MODERN FARMING
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 30 JUNE 2011

The Board of Directors (the "Board") 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 30 June 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2011 *RMB'000*	2010 *RMB'000*
Sales of milk produced	4	1,113,354	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	13	55,538	60,620
Other income	5	101,850	65,371
Farm operating expenses		(730,307)	(437,616)
Employee benefits expense		(89,649)	(66,695)
Depreciation		(67,304)	(44,174)
Net foreign exchange loss		(17,367)	(1,174)
Other gains and losses		(1,197)	561
Other expenses	6	(61,871)	(29,474)
Profit before finance costs and tax	7	303,047	137,194
Finance costs	8	(59,141)	(29,765)
Profit before tax		243,906	107,429
Income tax charge	9	(8)	(73)
Profit and total comprehensive income for the year		243,898	107,356
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		224,605	53,132
Non-controlling interests		19,293	54,224
		243,898	107,356
Earnings per share (RMB)	11		
Basic		5.20 cents	2.59 cents
Diluted		5.15 cents	2.54 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2011 RMB'000	As at 30 June 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	2,221,265	1,578,395
Land use rights		62,863	63,616
Goodwill		310,426	301,354
Long-term prepaid rentals		130	194
Deposit for acquisition of biological assets		1,094	13,028
Biological assets	13	2,651,407	1,742,891
		5,247,185	3,699,478
CURRENT ASSETS			
Inventories		212,719	139,407
Trade and other receivables	14	136,779	76,772
Land use rights		1,440	1,184
Pledged bank balances		287,119	36,350
Bank balances and cash		1,021,691	250,959
		1,659,748	504,672
CURRENT LIABILITIES			
Trade and other payables	15	482,811	352,299
Amount due to a related party		—	1,247
Borrowings — due within one year	16	303,797	384,647
Deferred income		4,943	3,868
		791,551	742,061
NET CURRENT ASSETS/ (LIABILITIES)		868,197	(237,389)
TOTAL ASSETS LESS CURRENT LIABILTIIES		6,115,382	3,462,089
CAPITAL AND RESERVES			
Share capital	17	413,075	272
Reserves		4,254,933	1,436,462
Equity attributable to owners of the Company		4,668,008	1,436,734
Non-controlling interests		54,700	1,133,005
		4,722,708	2,569,739
NON-CURRENT LIABILITIES			
Borrowings — due after one year	16	1,219,137	840,470
Long-term other payable		100,000	—
Deferred income		73,537	51,880
		1,392,674	892,350
		6,115,382	3,462,089

NOTES

1. **General information**

China Modern Dairy Holdings Ltd. (the "Company") is incorporated in the Cayman Islands with limited liability. Its registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in production and sales of milk in the PRC.

The annual results are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

2. **Basis of preparation**

The annual results have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations promulgated by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. **Principal accounting policies**

The annual results have been prepared on the historical cost basis except for biological assets, which are measured at fair value less costs to sell. The accounting policies used in the annual results are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2010.

In the year ended 30 June 2011, the Group has applied all the new/revised standards, amendments and interpretations ("new or revised IFRSs") issued by IASB, which are mandatorily effective for the Group's financial year beginning 1 July 2010.

The adoption of these new and revised IFRSs had no material effect on the amounts reported in and/or the disclosure set out the consolidated financial statements of the Group for the current or prior accounting years.

The Group has not early applied the following new or revised standards that have been issued but not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010 that are effective for annual periods beginning on or after 1 January 2011[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[3]
IFRS 11	Joint Arrangements[3]
IFRS 12	Disclosures of Interests in Other Entities[3]
IFRS 13	Fair Value Measurement[3]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 19 (as revised in 2011)	Employee Benefit[3]
IAS 24 (Revised)	Related Party Disclosure[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[3]
IAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures[3]
IFRIC 14 (Amendments)	Prepayments of a minimum Funding Requirement[1]

[1] Effective for annual periods beginning on or after 1 January 2011.

