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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 2016**

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 2016, together with comparative figures, as follows:

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

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	4	2,229,110	2,437,320
Cost of sales before biological fair value adjustment		(1,503,741)	(1,548,426)
Biological fair value adjustment included in cost of sales		(557,307)	(636,944)
Loss arising from changes in fair value less costs to sell of dairy cows		(499,245)	(199,269)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		557,307	636,944
Other income		40,177	14,708
Selling and distribution costs		(136,172)	(67,688)
Administrative expenses		(129,891)	(111,485)
Share of (loss) profit of an associate		(1,583)	1,432
Share of profit of joint ventures		—	2,569
Other gains and losses, net		(388,752)	148,733
Other expenses		(3,786)	(2,063)
(Loss) profit before finance costs and tax	5	(393,883)	675,831
Finance costs	6	(195,790)	(153,917)
(Loss) profit before tax		(589,673)	521,914
Income tax expense	7	(205)	(14,600)
(Loss) profit and total comprehensive income for the period		<u>(589,878)</u>	<u>507,314</u>
(Loss) profit and total comprehensive income attributable to:			
Owners of the Company		(565,668)	476,952
Non-controlling interests		(24,210)	30,362
		<u>(589,878)</u>	<u>507,314</u>
(Loss) earnings per share (RMB)	9		
Basic		(10.66) cents	9.88 cents
Diluted		<u>(10.66) cents</u>	<u>9.80 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>30 June 2016</b> <i>RMB'000</i> <i>(Unaudited)</i>	<b>31 December 2015</b> <i>RMB'000</i> <i>(Audited)</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		5,310,139	5,376,897
Land use rights		125,345	120,622
Goodwill		1,441,494	1,441,494
Interest in an associate		—	25,076
Available-for-sale investment		24,955	—
Biological assets		<u>7,576,003</u>	<u>7,590,878</u>
		<u>14,477,936</u>	<u>14,554,967</u>
<b>CURRENT ASSETS</b>			
Inventories		793,211	834,099
Trade and other receivables	10	1,204,430	1,097,794
Land use rights		3,913	3,743
Pledged bank balances		178,765	183,664
Cash and bank balances		<u>1,139,694</u>	<u>833,569</u>
		<u>3,320,013</u>	<u>2,952,869</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	1,986,910	2,012,976
Tax payable		149	281
Bank borrowings - due within one year		3,079,631	4,825,521
Short-term debenture		997,950	400,000
Other borrowing - due within one year		<u>39,066</u>	<u>—</u>
		<u>6,103,706</u>	<u>7,238,778</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,783,693)</u>	<u>(4,285,909)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>11,694,243</u>	<u>10,269,058</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		452,959	452,959
Share premium and reserves		<u>6,775,739</u>	<u>7,328,938</u>
Equity attributable to owners of the Company		7,228,698	7,781,897
Non-controlling interests		<u>119,325</u>	<u>168,135</u>
		<u>7,348,023</u>	<u>7,950,032</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings - due after one year		815,430	821,730
Medium-term notes		1,795,446	200,000
Deferred income		134,895	141,824
Other financial liabilities		1,543,265	1,155,472
Other borrowing - due after one year		<u>57,184</u>	<u>—</u>
		<u>4,346,220</u>	<u>2,319,026</u>
		<u>11,694,243</u>	<u>10,269,058</u>

## 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, Umland House, Grand Cayman, KY1-1104, 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 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.

### 2. Basis of preparation

In preparation the condensed consolidated financial statements for the six months ended 30 June 2016, the Directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB2,783,693,000 as at 30 June 2016 (31 December 2015: RMB4,285,909,000). Having considered the secured credit facilities of approximately RMB5,953,836,000 available to finance the Group’s operation which remains unutilised as at 30 June 2016, 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 condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements of the Group 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 (the “Listing Rules”) 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 liabilities, which are measured at fair value through profit or loss (“FVTPL”).

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2015.

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

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

#### 4. Segment information

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

##### *Segment revenue, results, assets and liabilities*

*Six months ended 30 June 2016 (unaudited)*

	<b>Dairy farming</b>	<b>Liquid milk products</b>	<b>Subtotal</b>	<b>Inter-segment elimination*</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>1,914,987</u>	<u>655,395</u>	<u>2,570,382</u>	<u>(341,272)</u>	<u>2,229,110</u>
Segment cost of sales before biological fair value adjustment	<u>1,290,322</u>	<u>534,856</u>	<u>1,825,178</u>	<u>(321,437)</u>	<u>1,503,741</u>
Reportable segment profit	<u>362,118</u>	<u>165</u>	<u>362,283</u>	<u>(19,835)</u>	342,448
Loss arising from changes in fair value less costs to sell of dairy cows					(499,245)
Share of loss of an associate					(1,583)
Unallocated other income					6,218
Unallocated other gains and losses					(387,817)
Unallocated expenses					<u>(49,694)</u>
Loss before tax					<u>(589,673)</u>

