现代牧业

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

The board (the "Board") of directors (the "Directors") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the year ended 31 December 2015** *RMB'000*	**For the year ended 31 December 2014** *RMB'000*
Revenue	5	4,826,341	5,026,706
Cost of sales before biological fair value adjustment		(3,167,298)	(3,161,345)
Biological fair value adjustment included in cost of sales		(1,203,011)	(1,666,242)
Loss arising from changes in fair value less costs to sell of dairy cows		(474,910)	(329,069)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		1,203,011	1,666,242
Other income		32,094	40,213
Selling and distribution costs		(194,542)	(111,909)
Administrative expenses		(243,566)	(214,561)
Share of loss of an associate		(1,192)	(6,791)
Share of profit of joint ventures		5,782	7,004
Other gains and losses, net		(107,077)	(209,648)
Other expenses		(5,173)	(4,635)
Profit before finance costs and tax	5, 6	670,459	1,035,965
Finance costs	7	(315,078)	(265,601)
Profit before tax		355,381	770,364
Income tax expense	8	(11,663)	(7,476)
Profit and total comprehensive income for the year		343,718	762,888
Profit and total comprehensive income attributable to:			
Owners of the Company		321,296	735,317
Non-controlling interests		22,422	27,571
		343,718	762,888
Earnings per share (RMB)	10		
Basic		6.37 cents	15.23 cents
Diluted		6.32 cents	15.08 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	5,376,897	4,457,970
Land use rights		120,622	64,868
Goodwill		1,441,494	310,426
Interest in an associate		25,076	18,931
Interest in joint ventures		—	95,208
Biological assets		7,590,878	6,530,814
		14,554,967	11,478,217
CURRENT ASSETS			
Inventories		834,099	640,581
Trade and other receivables	12	1,097,794	826,772
Land use rights		3,743	1,667
Pledged bank balances		183,664	612,909
Cash and bank balances		833,569	556,964
		2,952,869	2,638,893
CURRENT LIABILITIES			
Trade and other payables	13	2,012,976	1,403,003
Tax payable		281	2,787
Borrowings — due within one year		4,825,521	1,858,398
Short-term debenture		400,000	1,100,000
		7,238,778	4,364,188
NET CURRENT LIABILITIES		(4,285,909)	(1,725,295)
TOTAL ASSETS LESS CURRENT LIABILTIIES		10,269,058	9,752,922

	As at 31 December 2015	As at 31 December 2014
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	452,959	415,261
Share premium and reserves	7,328,938	6,094,978
Equity attributable to owners of the Company	7,781,897	6,510,239
Non-controlling interests	168,135	145,713
	7,950,032	6,655,952
NON-CURRENT LIABILITIES		
Borrowings — due after one year	821,730	2,829,450
Medium-term notes	200,000	—
Deferred income	141,824	120,421
Other financial liabilities	1,155,472	147,099
	2,319,026	3,096,970
	10,269,058	9,752,922

NOTES

1. **General information**

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") on 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 milk.

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

2. **Basis of Presentation**

In preparing the consolidated financial statements for the year ended 31 December 2015, the Directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB4,285,909,000 as at 31 December 2015 (31 December 2014: RMB1,725,295,000). Having considered the available credit facilities of approximately RMB6,753,413,000 which remains unutilised as at 31 December 2015, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been presented on a going concern basis.

3. **Application of New and Revised International Financial Reporting Standards ("IFRSs")**

(a) Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to IFRSs.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

(b) New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IAS 27	Equity Method in Separate Financial Statements[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

1. Effective for annual periods beginning on or after 1 January 2018
2. Effective for annual periods beginning on or after 1 January 2019
3. Effective for annual periods beginning on or after 1 January 2016
4. Effective for annual periods beginning on or after a date to be determined
5. Effective for annual periods beginning on or after 1 January 2017

Except as described below, the Directors do not anticipate that the application of the abovementioned new standards and amendments issued but not yet effective will have a material effect on Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors are still assessing the impacts on the application of IRFS 15 on the Group's contracts with its customers. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 14, total operating lease commitment of the Group in respect of property, plant and equipment and leased land as at 31 December 2015 amounted to RMB30,125,000. The

Directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

4. **Principal accounting policies**

The consolidated financial statements have been prepared in accordance with the IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange, (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in the consolidated financial statements.

The consolidated financial statements have been prepared under the historical cost basis except for (i) the biological assets, which are measured at fair value less costs to sell, and (ii) financial instruments at fair value through profit or loss ("FVTPL"), which are measured at fair value at the end of each reporting period.

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. **Segment information**

Information reported to the chief operating decision maker (the "CODM") for the purposes of resources allocation and assessment of segment performance focuses on the type of goods delivered. No operating segment has been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

- Dairy farming-breeding dairy cows to produce and sell raw milk.

- Liquid milk products production-producing and selling processed liquid milk.

Segment revenue, results, assets and liabilities

For the year ended 31 December 2015

	Dairy farming	**Liquid milk products**	**Subtotal**	**Inter-segment elimination***	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	4,055,913	1,501,875	5,557,788	(731,447)	4,826,341
Segment cost of sales before biological fair value adjustment	2,768,777	1,126,444	3,895,221	(727,923)	3,167,298
Reportable segment profit	712,851	220,530	933,381	(3,524)	929,857
Loss arising from changes in fair value less costs to sell of dairy cows					(474,910)
Share of loss of an associate					(1,192)
Share of profit of joint ventures					5,782
Unallocated other income					12,583
Unallocated other gains and losses					(9,659)
Unallocated expenses					(107,080)
Profit before tax					355,381
As at 31 December 2015					
Segment assets	15,833,395	1,353,217	17,186,612	(577,422)	16,609,190
Unallocated assets					898,646
Consolidated assets					17,507,836
Segment liabilities	7,571,794	1,381,373	8,953,167	(569,298)	8,383,869
Unallocated liabilities					1,173,935
Consolidated liabilities					9,557,804

* Inter-segment elimination represents the elimination of sales of raw milk from dairy farming segment to processed liquid milk segment and related current accounts.