[2] Effective for annual periods beginning on or after 1 July 2011.

[3] Effective for annual periods beginning on or after 1 January 2013.

[4] Effective for annual periods beginning on or after 1 July 2012.

[5] Effective for annual periods beginning on or after 1 January 2012.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, control is only basis for consolidation. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, there are two types of joint arrangements: joint ventures and joint operation. The classification in IFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under IAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

The directors of the Company (the "Directors") anticipate that the application of IFRS 9 and IAS 24 (Revised) may not have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities and the disclosure of the consolidated financial statements.

Other than disclose above, the Directors are in the process of making an assessment of the impact of these new and revised standards and amendments upon initial application.

4. **Sales of milk produced and Segment Information**

Sales of milk produced represented mainly the fair value of milk produced less costs to sell at the point of harvest.

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the chairman of the Group (the "Chairman"), in order to allocate resources and to assess performance. The operation of the Group (i.e. production and sales of milk produced in the PRC) constitutes one operating and reportable segment.

In prior year, the information reported to the Chairman for the purposes of resource allocation and assessment of performance does not contain the gain arising from changes in fair value less costs to sell of dairy cows. The Chairman reviewed the profit before tax, assets and liabilities as a whole. The difference between the profit before tax and assets reported under IFRSs and those reported to the Chairman was mainly arising from the difference of the accounting treatment of the dairy cows. The dairy cows were stated at cost less depreciation under the report to the Chairman. However, under IFRSs the dairy cows were stated at their fair value less costs to sell.

During the year ended 30 June 2011, the information reported to the Chairman for the purposes of resources allocation and assessment of performance contained the gain arising from changes in fair value less costs to sell of dairy cows. The Chairman reviewed the profit before tax, assets and liabilities as a whole which are same as the amounts reported under IFRSs. The information of prior year is represented to consistent with the current basis.

The profit before tax and assets reported to the Chairman and IFRSs are as follows:

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
		(restated)
Profit before tax reported to the Chairman and Profit before tax under IFRSs	243,906	107,429

	As at 30 June 2011	As at 30 June 2010
	RMB'000	*RMB'000* *(restated)*
Assets reported to the Chairman and assets under IFRSs	6,906,933	4,204,150
Liabilities reported to the Chairman and liabilities under IFRSs	2,184,225	1,634,411

All external sales of milk produced of the Group during the year are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are all located in the PRC.

Sales of milk produced of RMB1,084,777,000 for the year ended 30 June 2011 (2010: RMB575,441,000) is from a single external customer.

5. Other Income

	Year ended 30 June 2011	Year ended 30 June 2010
	RMB'000	*RMB'000*
Government grant related to:		
Biological assets (note i)	62,001	34,390
Income (note ii)	22,666	23,766
Other assets	3,998	967
Bank interest income	12,155	3,001
Write-off of payables	615	887
Others	415	2,360
	101,850	65,371

Notes:

(i) These government grants are unconditional government subsidies received by the Group from relevant government bodies to support the Group in purchasing dairy cows.

(ii) These government grants are unconditional government subsidies received by the Group from relevant government bodies to provide financial support for the Group's operations.

6. **Other expenses**

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Other operating expenses	37,143	29,474
Transaction costs for listing of shares	24,728	—
	61,871	29,474

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

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

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Auditors' remuneration	2,571	951
Loss (gain) on disposal of property, plant and equipment	1,197	(1,006)
Release of land use rights	1,403	1,032

8. **Finance costs**

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Interest expenses on:-		
Bank borrowings wholly repayable within five years	74,867	47,872
Bank borrowings wholly repayable after five years	10,026	6,612
Other borrowings wholly repayable within five years	241	529
Total borrowing costs	85,134	55,013
Less: capitalized amount	(25,993)	(25,248)
	59,141	29,765

Borrowing costs are capitalized in construction in progress and the weighted average interest rate on specific borrowings being capitalized was 3.35% (2010: 3.24%).