	<b>Dairy farming</b>	<b>Liquid milk products</b>	<b>Subtotal</b>	<b>Inter-segment elimination*</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 30 June 2016 (unaudited)					
Segment assets	<u>15,790,461</u>	<u>1,638,795</u>	<u>17,429,256</u>	<u>(786,183)</u>	16,643,073
Unallocated assets					<u>1,154,876</u>
Consolidated assets					<u>17,797,949</u>
Segment liabilities	<u>7,895,429</u>	<u>1,743,574</u>	<u>9,639,003</u>	<u>(758,225)</u>	8,880,778
Unallocated liabilities					<u>1,569,148</u>
Consolidated liabilities					<u>10,449,926</u>

\* *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 RMB341,272,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.*

**Segment revenue, results, assets and liabilities**

Six months ended 30 June 2015(unaudited)

	<b>Dairy farming RMB'000</b>	<b>Liquid milk products RMB'000</b>	<b>Subtotal RMB'000</b>	<b>Inter-segment elimination* RMB'000</b>	<b>Total RMB'000</b>
Segment revenue	<u>2,031,191</u>	<u>789,493</u>	<u>2,820,684</u>	<u>(383,364)</u>	<u>2,437,320</u>
Segment cost of sales before biological fair value adjustment	<u>1,364,963</u>	<u>564,266</u>	<u>1,929,229</u>	<u>(380,803)</u>	<u>1,548,426</u>
Reportable segment profit	<u>439,891</u>	<u>171,281</u>	<u>611,172</u>	<u>(2,561)</u>	608,611
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>
As at 31 December 2015 (audited)					
Segment assets	<u>15,833,395</u>	<u>1,353,217</u>	<u>17,186,612</u>	<u>(577,422)</u>	16,609,190
Unallocated assets					<u>898,646</u>
Consolidated assets					<u>17,507,836</u>
Segment liabilities	<u>7,571,794</u>	<u>1,381,373</u>	<u>8,953,167</u>	<u>(569,298)</u>	8,383,869
Unallocated liabilities					<u>1,173,935</u>
Consolidated liabilities					<u>9,557,804</u>

\* *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 RMB383,364,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.*

### ***Geographic information***

Since all of 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 RMB1,573,715,000 (for the six months ended 30 June 2015: RMB1,647,827,000) are revenue of approximately RMB1,123,999,000 (Six months ended 30 June 2015: RMB1,217,874,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2016 and 2015.

## **5. (Loss) profit before finance costs and tax**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
(Loss) profit before finance costs and tax	(393,883)	675,831
Add: Depreciation	149,703	132,448
Add: Amortization	1,891	1,268
Add (less): Net foreign exchange loss (gain)	4,256	(2,850)
Add: Loss arising from changes in fair value less costs to sell of dairy cows	499,245	199,269
Less: Fair value gain from Put Option and Call Option	—	(147,099)
Add: Fair value losses from Value Adjustment Undertakings	387,793	—
Add: Net loss on disposal of property, plant and equipment	1,595	1,276
Less: Gains arising on deemed disposal of an associate	<u>(1,462)</u>	<u>—</u>
Cash EBITDA <sup>(1)</sup> — unaudited	<u>649,138</u>	<u>860,143</u>

*Note (1):* It represents earnings before interest, tax, despreciation, amortization before loss arising from changes in fair values less costs to sell of dairy cows, fair value gains/losses from Put Option, Call Option and Value Adjustment Undertakings, net loss on disposal of property, plant and equipment, net foreign exchange gains/losses and other major non-cash gains.

**(Loss) profit before finance costs and tax is arrived at after charging (crediting):**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of sales before biological fair value adjustment:		
Breeding costs to produce raw milk	1,057,934	1,099,706
Production costs for liquid milk products	<u>445,807</u>	<u>448,720</u>
	<u>1,503,741</u>	<u>1,548,426</u>
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	<u>557,307</u>	<u>636,944</u>
	<u>2,061,048</u>	<u>2,185,370</u>
Other gains and losses:		
Fair value gain from Put Option and Call Option	—	(147,099)
Fair value losses from Value Adjustment Undertakings	387,793	—
Net foreign exchange loss (gain)	4,256	(2,850)
Loss on disposal of property, plant and equipment, net	1,595	1,276
Gains arising on deemed disposal of an associate	(1,462)	—
Others	<u>(3,430)</u>	<u>(60)</u>
	<u>388,752</u>	<u>(148,733)</u>
Depreciation of property, plant and equipment	274,293	229,489
Less: capitalised in biological assets and agricultural produce	<u>(124,590)</u>	<u>(97,041)</u>
Depreciation charged to profit or loss	<u>149,703</u>	<u>132,448</u>
Employee benefits expenses	213,906	198,108
Less: capitalised in biological assets and agricultural produce	<u>(66,127)</u>	<u>(50,642)</u>
Employee benefits charged to profit or loss	<u>147,779</u>	<u>147,466</u>
Auditors' remuneration	<u>700</u>	<u>700</u>
Release of land use rights	<u>1,891</u>	<u>1,268</u>



6. **Finance costs**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest expenses on:		
Bank borrowings	144,052	122,641
Short-term debentures	18,663	26,490
Medium-term notes	27,223	5,233
Other borrowing	<u>427</u>	<u>—</u>
Total borrowing cost	190,365	154,364
Less: capitalised amount for construction of property, plant and equipment	(1,603)	(4,238)
Cost of discount of bills receivable	<u>7,028</u>	<u>3,791</u>
	<u><u>195,790</u></u>	<u><u>153,917</u></u>

For the six months ended 30 June 2016, 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 4.52% per annum (six months ended 30 June 2015: 5.86% per annum).