Segment revenue of dairy farming segment included inter-segment revenue of RMB731,447,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

For the year ended 31 December 2014 (audited)

	Dairy farming	Liquid milk products	Subtotal	Inter-segment elimination*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	4,672,151	832,686	5,504,837	(478,131)	5,026,706
Segment cost of sales before biological fair value adjustment	2,938,876	695,999	3,634,875	(473,530)	3,161,345
Reportable segment profit	1,229,399	75,037	1,304,436	(4,601)	1,299,835
Loss arising from changes in fair value less costs to sell of dairy cows					(329,069)
Share of loss of an associate					(6,791)
Share of profit of joint ventures					7,004
Unallocated other income					25,502
Unallocated other gains and losses					(123,243)
Unallocated expenses					(102,874)
Profit before tax					770,364
As at 31 December 2014					
Segment assets	12,517,530	937,065	13,454,595	(560,024)	12,894,571
Unallocated assets					1,316,282
Consolidated assets					14,210,853
Segment liabilities	6,661,750	1,152,988	7,814,738	(555,423)	7,259,315
Unallocated liabilities					295,586
Consolidated liabilities					7,554,901

* Inter-segment elimination represents the elimination of sales of raw milk from dairy farming segment to processed liquid milk segment and related current accounts.

Segment revenue of dairy farming segment included inter-segment revenue of RMB478,131,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

Other segment information

Amounts included in the measure of segment profit of loss or segment assets:

For the year ended 31 December 2015

	Dairy farming	Liquid milk products	Total
	RMB'000	*RMB'000*	*RMB'000*
Additions to non-current assets (Note)	4,375,932	150,904	4,526,836
Depreciation and amortisation charged to profit or loss	216,416	51,992	268,408
Impairment loss of goodwill	94,392	—	94,392
(Gain) loss on disposal of property, plant and equipment	(738)	87	(651)
Interest income	1,184	54	1,238
Finance cost	284,702	30,376	315,078

For the year ended 31 December 2014

	Dairy farming	Liquid milk products	Total
	RMB'000	*RMB'000*	*RMB'000*
Additions to non-current assets	2,026,099	311,455	2,337,554
Depreciation and amortisation charged to profit or loss	191,874	29,072	220,946
Impairment loss of property, plant and equipment	42,628	—	42,628
Loss on disposal of property, plant and equipment	28,516	—	28,516
Interest income	815	54	869
Finance cost	263,069	2,532	265,601

Note: Addition to non-current assets comprise biological assets, property, plant and equipment, land use rights and goodwill.

Segment profit represents the profit earned by each segment without including loss arising from changes in fair value less costs to sell of dairy cows, fair value (gains) losses from financial liabilities at FVTPL share of loss of an associate, share of profit of joint ventures, gain on disposal of subsidiary, corporate bank interest income, and other head office and corporate income and expenses that are not directly attributable to operating segments. This is the measure reported to CODM for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in an associate, interests in joint ventures, corporate cash and bank balances and other head office and corporate assets; and

- all liabilities are allocated to operating segments other than tax payable, other financial liabilities and other head office or corporate liabilities.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	For the year ended 31 December 2015	**For the year ended 31 December 2014**
	RMB'000	*RMB'000*
Raw milk	3,324,466	4,194,020
Processed liquid milk	1,501,875	832,686
	4,826,341	5,026,706

Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and all of the non-current assets are located in mainland China and 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.

Information about major customers

Included in revenue arising from sales of raw milk to external customers of RMB3,324,466,000 (for the year ended 31 December 2014: RMB4,194,020,000) are revenue of approximately RMB2,304,424,000 (for the year ended 31 December 2014: RMB3,006,934,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the years ended 31 December 2015 and 2014.

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

	For the year ended 31 December 2015 *RMB'000*	For the year ended 31 December 2014 *RMB'000*
Profit before finance cost and tax	670,459	1,035,965
Plus: Amortization	2,191	1,393
Plus: Depreciation	272,976	225,544
Plus: Loss arising from changes in fair values less costs to sell of dairy cows	474,910	329,069
Plus: Fair value losses from financial liabilities at FVTPL	50,028	105,468
Plus: (Gain) loss on disposal of property, plant and equipment	(613)	28,758
Plus: Impairment loss of property, plant and equipment	—	42,628
Less: Gain on deemed partial disposal of interest in associate	(7,336)	—
Plus: Impairment loss of goodwill	94,392	—
Less: Gain arising on remeasurement of joint ventures	(121,340)	—
Plus: Net foreign exchange loss	92,048	28,976
Cash EBITDA[1] - unaudited	1,527,715	1,797,801

Note (1): It represents earnings before interest, tax, depreciation, amortisation before loss arising from changes in fair values less costs to sell of dairy cows, fair value (gains) losses from financial liabilities at FVTPL, (gain) loss on disposal of property, plant and equipment, foreign exchange (gain) loss and impairment loss of property, plant and equipment and other major non-cash (gains) losses.

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

	For the year ended 31 December 2015 *RMB'000*	For the year ended 31 December 2014 *RMB'000*
Cost of sales before biological fair value adjustments		
Breeding costs to produce raw milk	2,252,096	2,626,282
Production costs for liquid milk products	915,202	535,063
	3,167,298	3,161,345
Gains arsing on initial recognition of raw milk at fair value less costs to sell at the point of harvest	1,203,011	1,666,242
	4,370,309	4,827,587

	For the year ended 31 December 2015	For the year ended 31 December 2014
	RMB'000	*RMB'000*
Other gains and losses:		
Fair value (gains) losses from Put Option and Call Option	(147,099)	105,468
Fair value losses from Contingent Consideration	197,127	—
Gain arising on disposal of a subsidiary	—	(2,226)
Gain on deemed partial disposal of interest in associate	(7,336)	—
Net foreign exchange loss	92,048	28,976
(Gain) loss from disposal of property, plant and equipment	(613)	28,758
Impairment loss of property, plant and equipment	—	42,628
Impairment loss of goodwill	94,392	—
Gain arising on remeasurement of joint ventures	(121,340)	—
Others	(102)	6,044
	107,077	209,648
Depreciation of property, plant and equipment	473,342	382,103
Less: capitalised in biological assets	(200,366)	(156,559)
Depreciation charged to profit or loss	272,976	225,544
Employee benefits expenses	374,785	360,815
Less: capitalised in biological assets	(103,615)	(98,286)
Employee benefits charged to profit or loss	271,170	262,529
Auditors' remuneration	4,300	3,850
Release of land use rights	2,191	1,393