9. **Income tax charge**

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax	8	73

The tax charge for the year represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries established in the PRC.

10. **Dividend**

No dividends were paid, declared or proposed during the year ended 30 June 2011. The directors do not recommend the payment of a final dividend (2010: Nil).

11. **Earnings per share**

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

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	224,605	53,132
Adjustment to the share of profit of Modern Farming (Group) Co., Ltd. ("Modern Farm") and its subsidiaries based on dilution of their earnings per share	(283)	(1,112)
Earnings for the purpose of diluted earnings per share	224,322	52,020

	Year ended 30 June	
	2011	**2010**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,320,653,151	2,049,600,000
Effect of share option issued by the Company	38,325,183	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,358,978,334	2,049,600,000

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for the year ended 30 June 2011 and 2010 was determined assuming 5,124,000 ordinary shares were allotted and credited to Advanced Dairy I Company Limited ("Advanced Dairy I") and the capitalisation issue as set out in note 17(vi) occurred on the date of incorporation of the Company.

There were no potential ordinary shares of the Company in existence for the year ended 30 June 2010.

12. **Property, plant and equipment**

During the year ended 30 June 2011, the Group spent RMB768,650,000 (2010: RMB667,260,000) to acquire property, plant and equipment in order to increase its production capacity.

13. **Biological assets**

The fair value of the Group's dairy cows as at 30 June 2011 were based on the valuation carried out by an independent qualified professional valuer, Jones Lang LaSalle Sallmanns Limited, which are determined with reference to the market-determined prices, if available, of items with similar age, breed and genetic merit. There are no market-determined prices of milkable cows. Therefore, the Directors have applied net present value approach to calculate the fair value less costs to sell for these items. The resulting gain arising from changes in fair value less costs to sell of dairy cows of RMB55,538,000 (2010: RMB60,620,000) has been recognized directly in profit or loss for the year ended 30 June 2011.

14. **Trade and other receivables**

The following is an analysis of trade and other receivables at the end of the reporting period:

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Trade receivables		
- Within 60 days from invoice date	100,019	44,301
- Over 60 days from invoice date	408	353
	100,427	44,654
Advances to suppliers	26,589	17,228
Others	9,763	14,890
	136,779	76,772

Trade receivables at the end of the respective reporting periods principally represent receivables from sales of raw milk. The Group allows credit period of 60 days (2010: 60 days) to its trade customers.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB408,000 (2010: RMB353,000) which are 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 these balances. The average age of such receivables is 180 days (2010: 180 days).

15. **Trade and other payables**

The following is an analysis of trade and other payables at the end of the reporting period:

	Year ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Trade payables		
- Within 60 days from invoice date	177,066	111,507
- Over 60 days from invoice date	19,478	3,532
	196,544	115,039
Payable for acquisition of property, plant and equipment	238,868	150,238
Consideration payable for acquisition of subsidiary	—	5,150
Accrued staff costs	21,447	14,644
Advanced payments from customers	5,863	57,977
Payable for transaction cost for listing of shares	7,552	—
Others	12,537	9,251
	482,811	352,299

The credit period taken for the settlement of trade purchase is 60 days (2010: 60 days).

16. **Borrowings**

During the year ended 30 June 2011, the Group obtained new bank loans amounting to RMB2,342,475,000 (2010: RMB1,010,653,000) and repaid loans of RMB2,044,658,000 (2010: RMB377,726,000).

The annual interest rate of the borrowings during the year varied from 0.4% to 6.46% (2010: 2.4% to 7.47%). As of 30 June 2011, the Group's interest-bearing borrowings were all denominated in Renminbi, except for a bank loan with carrying amount of RMB100,000,000 was denominated in Hong Kong Dollars.