7. **Income tax expenses**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
The charge comprises		
Current tax:		
PRC enterprise income tax	<u>205</u>	<u>14,600</u>

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 periods). 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 30 June 2016, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,474,169,000 (31 December 2015: RMB1,512,302,000). 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.

According to the prevailing tax rules and regulation in the PRC, the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

## 8. Dividend

No interim dividends (six months ended 30 June 2015: nil) were paid, declared or proposed for the current period.

## 9. (Loss) earnings per share

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<u><i>(Loss) earnings</i></u>		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	<u>(565,668)</u>	<u>476,952</u>

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<u><i>Number of shares</i></u>		
Number of ordinary shares for the purpose of basic (loss) earnings per share	5,304,767,883	4,827,338,751
Effect of share options issued by the Company	<u>—</u>	<u>41,807,458</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>5,304,767,883</u>	<u>4,869,146,209</u>

The calculation of diluted loss per share for the six months ended 30 June 2016 has not taken into account the effect of the share options of the Company since the assumed exercise would result in decrease in loss per share.

## 10. Trade and other receivables

The Group used to allow credit periods of 30 to 120 days to its trade customers. In current period, the Group extended credit periods to 1 year for 30% of the sales amount to the relevant customers in liquid milk product segment to deal with the market competitions.

The following is an aging 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:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables		
- Within 120 days based on invoice date	729,269	880,751
- 120 days to 1 year based on invoice date	<u>303,873</u>	<u>2,000</u>
	1,033,142	882,751
Bills receivable	—	23,153
Advances to suppliers	136,741	105,082
Receivable in respect of sales of self-reproduced dairy cows	—	57,922
Input value added tax recoverable	16,241	7,905
Interest receivables	901	1,909
Receivable in respect of disposal of equipment	6,152	10,868
Others	<u>11,253</u>	<u>8,204</u>
	<u>1,204,430</u>	<u>1,097,794</u>

## 11. Trade and other payables

The following is an analysis of trade payables by age, presented based on the invoice date and the analysis used by the Group's management to monitor the Group's financial position:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade payables		
Within 60 days based on invoice date	759,607	817,966
Over 60 days based on invoice date	85,616	83,331
Bill payables (Note)	<u>352,045</u>	<u>310,268</u>
	1,197,268	1,211,565
Payable for acquisition of property, plant and equipment	629,519	631,208
Accrued staff costs	57,824	61,084
Interest payable	42,143	28,680
Advance payments from customers	7,631	12,931
Others	<u>52,525</u>	<u>67,508</u>
	<u>1,986,910</u>	<u>2,012,976</u>

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

## **BUSINESS REVIEW**

### **Industry Overview**

During the first half of 2016, total consumption on dairy products in China presented a slow growing trend as macroeconomic growth slackened. Imported whole milk powder kept on entering the market of China with low prices in recent years, leading to more intensive competition in the domestic market. A decline in raw milk prices further deepened the conflict between the farming and processing segments of the industry, a large number of small-scale farms exited from the market, while excess supply of raw milk was seen in some large-scale farms, with a declining trend in profitability. Under the impact of a slowdown in macroeconomic development and intensive domestic market competition, the operating environment faced by the dairy industry in China is challenging this year.

Although market competition was more intensive, however, with increasing per capita disposable income among ordinary Chinese residents, more and more consumers in China were able and willing to spend more on dairy products of superior brands and higher quality. As there was still ample space for increases in the per capita consumption volume of dairy products, together with the implementation of the Two Children Policy, the size of the consumer group for dairy products was larger, and the demand for quality raw milk from consumers increased persistently. In the long run, there are still enormous growth potential in the dairy industry of China with a stable growth trend.

Affected by macroeconomic and other factors, the mix of dairy products was facing further adjustments and the pace of restructuring and upgrading of products among all large dairy enterprises was accelerated. Various new policies were launched by the government to facilitate the development of the dairy product industry, such favourable policies will support the growth potential and future development prospects of the dairy product industry in China.

### **Business Review**

The Group is primarily engaged in two business segments: (i) dairy farming business, which mainly involves the production and sales of raw milk to customers for processing into dairy products; and (ii) the business of liquid milk of our own brand, which mainly involves the production and sales of liquid milk products. For the six months period ended 30 June 2016, the Group recorded total revenue of RMB2,229.1 million. With increasing demand for safe and trustworthy high-end dairy products in the market of China, the sales of milk of our own brand realized sales revenue of RMB655.4 million.