7. Finance costs

	For the year ended 31 December 2015 *RMB'000*	For the year ended 31 December 2014 *RMB'000*
Interest expenses on:		
Borrowings	269,352	236,412
Medium-term notes	10,796	—
Short-term debenture	32,788	67,228
Total borrowing costs	312,936	303,640
Cost of discount of bills receivable	11,600	—
Less: amounts capitalised for construction of property, plant and equipment	(9,458)	(38,039)
	315,078	265,601

For the year ended 31 December 2015, the borrowing cost was capitalised based on the terms of the general bank borrowings in respect of construction in progress. The weighted average capitalisation rate on general borrowings is 5.52% per annum (2014: 6.62%).

8. Income tax expense

	For the year ended 31 December 2015 *RMB'000*	For the year ended 31 December 2014 *RMB'000*
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	11,663	7,476

The tax charge 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.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividend income of Aquitair Holdings Limited from Modern Farming (Group) Co., Ltd ("Modern Farm") is subject to Irish Income Tax at 25%. As at 31 December 2015, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,512,302,000 (31 December 2014: RMB1,018,615,000). 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.

9. **Dividends**

	2015	**2014**
	RMB'000	*RMB'000*
Dividends for ordinary shareholders of the Company recognized as distribution during the year:		
2014 Final — 1.2481 HK cents per share (2014:nil)	49,003	—

Note: During the current year, a final dividend of 1.2481 HK cents per share in respect of the year ended 31 December 2014 was declared and paid to the shareholders of the Company through the Company's share premium account.

10. **Earnings per share**

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

	For the year ended 31 December 2015	**For the year ended 31 December 2014**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	321,296	735,317
Number of shares	Shares	Shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,041,854,854	4,827,338,751
Effect of share options issued by the Company	39,783,628	49,890,418
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,081,638,482	4,877,229,169

11. **Property, plant and equipment**

During the year ended 31 December 2015, the Group acquired property plant and equipment amounting to RMB924,153,000 (year ended 31 December 2014: RMB880,363,000) in order to increase its production capacity.

12. **Trade and other receivables**

The Group allows credit period of 30 to 120 days to its customers.

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

	As at	
	31 December 2015	**31 December 2014**
	RMB'000	*RMB'000*
Trade receivables		
- within 120 days based on invoice date	880,751	636,715
- after 120 days based on invoice date	2,000	—
	882,751	636,715
Bills receivable	23,153	—
Advances to suppliers	105,082	126,425
Receivable in respect of sales of self-reproduced dairy cows	57,922	27,469
Input value added tax recoverable	7,905	7,888
Interest receivables	1,909	22,850
Receivable in respect of disposal of equipment	10,868	—
Others	8,204	5,425
	1,097,794	826,772

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

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits. Limited and credit quality attributed to customers are reviewed twice a year. 99% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internally credit quality.

Inclueded in the Group's trade receivable balance is a debtor with aggregate carrying amount of RMB2,000,000 (31 December 2014: nil) which is past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over this balance. The age of this receivable is 440 days. Subsequent to 31 December 2015, the Group collected RMB412,000 and the management of the Group expects to collect the remaining balance in year 2016.

The following were the Group's financial assets as at 31 December 2015 that were transferred to suppliers by endorsing those receivables on a full recourse basis but not matured at the end of the reporting period (31 December 2014: nil). As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets are carried at amortised cost in the Group's consolidated financial statements.

As the 31 December 2015

	Bills receivable endorsed to suppliers with full recourse *RMB'000*
Carrying amount of transferred assets	23,153
Carrying amount of associated liabilities	(23,153)
Net position	—

All the bills receivable endorsed to suppliers have a maturity date of less than one year from the end of the reporting period.

13. **Trade and other payables**

The credit period granted by suppliers for trade purchases is generally 60 days. The following is an aged analysis of trade and bills payable at the end of the reporting period:

	As at	
	31 December 2015	**31 December 2014**
	RMB'000	*RMB'000*
Trade payables		
- Within 60 days based on invoice date	817,966	696,563
- Over 60 days based on invoice date	83,331	40,786
Bills payable (Note)	310,268	104,827
	1,211,565	842,176
Payable for acquisition of property, plant and equipment	631,208	382,405
Accrued staff costs	61,084	56,960
Interest payable	28,680	56,480
Advance payment from customers	12,931	28,941
Others	67,508	36,041
	2,012,976	1,403,003

Note: Bills payable are bank accepted and mature within six months from the respective issuance dates.

14. **Operating lease commitments**

The Group as lessee

Minimum lease payments under operating leases recognised during the year is RMB12,374,000 (2014: RMB7,437,000).

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

	As at 31 December 2015	As at 31 December 2014
	RMB'000	*RMB'000*
Within one year	10,868	1,197
In the second to fifth year inclusive	19,257	729
	30,125	1,926

Operating lease payments represent rentals payable by the Group for property, plant, and equipment and leased land which are negotiated for terms ranging from 2 to 5 years and rentals are fixed.

INDUSTRY OVERVIEW

During 2015, selling prices of raw milk remained weak in consequence of various pressures from oversupply, inventory and large scales of imported bulk milk powder and reconstituted milk flooded into domestic market. Reconstituted milk at very low cost was sold as good quality products by some profit-seeking manufacturers. Despite the "24th Circular" issued by the State Council early in 2005 for the purpose of limiting the use of reconstituted milk by expressly providing that use of reconstituted milk shall be clearly stated on the product package, it's not rare to see, however, manufacturers use reconstituted milk during their production without a clear label on products. Imported milk and milk powder posted a great threat to dairy farmers. As raw milk was rejected in many areas, sometimes dairy farmers had to dump milk and kill their cows for cost saving. Dairy farmers will face further challenges in view of the fact of their small scale and limited technologies against the environment of downward price and more strict quality requirement. By contrast, benefiting from a professional management and operating mode as well as the advantage of industrial integration, a one-stop modern ranch is able to further strengthen its market shares and brand recognition, which ensures both of the quality and quantity of raw milk supply and is expected to form a demonstration effect as an industry leading enterprise.