17. **Share capital**

	Notes	**Number of shares** *'000*	**Share Capital** *US$'000*
Ordinary shares of US$1.00 each ("US$ Shares")			
Authorized			
At 1 July 2009 and 30 June 2010	(i)	50	50
Cancelled during the year	(iv)	(50)	(50)
At 30 June 2011		—	—
Issued and fully paid			
At 1 July 2009 and 30 June 2010	(i)	40	40
US$ Shares repurchased and cancelled	(iii)	(40)	(40)
At 30 June 2011		—	—

		Number of shares *'000*	**Share Capital** *HK$'000*
Ordinary shares of HK$0.1 each ("HK$ Shares")			
Authorized			
At 1 July 2009 and 30 June 2010		—	—
Increase in authorized capital on 29 July 2010	(ii)	10,000	1,000
Increase in authorized capital on 30 October 2010	(vi)	9,990,000	999,000
At 30 June 2011		10,000,000	1,000,000
Issued and fully paid			
At 1 July 2009 and 30 June 2010		—	—
Issue of HK$ Shares	(iii)	5,124	512
Issue of HK$ Shares	(v)	4,876	488
Shares capitalization	(vi)	3,990,000	399,000
New issue of HK$ Shares by way of public offering	(vii)	800,000	80,000
At 30 June 2011		4,800,000	480,000
			RMB'000
Presented as			413,075

Notes:

(i) On 30 July 2008, the Company was incorporated in the Cayman Islands as a limited liability company with authorized share capital of US$50,000 divided into 50,000 shares of a par value of US$1.00 each and one US$ Share was allotted, issued and credited as fully paid to Mapcal Limited as the initial subscriber. On 18 August 2008, Mapcal Limited transferred one US$ Share to Advance Dairy I at consideration of US$1.00 and 39,999 US$ Shares were allotted and issued credited as fully paid to Advanced Dairy I at a consideration of US$39,999.

(ii) On 29 July 2010, the authorized share capital of the Company was increased from US$50,000 divided into 50,000 shares of a par value of US$1.00 each to the aggregate of US$50,000 and HK$1,000,000 divided into (i) 50,000 shares with a par value of US$1.00 each and (ii) 10,000,000 ordinary shares with a par value of HK$0.1 each, respectively, by the creation of 10,000,000 ordinary shares with a par value of HK$0.1 each.

(iii) On 30 July 2010, 5,124,000 HK$ Shares were allotted, issued and credited to Advanced Dairy I at par value and then the 40,000 issued US$ Shares held by Advanced Dairy I were repurchased and cancelled by the Company. The difference between the par value of US$ Shares and HK$ Shares of RMB170,000 was transferred from other reserve.

(iv) On 30 July 2010, all of the 50,000 authorized but unissued US$ Shares were cancelled and the amount of the authorized share capital was diminished by the amount of the US$ Shares so cancelled.

(v) On 30 July 2010, 573,647 HK$ Shares, 1,944,632 HK$ Shares, 1,869,546 HK$ Shares and 488,175 HK$ Shares were allotted and issued as nil paid by the Company to Jinmu Holdings Co., Ltd ("Jinmu"), Yinmu Holdings Co., Ltd ("Yinmu"), Xinmu Holdings Co., Ltd ("Xinmu") and Youmu Holdings Co., Ltd ("Youmu"), respectively with the payment of the subscription monies of RMB903,117,000 was settled in November 2010.

(vi) Pursuant to written resolutions on 31 October 2010, the authorized share capital of the Company was increased from HK$1,000,000 divided into 10,000,000 shares of a par value of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each by the creation of an additional 9,990,000,000 shares of HK$0.10 each. In addition, the Directors authorized, and resolved to capitalize HK$399,000,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 3,990,000,000 HK$ Shares.