The Group will continue to maintain the high standard and strict requirement of quality in raw milk, and won the trust and support from consumers by offering products with high-end qualities of “purity, genuineness, freshness and vitality” and its cutting-edge, upgraded and innovative “integration” model. The core products for expansion into downstream business, included the “Two Hours” pasteurized milk and the pasteurized yogurt to be launched soon, will bring more development opportunities for transforming the Group into a modern dairy farming enterprise with a complete industrial chain under the improving sales network.

In terms of herd size, we are the largest dairy farming company and the largest raw milk producer in China. As at 30 June 2016, the Group had 27 farms in operation in China with an aggregate of 220,493 dairy cows. As a nationwide farm, we have unique excellent geographical advantages, our farms are in the proximity of various processing plants for downstream dairy products and sources of feed supplies across the nation. For the six months ended 30 June 2016, the dairy farming business of the Group recorded external revenue of RMB1,573.7 million, representing 70.60% of the Group’s total revenue, and total external volume of raw milk production was 389,437 tonnes. Raw milk with premium quality sold to external downstream customers was used in the production of premium dairy products.

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 9.4 tonnes per cow for the six months ended 30 June 2016.

The Cash EBITDA decreased by 24.53% from RMB860.1 million for the corresponding period last year to RMB649.1 million for the six months ended 30 June 2016. Cash EBITDA margin decreased from 35.29% for the corresponding period last year to 29.12% for the six months ended 30 June 2016.

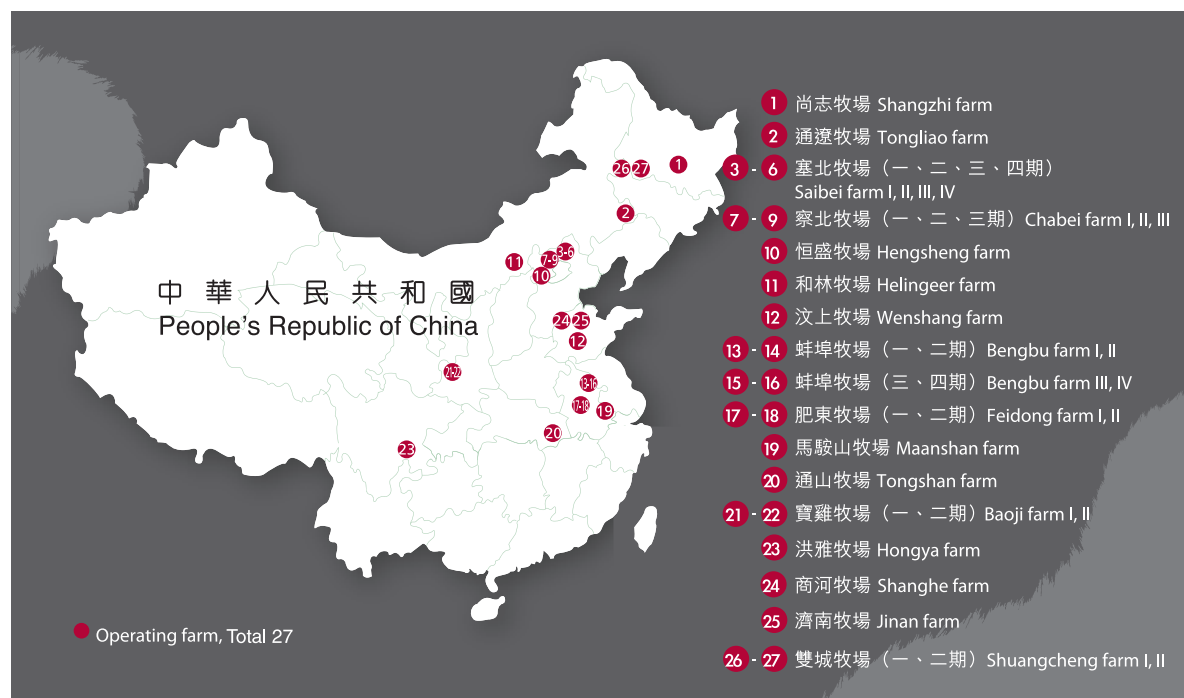
On the backdrop of challenges ahead in respect of the current transformation of dairy farming industry in China, the Group, as a pioneer in domestic large-scale farming and who initiated the cutting-edge business model of “integration of forage grass planting, dairy farming and milk processing”, has won a widespread recognition both at home and abroad. At the Monde Selection 2016 held by the International Institute for Quality Selections in Budapest, Hungary, in the afternoon on 30 May 2016, the Company was awarded the Gold Prize in Food Category by Monde Selection for the third consecutive year. Moreover, the Company was also awarded a special trophy, the International High Quality Trophy, and became a big winner at the conference of this year. The International High Quality Trophy received by the Company was a special trophy from Monde Selection, which was only awarded to products winning Special Gold Prize or Gold Prize for three consecutive years. The winning products must have fulfilled stringent quality standards and have long-term, stable and reliable quality assurance. The trophy represents a recognition of the enterprise’s long-term persistent efforts in pursuit of quality, the winning products will be authorized to use the trophy for promotional publicity free-of-charge for a term of three years. The award of this honor to the Company indicates that the quality of milk products in China has already reached international top-notch level.