The dairy farming industry in China comes to the most difficult phase of its transformation. Being aware of such problem, the Ministry of Agriculture and local agriculture & animal husbandry bureaus have responded in various ways, including but not limited to the negotiation of guide prices in each areas, assisting dairy farmers with medium-small farming business in the market stably transiting to large dairy farming enterprises, stabilizing milk price for medium-small farms and dairy farming communities in the interests of dairy farmers. Relevant regulatory authorities have also released a series of policies and regulations and implemented a registration system for the management of dairy formulas, highlighting the determination of Chinese government to implement merging and reorganization of dairy enterprises for maintenance of a stable and healthy dairy market.

Cost of feeds remains high throughout the year and the profit of upstream raw milk supply industry has been pressed, primarily arising from the drop of food price in China away from international food price. Recently, the government reduced the stockpiling prices of the three major grain crops in China in order to relieve domestic inventory pressure, which led to a significant drop of prices of such three major grain crops, particularly, the corn price fell more than 10%. The currently published "No. 1 Document" by the central government in 2016 proposes to reform and update the pricing mechanism and stockpiling mechanism of agricultural products such as grains. A reform of grain-pricing mechanism is expected to be carried out in China, allowing grain prices to return to the market and relieving upstream raw milk suppliers from the conflict of lower raw milk prices and higher costs.

With the stable and sustainable economy development, and driving by the two positive policies of "the 13th Five Year Plan" and "Two Children Policy", the dairy products industry sees an enormous potential with rising demand for high-quality dairy products. To meet the demand of market for quality, the dairy farming industry in China has also undergone a structural transformation from a free-range mode to a large-scale and intensive development mode of modern range. As the dairy products market system increasingly develops, the use of reconstituted milk will be regulated. Despite various challenges ahead, we believe the domestic demand for high-quality dairy products will remain strong, the raw milk price will rebound and stabilized, and eventually, the whole industry will embrace more and more business opportunities.

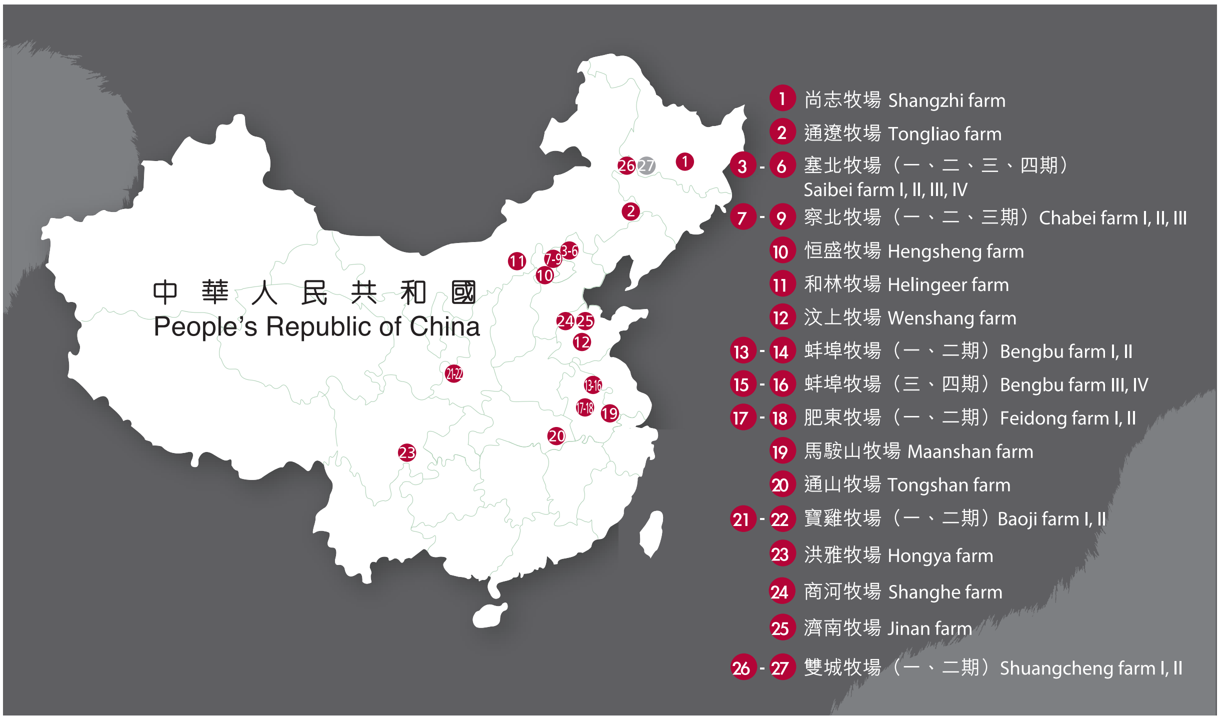
BUSINESS REVIEW

The Group is primarily engaged in two business segments, including: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products; and (ii) liquid milk products business under its own brands, under which we mainly produce and sell liquid milk products. Affected by the decrease of raw milk price, during the year ended 31 December 2015, the Group recorded a total revenue of RMB4,826.3 million, a decrease of 3.99% over the same period last year. Even though the overall sales of dairy products in China remained weak during 2015, the Group's sales of milk products under its own brands recorded another high, amounting to RMB1,501.9 million, representing a significant increase of 80.37%, attributable to rising demand for high-end dairy products in the relatively safe Chinese market.