(vii) In connection with the Company's initial public offering, 800,000,000 HK$ Shares of HK$0.10 each were issued at a price of HK$2.89 per share for a total cash proceeds, before expenses, of approximately HK$2,312,000,000 (equivalent to RMB1,973,933,000). Dealings in these HK$ Shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") commenced on 26 November 2010.

18 **Share-based payment transaction**

Modern Farm's option scheme (the "Scheme") was adopted pursuant to an agreement dated 9 June 2009 for the primary purpose of providing incentives to directors and eligible employees of Modern Farm and its subsidiaries. These options will expire on 8 June 2019. Under the Scheme, Modern Farm's directors granted options to two directors and one top management of Modern Farm (the "MF Grantees") to subscribe for a total of RMB10,821,069 paid-in capital (the "MF Options"). Each MF option has an exercise price of RMB5.9883 per RMB1 paid-in capital on 17 June 2009.

At 30 June 2010, the amount of paid-in capital in respect of which MF Grantees can subscribe for and remained outstanding under the Scheme was RMB10,821,069, representing 2.09% of the paid-in capital of Modern Farm at that date.

On 31 October 2010, the Company granted to MF Grantees a total of 87,412,507 share options of the Company for nil consideration and each with an exercise price of HK$0.86 (HK$1 = RMB0.74) per share ("Management Options") to replace the MF Options which lapsed and ceased to have effect at the same time.

No Management Options was exercised during the year ended 30 June 2011.

The Company's management considers that the Management Options granted is a replacement of the MF Options. The incremental fair value caused by the replacement of MF Options with Management Options is insignificant. Share option reserve amounting to RMB9,072,000 was recognized.

19. **Acquisition of additional interest in a subsidiary**

Pursuant to an equity transfer agreement dated 17 September 2010 between 31 individual equity holders of Modern Farm and Laoniu (Helingeer) Farming Development Co., Ltd. ("Laoniu Farming") (the "PRC Selling Equity Holders") and Aquitair Holdings Limited ("Aquitair"), Aquitair purchased from the PRC Selling Equity Holders an aggregate of 47.63% equity interests in Modern Farm (comprising an aggregate 42.86% held by 31 individual equity holders of Modern Farm and 4.77% equity interest held by Laoniu Farming) for a consideration of RMB903,117,000 (the "Onshore Acquisition").

With a view to financing the Onshore Acquisition and, at the same time, enabling the PRC Selling Equity Holders to continue their investments in the Company's business, the Company entered into a subscription agreement with Jinmu, Yinmu, Xinmu and Youmu (companies setup by the PRC Selling Equity Holders or their ultimate equity holders) on 29 July 2010 pursuant to which the Company agreed to issue an aggregate of 4,876,000 HK$ Shares at a total subscription price of RMB903,117,000 as described in note 17(v).

Non-controlling interests

The amount of the non-controlling interest (47.63% in Modern Farm) of RMB1,092,929,000 was measured by reference to the proportionate share of Modern Farm and its subsidiaries' net assets value and the effect is shown as follows:

	RMB'000
Consideration transferred	903,117
Less: non-controlling interests acquired	(1,092,929)
Recognized in other reserve	(189,812)

On 31 March 2011, the Company acquired additional 0.19% equity interest in Modern Farm through capital injection of RMB900,000,000. Upon completion of this capital injection, Modern Farm become a 97.87% owned subsidiary of the Company. The amount of the non-controlling interest (0.19% in Modern Farm) of RMB4,669,000 was measured by reference to the proportionate share of Modern Farm and its subsidiaries' net assets value as at 31 March 2011.

20. **Operating lease commitments**

The Group as lessee

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

	As at 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Within one year	1,427	941
In the second to fifth year inclusive	716	787
Over five years	1,419	5,770
	3,562	7,498

INDUSTRY OVERVIEW

In 2010, our national economy continued to grow. The living standard and purchasing power of the people has also increased. The meal structure of families in China has generally improved. The significant growth in the consumption of dairy products gave rise to the continued increase in the demand for raw milk.