The International Institute for Quality Selections is 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, and 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 and have been regarded as the “Nobel Prize” in food quality in the global arena. Monde Selection awards prizes after conducting strict reviews and inspections of the safety, taste, packaging and raw materials of food products. This proves that the Group’s own branded milk has won recognition for its high quality of “purity, genuineness, freshness and vitality” and its cutting-edge business model of “integration of forage grass planting, dairy farming and milk processing” from authorities around the world.

In 6 July 2016, the Group won the honor of “Most Respected Asian Enterprise” with professional investors as judges in the contest for the “Best Asian Corporate Management Team (ex Japan)” in 2016 organized by Institutional Investors. In the category of consumer products and necessities, Ms. Gao Lina, the Deputy Chairman and Chief Executive Officer of the Company, won the “First Prize of the Best CEO

Award”; Mr. Sun Yugang, the Chief Financial Officer of the Company, won the “Second Prize of the Best CFO Award”; and Ms. Sun Jie, Head of Investor Relations, won the “First Prize of the Best Investor Relations Person”. In addition, the Company won the “Second Prize of the Best Analyst Day”. This expressly shows the level of reliability and responsibility of the Company to investors and the recognition of the Company by the investment sector.

## Our farms



As of 30 June 2016, the Group had 27 farms self-operating in the PRC with approximately 220,493 dairy cows.

## Herd size

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<i>Head</i>	<i>Head</i>
Dairy cows		
Milkable cows	114,587	114,751
Heifers and calves	<u>105,906</u>	<u>110,791</u>
Total dairy cows	<u>220,493</u>	<u>225,542</u>



As at 30 June 2016, 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 2016, the current herd size is 220,493 compared to 225,542 as at 31 December 2015.

### **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 9.4 tons for the six months ended 30 June 2016, representing an increase of 3.30% from 9.1 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 2016 and 30 June 2015:

	Six months ended 30 June					
	2016			2015		
	External Sales	Internal Supplies	Subtotal	External Sales	Internal Supplies	Subtotal
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales of dairy farming business	1,573,715	341,272	1,914,987	1,647,827	383,364	2,031,191
Sales of liquid milk products business	<u>655,395</u>	<u>—</u>	<u>655,395</u>	<u>789,493</u>	<u>—</u>	<u>789,493</u>
Consolidated revenue	<u>2,229,110</u>	<u>341,272</u>	<u>2,570,382</u>	<u>2,437,320</u>	<u>383,364</u>	<u>2,820,684</u>

Our revenue decreased by 8.87% from RMB2,820.7 million for the six months ended 30 June 2015 to RMB2,570.4 million for the six months ended 30 June 2016 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:

	Six months ended 30 June					
	2016			2015		
	Sales Amount	Sales Volume	ASP	Sales Amount	Sales Volume	ASP
	RMB'000	Tonne	RMB/KG	RMB'000	Tonne	RMB/KG
Raw Milk						
External Sales	1,573,715	389,437	4.04	1,647,827	363,271	4.54
Internal Supplies	<u>341,272</u>	<u>87,118</u>	<u>3.92</u>	<u>383,364</u>	<u>87,537</u>	<u>4.38</u>
Subtotal	<u>1,914,987</u>	<u>476,555</u>	<u>4.02</u>	<u>2,031,191</u>	<u>450,808</u>	<u>4.51</u>

- *Liquid milk products business*

Revenue from our liquid milk products business decreased by 16.99% from RMB789.5 million for the six months ended 30 June 2015 to RMB655.4 million for the six months ended 30 June 2016, which accounted for 29.40% and 32.39% of our consolidated turnover for the six months ended 30 June 2016 and 2015, respectively.

Because of the impact and effect of imported bulk milk powder and reconstituted milk, the total volume of liquid milk sold decreased by 7.96% from 82,818 tonnes for the six months ended 30 June 2015 to 76,229 tonnes for the six months ended 30 June 2016. The following table sets out the breakdown of sales amount, sales volume and average selling price per tonne of our liquid milk products for the periods indicated:

	Six months ended 30 June					
	2016			2015		
	Sales Amount <i>RMB'000</i>	Sales Volume <i>Tonne</i>	ASP <i>RMB/KG</i>	Sales Amount <i>RMB'000</i>	Sales Volume <i>Tonne</i>	ASP <i>RMB/KG</i>
Liquid Milk Products	<u>655,395</u>	<u>76,229</u>	<u>8.60</u>	<u>789,493</u>	<u>82,818</u>	<u>9.53</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*