The Group will maintain its strict standard of high quality raw milk, seeking to win trust and support from its consumers with products of "purity, genuineness, freshness and vitality", together with "integration", its cutting-edge mode of innovation. As the main force focusing on the development of downstream business, the "Two Hours" pasteurized milk and the soon-to-be launched room-temperature yogurt will bring more opportunities to modern dairy farming enterprises which are undergoing transformation for a complete industrial chain, driving by increasingly improved sales network.

We are the largest dairy farming company and the largest producer of raw milk in China in terms of herd size. As of 31 December 2015, the Group has operated 27 livestock farms in China with 225,542 dairy cows in total. As a nationwide farm, we are endowed with unique geographical advantages, such as our farms are close to various downstream plants processing dairy products and feed supply sources. For the year ended 31 December 2015, the dairy farming business of the Group recorded an external revenue of RMB3,324.5 million, representing 68.88% of the total revenue of the Group. Total sales volume of raw milk amounted to 752,314 tons. Raw milk with premium quality sold by the Group to external downstream customers was used in the production of premium dairy products, sales of which have kept an increase of more than double-digits in China for recent years.

Our Farms



Our financial results are directly affected by the milk yield per cow. In general, as milk yield per cow improves, the cash 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 per cow for the year ended 31 December 2015, representing an increase of 2.25% from 8.9 tons for the corresponding period last year.

The Cash EBITDA[1] decreased by 15.02% from RMB1,797.8 million for the corresponding period last year to RMB1,527.7 million for the year ended 31 December 2015. Affected by the decrease of raw milk price, Cash EBITDA margin decreased from 35.76% for the corresponding period last year to 31.65% for the year ended 31 December 2015.

On the backdrop of challenges ahead in respect of the current transformation of dairy farming industry in China, the Group, as a pioneer in domestic large-scale farming and who initiated the cutting-edge business mode of "integration of forage grass planting, dairy farming and milk processing", has won a widespread recognition both at home and abroad. At the Monde Selection 2015 held by the International Institute for Quality Selections in Portugal on 1 June 2015, the Company was once again, on behalf of Chinese dairy industry, awarded the gold prize in food category, which has been regarded as a "Nobel Prize in food quality", and also hit the international record of additive-free pure milk winning gold prize of Monde Selection. 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 one of the oldest, the most representative and the most authoritative food quality testing organization in the world. Its prizes are designed for the purpose of monitoring food quality. The meeting 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 branded milk has won recognition for its high quality in "purity, genuineness, freshness and vitality" and its cutting-edge business mode of "integration of forage grass planting, dairy farming and milk processing" from authorities across the world.

On 9 June 2015, the Group cooperated with the dairy innovation team of the Chinese Academy of Agricultural Sciences to jointly launch "quality milk project" (優質乳工程), and signed a cooperation agreement. The project is principally committed to research and development to reduce the heat damage of sterilized milk and further reduce the content of furosine in milk, subject to eligibility of various indicators such as microorganisms in the products. Furosine is one of a series of outcomes generated

Note:

(1) It represents earnings before interest, tax, depreciation, amortisation before loss arising from changes in fair values less costs to sell of dairy cows, fair value (gains) losses from financial liabilities at FVTPL, (gain) loss on disposal of property, plant and equipment, foreign exchange (gain) loss and impairment loss of property, plant and equipment and other major non-cash (gains) losses.

by reaction between lactoprotein and lactose at high temperature, which is an important indicator to determine the quality of the finished liquid milk. Wang Jiaqi, being a researcher of the Chinese Academy of Agricultural Sciences, states that the "quality milk project" is a core link in response to weak consumer confidence and imbalanced interest distribution, and also a breakthrough point for national dairy management system innovation.

The first summit of "D20 Enterprise Alliance of China's Dairy Industry" was held on 18 August 2015. Themed "Revitalization of China's Dairy Industry by Safe and High-quality Development" (安全優質發展，振興中國奶業), the summit invited the top 20 companies in the domestic dairy industry to deeply report and communicate in respect of quality and safety in the milk industry and industrial transformation, and announced the formation of alliance under the guidance of leaders at all levels. Thus, "D20 Enterprise Alliance of China's Dairy Industry", which represents the highest standard alliance in the domestic dairy industry, was formally established. Meanwhile, the alliance issued "Beijing Declaration" in its name to make solemn commitment, highlighting its determination to revitalize China's dairy industry. GAO Lina, being the Chief Executive Officer of the Company and one of the six speakers, made a statement at the summit on behalf of China's dairy industry. Mr. Wang Yang, Vice Premier of the State Council, attended the meeting and stated to make the D20 summit enterprise alliance become the conscience standard of China's dairy industry.

In November 2015, the Company won the "Best investor relations" (最佳投資者關係獎) during IR Magazine (the Globe) Awards & Conference — Greater China 2015. The awards have been one of the most anticipated event in investor relations industry in Asia, aiming to honor the individual companies from Mainland China, Hong Kong and Taiwan doing the best job of communicating with investors and analysts.

On 10 January 2016, the Group and Mr. HAN Chunlin, deputy president of the Group, were awarded as an outstanding team and an outstanding individual in Achievement Innovation of Chinese Agricultural Science (中華農業科技成果優秀創新) by the Ministry of Agriculture respectively, as a result of the great achievement made by the nutrition and feeds team of the Group under the leadership of Mr. HAN Chunlin. Due to sustained efforts in innovation, the physical and chemical index of milk has been maintained at a high level, even better than European Union and Japanese standards. Such awards granted by the Ministry of Agriculture aim to recognize the outstanding contribution made by such award-winner working for progress in Chinese agricultural science and technology, and also demonstrate the Group has been widely recognized in product and technology research & development by professional authorities.

PROSPECTS

The economic development in China is undergoing a reform focusing on structural transformation, coupled with a sustained open economy policy during the current "new normal" stage. As the prospect of economy in China looks good, and per-capita consumption level keeps rising resulting from increasing demand in the market, the domestic demand for high-end quality raw milk and dairy products will maintain strong growth. Meanwhile, increasingly sound industrial rules and regulations can also control the sales of reconstituted milk effectively and accelerate the development of dairy products industry in due course, thus improving the consumer confidence steadily and boosting sales in the industry. In the long run, demand for high-end raw milk will exceed its supply, showing a positive sign of stabilization and recovery of raw milk prices.

