million). Other income mainly consisted of government grants and interest income, among others, interest income for the six months ended 30 June 2015 amounted to RMB7.9 million (for the six months ended 30 June 2014: RMB11.3 million), in which government grants for the six months ended 30 June 2015 amounted to RMB6.8 million (for the six months ended 30 June 2014: RMB6.3 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the six months ended 30 June,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Selling and distribution costs	67,688	49,217
Administrative expenses	<u>111,485</u>	<u>106,806</u>
Total operating expenses	<u><u>179,173</u></u>	<u><u>156,023</u></u>

Our operating expenses increased from RMB156.0 million for the six months ended 30 June 2014 to RMB179.2 million for the six months ended 30 June 2015. Selling and distribution costs mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among others, transportation costs was increased from RMB44.0 million for the six months ended 30 June 2014 to RMB54.4 million for the six months ended 30 June 2015, mainly due to increase in sales volume of 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, etc., among others, salaries (excluding equity-based share option expenses) of management was decreased from RMB42.8 million for the six months ended 30 June 2014 to RMB42.5 million for the six months ended 30 June 2015.

During the six months ended 30 June 2015, equity-based share option expenses included in the administrative expenses amounted to RMB17.1 million as compared to RMB17.0 million for the six months ended 30 June 2014.

Other Gains and Losses

Gains arising from other gains and losses amounted to RMB148.7 million (for the six months ended 30 June 2014: losses arising from other gains and losses amounted to RMB99.6 million). This is mainly due to a gain of RMB147.1 million (for the six months ended 30 June 2014: loss of RMB84.7 million) arising from net effect of fair value measurement of the put options and call options 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 RMB134.9 million for the last corresponding period to RMB150.1 million for the six months ended 30 June 2015. This was mainly attributable to the increase in bank loans and lower amount of capitalised interest.

Profit attributable to the owners of the Company

Taking into account of all the above factors, the profit attributable to the owners of the Company was RMB477.0 million for the six months ended 30 June 2015. This represents a decrease of 8.8% from RMB523.2 million for the six months ended 30 June 2014.

Basic earnings per share were approximately RMB9.88 cents (2014: RMB10.84 cents).

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2015, the Group's cash flow from operating activities amounted to RMB769.6 million, as compared to RMB1,037.1 million for the six months ended 30 June 2014.

As at 30 June 2015, the Group's available and unutilised banking facilities amounted to approximately RMB9,419.5 million (31 December 2014: RMB8,089.6 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 well as short-term debentures and medium-term notes as at the dates indicated below.

	30 June 2015	As at 31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Bank borrowings	5,034,427	4,687,848
Short-term debentures	300,000	1,100,000
Medium-term notes	<u>200,000</u>	<u>—</u>
Total borrowings	<u>5,534,427</u>	<u>5,787,848</u>
Unsecured bank borrowings	1,545,432	885,818
Secured bank borrowings	2,822,995	3,335,030
Guaranteed bank borrowings	<u>666,000</u>	<u>467,000</u>
	<u>5,034,427</u>	<u>4,687,848</u>
Carrying amount repayable:		
Within one year	2,309,257	2,958,398
Between one to two years	1,245,976	792,538
Between two to five years	<u>1,979,194</u>	<u>2,036,912</u>
	<u>5,534,427</u>	<u>5,787,848</u>

As at 30 June 2015, the gearing ratio, being the ratio of total borrowings (including short-term debenture and medium-term notes) to total assets was 39.5% (31 December 2014: 40.7%). The annual interest rate of the banks and other borrowings for the six months ended 30 June 2015 varied from 0.86% to 7.05% (six months ended 30 June 2014: 1.73% to 7.05%). As at 30 June 2015, all borrowings were denominated in Renminbi and United States Dollar (“US\$”). Interest-bearing debts due within one year accounted for 41.7% of the total borrowings for the six months ended 30 June 2015, compared with 51.1% over the same period last year.

PLEDGE OF ASSETS

As at 30 June 2015, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.8 million (31 December 2014: RMB9.9 million), RMB52.3 million (31 December 2014: RMB54.6 million) and RMB3,497.4 million (31 December 2014: RMB3,316.2 million), respectively, and 100% shares in Advanced Dairy Company (Luxemburg) Limited were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2015, the Group has capital commitment of RMB129.4 million related to acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 30 June 2015.

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 5,114 employees (31 December 2014: 5,417) in mainland China and Hong Kong as at 30 June 2015. Total staff costs (including staff compensation capitalised to unmaturing dairy cows) for the six months ended 30 June 2015 were approximately RMB198.1 million (for the six months ended 30 June 2014: RMB199.3 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 increasing consumption standard and rising health awareness of PRC residents, coupled with constant significant growth of the demand for high-end premium raw milk, there remained a vast room for increase in the per capita milk consumption and, meanwhile, the PRC dairy industry will maintain a steady growth in the future. In light of the current situation, the Group will keep actively enlarging the market share of its downstream business, enabling the transformation of its own branded milk development. In all dairy farms of the Group throughout the country, production workshops have been reserved to ensure improvement of the production capacity of its terminal product in a rapid way and promotion of the sales of its branded milk.

Our own branded products have been highly recognized in the market, recording considerable sales growth. Currently, the sales network of our branded UHT milk has expanded to other cities from northern China, eastern China, southern China and Shanxi. As at 30 June 2015, the sales network of the Group has reached 28 provinces, 4 municipalities, 226 prefecture-level cities and 273 county-level cities, with an aggregate of more than 270,000 points of sales throughout China. With the continuous increase of the sales points, the retail market share of the Group's own branded UHT milk will be further enlarged. In the future, riding on the new development trend, the Group will optimize and upgrade its own production model through expanding its national-wide sales network in an effort to bring considerable revenue to the Group.

Meanwhile, the pasteurized milk has received more and more market attention and recognition due to, *inter alia*, its high nutrient composition. The inherent advantage of nationwide coverage of dairy farms of Modern Dairy enables the Group to develop its own branded pasteurized liquid milk and to penetrate deeper into consumer market proactively. The Group's pasteurized milk had successfully launched in more than 300 large-scale supermarkets as at 30 June 2015, and our products under the brand of "Two Hours" offer high quality for being fresh and nutritious. In the future, our expansion into pasteurized milk market will also go deeper to enrich the product portfolio of the Group's liquid milk business, and lay foundation for the Group to produce dairy products with integrated business model.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (for the six months ended 30 June 2014: Nil).

CORPORATE GOVERNANCE

The Company has complied with 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 2015 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 of the company. Mr. Han Chunlin, the executive Director, Mr. WOLHARDT Julian Juul, Mr. Hui Chi Kin Max and Mr. Wu Jingshui, the non-executive Directors and Mr. Zou Fei, the independent non-executive Director, were not able to attend the annual general meeting of the Company held on 5 June 2015 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 2015.

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 2015.

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements of the Group for the six months ended 30 June 2015 in accordance with Hong Kong Standard on Review Engagements 2410 “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 2015 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.

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO LINA
*Deputy Chairman, Chief Executive Officer
and Executive Director*

Hong Kong, 24 August 2015

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.