	<b>Six months ended 30 June</b>			
	<b>2016</b>		<b>2015</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
<b>Costs of sales before biological fair value adjustment of dairy farming business:</b>				
Feeds cost	980,486	75.99%	1,070,667	78.44%
Labor cost	76,485	5.93%	67,958	4.98%
Utilities	28,116	2.18%	29,347	2.15%
Depreciation	94,765	7.34%	89,170	6.53%
Other costs of farms	<u>110,470</u>	<u>8.56%</u>	<u>107,821</u>	<u>7.90%</u>
Subtotal of costs of sales before biological fair value adjustment of dairy farming business	1,290,322	<u>100%</u>	1,364,963	<u>100%</u>
Inter-segment cost	<u>(232,388)</u>		<u>(265,257)</u>	
Cost of external sales before biological asset fair value adjustment of raw milk business	<u>1,057,934</u>		<u>1,099,706</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 2016 decreased to RMB980.5 million from RMB1,070.7 million for the same period last year, representing a decrease of 8.42%.

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 11.34% from RMB2,830 for the same period last year to RMB2,509 for the six months ended 30 June 2016, 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*

	<b>Six months ended 30 June</b>			
	<b>2016</b>		<b>2015</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Raw materials	457,756	85.58%	497,302	88.13%
Labor cost	15,944	2.98%	14,424	2.56%
Depreciation	22,919	4.29%	21,802	3.86%
Utilities	12,855	2.40%	12,601	2.23%
Other processing costs	<u>25,382</u>	<u>4.75%</u>	<u>18,137</u>	<u>3.21%</u>
Subtotal of costs of sales before biological fair value adjustment of liquid milk product business	534,856	<u>100%</u>	564,266	<u>100%</u>
Inter-segment cost	<u>(89,049)</u>		<u>(115,546)</u>	
Cost of external sales before biological fair value adjustment of liquid milk product business	<u>445,807</u>		<u>448,720</u>	

Raw material cost for the six months ended 30 June 2016 decreased from RMB497.3 million for the same period last year to RMB457.8 million, representing a decrease of 7.94%. Sales of liquid milk decreased by 16.99% to RMB655.4 million for the six months ended 30 June 2016 from RMB789.5 million for the same period last year.

Cost (excluding depreciation) per ton of liquid milk sold increased from RMB6,550 for the same period last year to RMB6,716 for the six months ended 30 June 2016, representing an increase of 2.53%. It was due to a change in the product mix of the Group.

### ***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:

	<b>Six months ended 30 June</b>			
	<b>2016</b>		<b>2015</b>	
	<b>Gross Profit</b>	<b>Gross Margin</b>	<b>Gross Profit</b>	<b>Gross Margin</b>
	<i>RMB'000</i>		<i>RMB'000</i>	
<b>Dairy farming business</b>				
Before elimination	624,665	32.62%	666,228	32.80%
After elimination	515,781	32.77%	548,121	33.26%
<b>Liquid milk products business</b>				
<b>Before elimination</b>	120,539	18.39%	225,227	28.53%
<b>After elimination</b>	209,588	31.98%	340,773	43.16%

- *Dairy farming business*

Gross profit of our dairy farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased by 6.24% from RMB666.2 million for the six months ended 30 June 2015 to RMB624.7 million for the six months ended 30 June 2016. 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 32.80% for the six months ended 30 June 2015 to 32.62% for the six months ended 30 June 2016, primarily due to the decrease in selling price of raw milk.

- *Liquid milk products business*

Gross profit of our liquid milk products business decreased by 46.48% from RMB225.2 million for the six months ended 30 June 2015 to RMB120.5 million for the six months ended 30 June 2016. The decrease was primarily due to the decrease in sales volume of our branded milk products and a decline in the selling price of branded milk products.

Gross margin of our liquid milk products business decreased from 28.53% for the six months ended 30 June 2015 to 18.39% for the six months ended 30 June 2016, mainly due to the decrease in selling price of branded milk.

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

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2016 while the value of the Group's dairy cows at 31 December 2015 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Loss arising from changes in the fair value of biological assets was RMB499.2 million for the six months ended 30 June 2016 (six months ended 30 June 2015: loss arising from changes in the fair value of biological assets was RMB199.3 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 12.50% to RMB557.3 million for the six months ended 30 June 2016 from RMB636.9 million for the six months end 30 June 2015, 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 2016, other income amounted to RMB40.2 million (six months ended 30 June 2015: RMB14.7 million). Other income mainly consisted of government grants and interest income, among others, interest income for the six months ended 30 June 2016 amounted to RMB5.0 million (six months ended 30 June 2015: RMB7.9 million), in which government grants for the six months ended 30 June 2016 amounted to RMB32.7 million (six months ended 30 June 2015: RMB6.8 million). Government grants mainly consisted of subsidies for agricultural projects and subsidies for the operations of the Group.