In response, industrial restructuring has also been implemented among various dairy enterprises. The Group will remain committed to expanding distribution network of its downstream milk products under its own brands, improving the percentage of downstream sales and market shares of milk products under its own brands, and extending the industrial chain in value. Our downstream milk products under its own brands have received high recognition from domestic consumers, with substantial increase of sales year-on-year. The distribution network of our products has been further expanded, with a coverage of brand milk sales in over 10,000 large-scale retail spots and integrated supermarkets; over 25,000 convenience stores and over 480,000 other traditional outlets. The Group's market share in room-temperature milk market is presently among the top three in the PRC, reaching an average of 7.9% in 2015 in premium milk market.

With the continuous increase of sales points, the market share and brand awareness of the Group's milk products under its own brands will be further enhanced, beneficial to the strengthening of the Group's leading position in the industry. Leveraging on the high quality raw milk supply from our upstream business, we will be able to meet the demand of downstream market and consumers for higher quality dairy products by research and development of new products and producing higher value-added products with high gross profit, and structurally upgrade downstream products in due course. As pasteurized milk keeps the high nutrient composition of milk and other features, it has received more and more market attention in recent years, with its growth exceeding the development process of the whole dairy industry. However, restricted by short shelf life and strict requirement for cold chain transportation equipment, the raw milk of pasteurized milk must be sourced nearby. Currently, the pasteurized milk has been sold primarily under urban and local brands, but without any national well-known brands. The inherent advantages of nationwide coverage of dairy farms of the Group and sustainable efforts for higher quality enable the Group to become the only competent nationwide producer of pasteurized milk in China at present. During 2015, we entered into the pasteurized milk market in northern China and recorded sound performance, which lay a solid foundation for the expansion of market in Eastern and Southern China in 2016. Expansion of new distribution channels will constitute a new growth point of pasteurized milk of the Group. As a newly rising member in the dairy products family in China, room-temperature yogurt keeps growing in recent years. During 2016, the Group will also be ready in this filed to enrich its global product portfolio. Relying on the established distribution network of the Company, coupled with advanced processing techniques of high quality security, we are optimistic about the prospect of our high-end room-temperature yogurt.

FINANCIAL HIGHLIGHTS

Herd size

	As at	
	31 December 2015	**31 December 2014**
	Head	*Head*
Dairy cows		
Milkable cows	114,751	107,578
Heifers and calves	110,791	93,929
Total dairy cows	225,542	201,507

As at 31 December 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 31 December 2015, the current herd size is 225,542 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 cash 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 per cow for the year ended 31 December 2015, representing an increase of 2.25% from 8.9 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 following table sets out the breakdown of our consolidated revenue by our two operating segments for the years ended 31 December 2015 and 2014, respectively:

	For the year ended 31 December 2015			For the year ended 31 December 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	3,324,466	731,447	4,055,913	4,194,020	478,131	4,672,151
Sales of liquid milk products business	1,501,875	—	1,501,875	832,686	—	832,686
Consolidated revenue	4,826,341	731,447	5,557,788	5,026,706	478,131	5,504,837

Our revenue decreased by 3.99% from RMB5,026.7million for the year ended 31 December 2014 to RMB4,826.3 million for the year ended 31 December 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 ton of our raw milk for the periods indicated:

	For the year ended 31 December 2015			For the year ended 31 December 2014		
	sales amount	sales volume	ASP	sales amount	sales volume	ASP
	RMB'000	*Ton*	*RMB/Ton*	*RMB'000*	*Ton*	*RMB/Ton*
Raw Milk						
External sales	3,324,466	752,314	4,419	4,194,020	837,232	5,009
Internal supplies	731,447	171,778	4,258	478,131	94,102	5,081
Subtotal	4,055,913	924,092	4,389	4,672,151	931,334	5,017

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

- *Liquid milk products business*

  Revenue from our liquid milk products business increased by 80.37% from RMB832.7 million for the year ended 31 December 2014 to RMB1,501.9 million for the year ended 31 December 2015, which accounted for 16.57% and 31.12% of our consolidated revenue for the years ended 31 December 2014 and 2015, respectively. The Group's losses caused by declining milk price were effectively set off by further improvement of the percentage of the Company's branded milk, which also enhanced the Group's profitability. With the expansion of the Group's sales channels, the relevant percentage will be further enhanced.

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 88.94% from 87,096 tons for the year ended 31 December 2014 to 164,559 tons for the year ended 31 December 2015.

Cost of sales before biological fair value adjustment

Our cost of sales before biological fair value adjustment primarily consist of dairy farming cost and liquid milk products cost. Cost of sales before biological fair value adjustment of dairy farming business include feeds cost, labor cost, utilities, depreciation and other costs of farms. Cost 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 year indicated:

Cost of sales before biological fair value adjustment of dairy farming business

	For the year ended 31 December 2015		For the year ended 31 December 2014	
	RMB'000	*%*	*RMB'000*	*%*
Feeds cost	2,133,566	77.06%	2,298,893	78.22%
Labor cost	151,709	5.48%	151,007	5.14%
Utilities	63,862	2.31%	70,095	2.39%
Depreciation	177,839	6.42%	169,806	5.78%
Other costs of farms	241,801	8.73%	249,075	8.47%
Subtotal of cost of sales before biological fair value adjustment of dairy farming business	2,768,777	100%	2,938,876	100%
Inter-segment cost	(516,681)		(312,594)	
Cost of external sales before biological fair value adjustment of raw milk business	2,252,096		2,626,282	

With the decrease in prices of feeds, total feeds cost (before eliminating cost of sales in relation to internal supply of raw milk) for the year ended 31 December 2015 decreased by 7.19% to RMB2,133.6 million from RMB2,298.9 million last year.

Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 5.68% from RMB2,973 last year to RMB2,804 for the year ended 31 December 2015, mainly due to an increase in annual milk yield per cow and a decrease in price of feeds.

Cost of sales before biological fair value adjustment of liquid milk products business

	For the year ended 31 December 2015		For the year ended 31 December 2014	
	RMB'000	%	*RMB'000*	%
Raw materials	985,966	87.53%	617,050	88.66%
Labor cost	33,375	2.96%	20,252	2.91%
Depreciation	45,797	4.07%	24,772	3.56%
Utilities	23,796	2.11%	13,127	1.89%
Other processing cost	37,510	3.33%	20,798	2.98%
Subtotal of cost of sales before biological fair value adjustment of liquid milk products business	1,126,444	100%	695,999	100%
Inter-segment cost	(211,242)		(160,936)	
Cost of external sales before biological fair value adjustment of liquid milk products business	915,202		535,063	

With the increase in sales volume of liquid milk, raw material cost for the year ended 31 December 2015 (before eliminating cost of sales in relation to internal supply of raw milk) increased by 59.79% from RMB617.1 million last year to RMB986.0 million. Sales of liquid milk increased by 80.37% to RMB1,501.9 million for the year ended 31 December 2015 from RMB832.7 million last year.

Cash cost (excluding depreciation) per ton of liquid milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 14.79% from RMB7,707 for the same period last year to RMB6,567 for the year ended 31 December 2015. It was mainly due to a decrease of internal prices of raw milk and a 7.50% decrease of other cash costs (including labor cost, utilities and other processing cost).

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin before biological fair value adjustment by our two operating segments for the years indicated:

	For the year ended 31 December 2015		For the year ended 31 December 2014	
	Gross Profit	**Gross profit Margin**	**Gross Profit**	**Gross profit Margin**
	RMB'000		*RMB'000*	
Dairy farming business				
Before elimination	1,287,136	31.73%	1,733,275	37.10%
After elimination	1,072,370	32.26%	1,567,738	37.38%
Liquid milk products business				
Before elimination	375,431	25.00%	136,687	16.42%
After elimination	586,673	39.06%	297,623	35.74%

- ***Dairy farming business***

  Gross profit of our dairy farming business before biological fair value adjustment (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 25.74% from RMB1,733.3 million for the year ended 31 December 2014 to RMB1,287.1 million for the year ended 31 December 2015. The decrease above was primarily due to the decrease in selling price of raw milk.

  Gross profit margin of our dairy farming business before biological fair value adjustment (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 5.37% from 37.10% for the year ended 31 December 2014 to 31.73% for the year ended 31 December 2015, primarily due to the decrease in average selling price of raw milk.

- ***Liquid milk products business***

  Gross profit of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased by 174.66% from RMB136.7 million for the year ended 31 December 2014 to RMB375.4 million for the year ended 31 December 2015. The increase above was primarily due to the increase in sales volume of our branded milk products.

Gross profit margin of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased from 16.42% for the year ended 31 December 2014 to 25.00% for the year ended 31 December 2015, mainly due to the decrease in selling price of raw milk and the enhanced effects of economies of scale.

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

As at 31 December 2015, the biological assets of the Group were valued at RMB7,590.9 million (31 December 2014: RMB6,530.8 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the fair value of biological assets were RMB474.9 million for the year ended 31 December 2015 (for the year ended 31 December 2014: losses arising from changes in fair value less costs to sell dairy cows were RMB329.1 million). This was mainly attributable to the fact that after milk production by milkable cows, along with an extended lactation period, impairment will occur as less cash flow will be generated in the future, and a decrease in the market 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 27.80% to RMB1,203.0 million for the year ended 31 December 2015 from RMB1,666.2 million for the year ended 31 December 2014, mainly due to the decrease in average selling price of raw milk.

IFRSs requires that raw milk harvested is initially measured at fair value less costs to sell and the difference between the fair value less costs to sell and the actual costs incurred is charged to profit or loss.

Other income

For the year ended 31 December 2015, other income amounted to RMB32.1 million (for the year ended 31 December 2014: RMB40.2 million). Other income mainly consisted of government grants and interest income, among which, interest income for the year ended 31 December 2015 amounted to RMB12.8 million (for the year ended 31 December 2014: RMB22.1 million), and government grants for the year ended 31 December 2015 amounted to RMB19.0 million (for the year ended 31 December 2014: RMB14.0 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the year ended 31 December 2015 *RMB'000*	For the year ended 31 December 2014 *RMB'000*
Selling and distribution costs	194,542	111,909
Administrative expenses	243,566	214,561
Total operating expenses	438,108	326,470

Our operating expenses increased from RMB326.5 million for the year ended 31 December 2014 to RMB438.1 million for the year ended 31 December 2015. Selling and distribution costs mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among which, transportation costs increased from RMB99.3 million for the year ended 31 December 2014 to RMB143.2 million for the year ended 31 December 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., the increase of which for the year is mainly due to the increase of management personnels as a result of enlargement of brand milk scale.

Equity-based share option expenses included in the administrative expenses for the year decreased from RMB31.9 million for the same period last year to RMB30.5 million for the year ended 31 December 2015.

Other Gains and Losses

Losses arising from other gains and losses amounted to RMB107.1 million (for the year ended 31 December 2014: losses arising from other gains and losses amounted to RMB209.6 million). It mainly comprised of the net losses of the fair value of the financial liabilities at FVTPL as well as the net foreign exchanges losses.

The net losses of the fair value of the financial liabilities at FVTPL decreased from RMB 105.5 million for the corresponding period last year to RMB50.0 million for the year ended 31 December 2015. The financial liabilities at FVTPL arose as a result of the put options granted to Success Dairy II Limited by the Company and the call options granted to the Company by Success Dairy II Limited pursuant to the agreement entered into by the Company and Success Dairy 11 Limited for the establishment of two joint ventures on 23 September 2013, and after the acquisition (the "Acquisition") of the two joint ventures by the Company on 20 July 2015, the two options was de-recognized and instead another financial instrument was set up between the Company and Success Dairy II Limited.

The net amount of foreign exchange losses increased from RMB 29.0 million for the corresponding year last year to RMB 92.0 million for the year ended 31 December 2015. It is mainly attributable to the fact that as a result of the RMB depreciation, the expected amount of RMB required for the repayment of the borrowings denominated in United States dollar increases.