## Operating expenses

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Selling and distribution costs	136,172	67,688
Administrative expenses	<u>129,891</u>	<u>111,485</u>
Total operating expenses	<u>266,063</u>	<u>179,173</u>

Our operating expenses increased from RMB179.2 million for the six months ended 30 June 2015 to RMB266.1 million for the six months ended 30 June 2016.

Selling and distribution costs, which mainly consisted of labour costs, marketing costs, channel costs and transportation costs relating to raw milk and liquid milk, increased by 101.18% from RMB67.7 million for the six months ended 30 June 2015 to RMB136.2 million for the six months ended 30 June 2016, mainly due to increase in marketing costs, channel costs and transportation costs.

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 increased from RMB42.5 million for the six months ended 30 June 2015 to RMB50.2 million for the six months ended 30 June 2016.

During the six months ended 30 June 2016, equity-based share option expenses included in the administrative expenses amounted to RMB12.5 million as compared to RMB17.1 million for the six months ended 30 June 2015.

## Other Gains and Losses

Losses arising from other gains and losses amounted to RMB388.8 million (six months ended 30 June 2015: gains arising from other gains and losses amounted to RMB148.7 million). This mainly included the losses of the fair value of the financial liabilities at FVTPL amounting to RMB387.8 million.



## **Finance costs**

Finance costs increased from RMB153.9 million for the last corresponding period to RMB195.8 million for the six months ended 30 June 2016. This was mainly attributable to the increase in the total loan amount and the early repayment of the offshore borrowings in the amount of USD390.0 million, which resulted in the one-off write-off of the relevant unamortised cost in the amount of RMB35.7 million. The early repayment has, on the other hand, decreased the amount of exchange loss in the amount of RMB62.1 million for the current period.

## **Loss attributable to the owners of the Company**

Taking into account of all the above factors, the loss attributable to the owners of the Company was RMB565.7 million for the six months ended 30 June 2016. The profit attributable to the owners of the Company was RMB477.0 million for the six months ended 30 June 2015.

Basic loss per share were approximately RMB10.66 cents (six months ended 30 June 2015: basic earnings per share of RMB9.88 cents).

## **Liquidity and Financial Resources**

For the six months ended 30 June 2016, the Group's cash flow from operating activities amounted to RMB404.4 million, as compared to RMB769.6 million for the six months ended 30 June 2015.

As at 30 June 2016, the Group's available and unutilised banking facilities amounted to approximately RMB5,953.8 million (31 December 2015: RMB6,753.4 million). The Group's management are of the opinion that the working capital available to the Group is sufficient for its present needs.

## Interest-bearing Borrowings

As at 30 June 2016, the interest-bearing debt ratio, being the ratio of total interest-bearing borrowings to total assets, was 38.12% (31 December 2015: 35.68%). As at 30 June 2016, all borrowings were denominated in Renminbi. Interest-bearing borrowings due within one year accounted for 60.68% of the total borrowings as at 30 June 2016, representing a decrease as compared with 83.65% as at the end of the last year.

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Bank borrowings	3,895,061	5,647,251
Short-term debenture	997,950	400,000
Medium-term notes	1,795,446	200,000
Other borrowings	<u>96,250</u>	<u>—</u>
	<u>6,784,707</u>	<u>6,247,251</u>
Carrying amount repayable:		
Within one year	4,116,648	5,225,521
Between one and two years	1,648,180	749,230
Between two and five years	<u>1,019,879</u>	<u>272,500</u>
	<u>6,784,707</u>	<u>6,247,251</u>

### *Bank Borrowings*

The annual interest rate of the bank borrowings for the six months ended 30 June 2016 varied from 1.81% to 6.40% (six months ended 30 June 2015: 0.86% to 7.05%). The table below sets forth our short-term and long-term bank borrowings:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Bank borrowings	<u>3,895,061</u>	<u>5,647,251</u>
Unsecured borrowings	2,167,893	1,796,381
Secured borrowings	496,330	3,165,870
Guaranteed borrowings	<u>1,230,838</u>	<u>685,000</u>
	<u>3,895,061</u>	<u>5,647,251</u>
Carrying amount repayable:		
Within one year	3,079,631	4,825,521
Between one to two years	410,430	749,230
Between two to five years	<u>405,000</u>	<u>72,500</u>
	<u>3,895,061</u>	<u>5,647,251</u>

### *Other borrowing*

In June 2016, the Group entered into a financing arrangement with Far Eastern Leasing Co., Ltd, pursuant to which the Group transferred the legal title of certain equipment of the Group to Far Eastern Leasing Co., Ltd at net consideration of RMB96,250,000. The Group is obligated to pay quarterly instalment of RMB11,325,000 from July 2016 to July 2018 and the remaining balance of RMB6,913,000 will be paid in October 2018. Upon the maturity of the lease, the Group is entitled to purchase back the equipment at cash consideration of RMB100. Despite the arrangement involves a legal form of a lease, the Group accounted for the arrangement as a collateralised borrowing at amortised cost using effective interest method in accordance with the substance of the arrangement.

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Carrying amount repayable:		
Within one year	39,066	—
Between one to two years	40,667	—
Between two to five years	<u>16,517</u>	<u>—</u>
	<u>96,250</u>	<u>—</u>

## **GROUP STRUCTURE AND CAPITAL STRUCTURE**

During the period under review, there has been no material change in the Group's structure and the capital structure of the Company. As at 30 June 2016, the number of issued shares of the Company remained at 5,304,767,883.

During the current period under review, on 16 June 2016, the Company entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to acquire 45% equity interest (the "Acquisition") in Modern Farm (Anhui) Dairy Product Sales Co. Ltd., a company in which the Company indirectly owned 55% equity interest, after the completion of the reorganization for the issue of the consideration shares of the Company at the issue price of HK\$1.46 per each consideration shares. Reference is made to the announcement of the Company dated 16 June 2016 and the supplemental announcement of the Company dated 22 June 2016 with regards to the Sale and Purchase Agreement.

Up to the date of this announcement, the Acquisition has not been completed.

## **PLEDGE OF ASSETS**

As at 30 June 2015, land use rights, buildings and equipment, and biological assets with carrying value of RMB 9.6 million (31 December 2015: RMB 9.7 million), RMB 179.0 million (31 December 2015: RMB 50.0 million) and RMB 2,827.6 million (31 December 2015: RMB 2,769.7 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) of Advanced Dairy Company (Luxemburg) Limited (note) respectively, were pledged as security for the Group's borrowings.

*Note:* the relevant pledge was released subsequent to the period end on 12 July 2016 as a result of the repayment of the relevant bank loans during the six months period ended 30 June 2016.

## **CAPITAL COMMITMENTS AND CONTINGENCIES**

As at 30 June 2016, the Group has capital commitment of RMB135.5 million related to acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 30 June 2016.

## **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 5,938 employees (31 December 2015: 5,277) in mainland China and Hong Kong as at 30 June 2016. Total staff costs (including staff compensation capitalised to unmaturing dairy cows) for the six months ended 30 June 2016 were approximately RMB213.9 million (six months ended 30 June 2015: RMB198.1 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

The accelerated urbanization, rising per capita income of consumers and implementation of the Two Children Policy in China will substantially boost the growth in total domestic consumption of dairy products in the long run. With steady improvement in the per capita consumption of urban residents and the increasing market demand, the growth in domestic demand for high-end quality raw milk and dairy products will remain strong and stable. Meanwhile, the increasingly sound regulations governing the industry will also control the sales of reconstituted milk effectively, speeding up the standardized development of the dairy product industry, thus boosting the consumers' confidence and causing industry sales to gradually pick up. In the long run, we will have excess demand for high-end raw milk and the price of raw milk will become stable and make a turnaround to rise in the long term.

Industrial restructuring has also been implemented extensively among various dairy enterprises within the industry for the purpose of reorganization and upgrading. The Group will remain committed to expanding the 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 value chain. Our own brand of UHT milk packs and pasteurized milk have received high recognition from domestic consumers. In cooperation with professional research institutions, the Group is currently developing new products to further expand its downstream sales with its quality brand reputation and comprehensive distribution network, penetrating into huge consumer markets in third and fourth tier cities. With continuous increase in the sales points for milk products of our own brands, our market share and brand awareness will be further enhanced, which will be beneficial for strengthening the Group's leading position in the industry.

Leveraging on the stable supply of high quality raw milk supply from the Group's upstream business, we are capable to satisfy the demand from downstream market and consumers for higher quality dairy products, to research and develop new products, to produce higher value-added products with high gross profit, including pasteurized milk and pasteurized yogurt, and to upgrade downstream products structurally. 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 progress of the whole dairy industry. However, restricted by short shelf life and strict requirement for cold chain transportation equipment, the raw milk for pasteurized milk must be sourced nearby. Currently, as

the dairy farming industry in China is characterized by its fragmented nature, pasteurized milk are primarily sold under urban and local brands, but without any national well-known brands. The inherent advantages of nationwide coverage of the China Modern Dairy Group and its constant pursuit for higher quality enable the Group to become the only competent nationwide producer of pasteurized milk in China at present. In future, the Group will improve, innovate and develop new products to expand the market for pasteurized milk so as to lead the new trend of dairy products and bring new growth points for the Group's development.

## **CORPORATE GOVERNANCE**

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company has, throughout the six months ended 30 June 2016 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 non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. One independent non-executive Director, one non-executive Director and one executive Director were not able to attend the annual general meeting of the Company held on 3 June 2016 due to other business engagements.

## **INTERIM DIVIDEND**

The Board of Directors did not declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil)

## **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 the Company's code of conduct regarding securities transactions by the Directors. Following specific enquiry by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

## **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 2016.

## **REVIEW OF INTERIM RESULTS**

The condensed consolidated financial statements of the Group for the six months ended 30 June 2016 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 2016 will be published on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company ([www.moderndairyir.com](http://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, 22 August 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. ZHANG Ping, the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. Zou Fei.*