In addition, as a result of the Acquisition, the Group recorded an amount of RMB 121.3 million, being the gain arising on re-measurement of joint ventures, and an amount of RMB 94.4 million, being the impairment loss of goodwill primarily due to the carrying amount exceeded recoverable amount of the cash-generating unit associated with the goodwill resulting from the drop in the price of raw milk.

Finance costs

Finance costs increased from RMB265.6 million last year to RMB315.1 million for the year ended 31 December 2015. This was mainly attributable to the increase in bank loans.

Profit attributable to the owners of the Company

Taking into account of all the above factors, profit attributable to the owners of the Company was RMB321.3 million for the year ended 31 December 2015. This represents a decrease of 56.30% from RMB735.3 million for the same period last year.

Basic earnings per share were approximately RMB6.37 cents (for the year ended 31 December 2014: RMB15.23 cents).

Liquidity and Financial Resources

For the year ended 31 December 2015, the Group's net cash generated from operating activities amounted to RMB1,439.1 million, as compared to RMB1,580.9 million for the same period last year.

As at 31 December 2015, the Group's available and unutilised banking facilities amounted to approximately RMB6,753.4 million. The Group's management is 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 bank borrowings as at 31 December 2015.

	As at 31 December 2015	As at 31 December 2014
	RMB'000	*RMB'000*
Bank borrowings	5,647,251	4,687,848
Unsecured borrowings	1,796,381	885,818
Secured borrowings	3,165,870	3,335,030
Guaranteed borrowings	685,000	467,000
	5,647,251	4,687,848
Carrying amount repayable:		
Within one year	4,825,521	1,858,398
Between one and two years	749,230	792,538
Between two and five years	72,500	2,036,912
	5,647,251	4,687,848
Less: amounts due within one year shown under current liabilities	4,825,521	1,858,398
	821,730	2,829,450

As at 31 December 2015, the gearing ratio, being the ratio of total borrowings (including short-term debenture and medium term notes) to total assets, was 35.68% (31 December 2014: 40.99%). The annual effective interest rate of banks and other borrowings for the year ended 31 December 2015 varied from 0.86% to 7.05% (for the year ended 31 December 2014: 1.73% to 7.05%). As at 31 December 2015, all borrowings were denominated in Renminbi and United States Dollar.

BUSINESS STRATEGIES

Continue to enhance sales of branded milk

We will continue to expand our sales regions and widen the sales channels of our branded milk, which in turn will increase the Group's profitability as a whole. The Company has gradually expanded the sales of branded milk into most parts of the PRC in 2014. As more recognition of our product quality received from our customers and further expansion of our sales network, the Company believes it will record even higher revenue in the future. We actively promote our sales of pasteurized milk. Currently our distribution channels in Beijing have expanded from home delivery to supermarkets and have generated desirable performance. In the near future we will further expand our sales region by gradually expanding into northern China, eastern China and southern China. In addition, the Group will soon launch the selling of high-end room-temperature yogurt in 2016, which would further enrich the Group's product portfolio.

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

We have been improving our operations since the commencement of business, and this has resulted in rising average annual milk yield. Currently, our average annual milk yield per milkable cow is among the highest of all dairy companies in the PRC. We believe that the yield and raw milk quality of our milkable cows will continue to rise as we improve the genetic mix of our herd across generations, increase the ratio of milkable cows to non-milkable cows among our herd and optimize the mix of feed. In addition, we will remain committed to research and development to reduce the heat damage of room-temperature milk and further reduce the content of furosine in milk, subject to eligibility of various indicators such as microorganisms in the products.

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

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

Refine herd mix

We keep improving the level of our refined management as the herd size of the Company grows. Starting from this year, the Company will gradually establish its own core herd and strive to improve the profitability per cow.

GROUP STRUCTURE

During the year under review, apart from the Acquisition, there has been no material change in the structure of the Group.

CAPITAL STRUCTURE

During the year, the Company issued and allotted a total of 447,429,132 ordinary shares of the Company on 20 July 2015 as the consideration for the Acquisition. After the issuance and allotment, the number of issued shares of the Company was increased from 4,857,338,751 to 5,304,767,883.

PLEDGE OF ASSETS

As at 31 December 2015, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.7 million (31 December 2014: RMB9.9 million), RMB50.0 million (31 December 2014: RMB54.6 million) and RMB2,769.7 million (31 December 2014: RMB3,316.2 million) and all of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the "Shares") and all dividends, interest and other monies payable in respect of the shares and all other rights, benefits and proceeds in respect of or derived from the Shares (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) ofAdvanced Dairy Company (Luxemburg) Limited respectively, were pledged as security for the Group's borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2015, the Group has capital commitments of RMB151.5 million related to the acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 31 December 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 considers 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 5,277 employees (31 December 2014: 5,417) in China and Hong Kong as at 31 December 2015. Total staff costs for the year ended 31 December 2015 (including staff compensation capitalised to biological assets) were approximately RMB374.8 million (for the year ended 31 December 2014: RMB360.8 million).

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

DIVIDEND

The Board do not recommend the payment of a final dividend for the year ended 31 December 2015 (year ended 31 December 2014: RMB0.01 per ordinary share).

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules. The Company has, throughout the year ended 31 December 2015, complied with the code provisions set out in the CG Code except for the deviations from code provision A.6.7.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. One executive Director, three non-executive Directors and one 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 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 for the year ended 31 December 2015.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu to the amounts set out in the Group's audited consolidated financial statements for the same year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements as issued by the Hong Kong Institute of Certified Public Accountants. Consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises two independent non-executive directors, Mr. LEE Kong Way Conway and Mr. ZOU Fei, as well as an non-executive director, Mr. HUI Chi Kin Max. The Audit Committee met with the management on 21 March 2016, to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's annual results for the year ended 31 December 2015 before proposing them to the Board for approval.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2015 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO Lina
Deputy Chairman, Chief Executive Officer
and Executive Director

Hong Kong, 21 March 2016

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.