In the supply chain of dairy products, the production of raw milk is an upstream activity. Its quality control will directly determine the quality and safety of dairy products and also affect the production and consumption markets. In recent years, China have been tightened safety control over the dairy industry. In 2010, 66 national food safety standards including those related to raw milk were revised and re-promulgated. The Notice on the Strengthening Measures regarding the Quality and Safety of Dairy Products (《關於進一步加強乳品質量安全工作的通知》) and the Detailed Rules Governing the Review of Permission Granted for the Production of Dairy Products (《乳製品生產許可審查細則》) were issued to regulate the dairy product market, and eliminate small-sized enterprises with unfavourable production conditions and weak quality assurance. This accelerates of industry consolidation and gradually enhances consumer confidence in dairy products produced by Chinese brands.

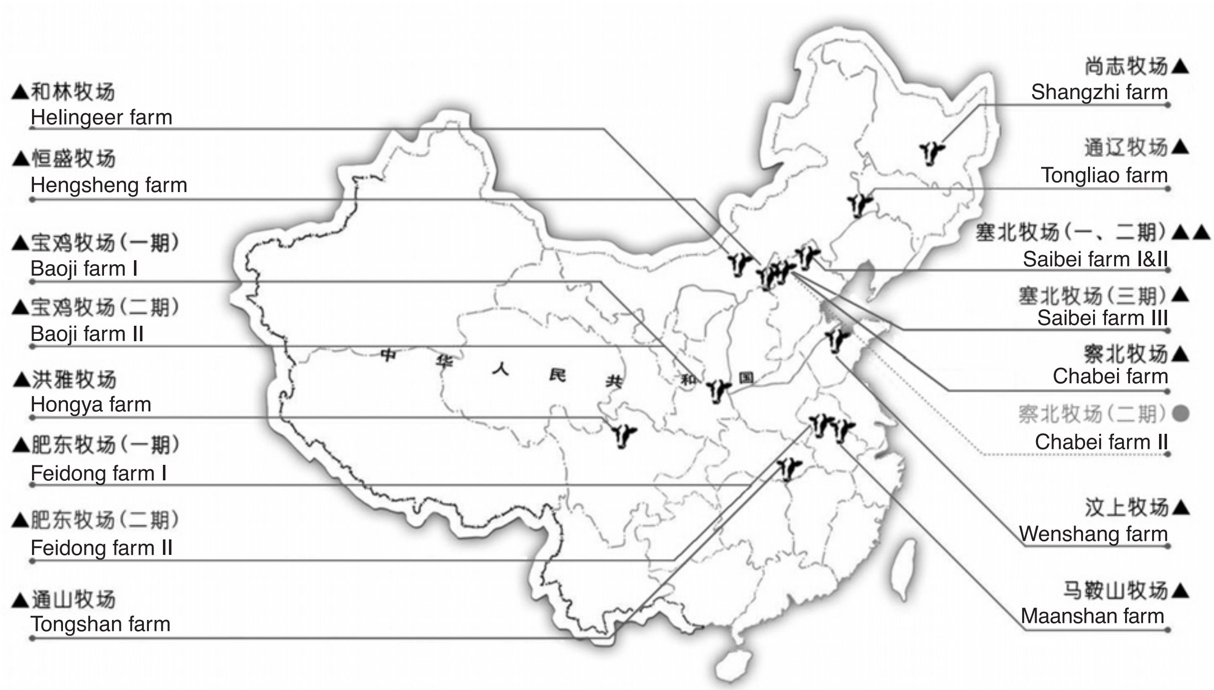
The dairy farming industry is mostly made up of farmers of dairy animals that are suppliers operating small-sized family businesses, hence, the industry as a whole in China appears to be relatively fragmented and scattered. This situation would improve with the industry's development, increased competition and further tightening quality controls imposed by the government on the dairy industry. It is expected that the integration of the dairy farming industry in China would accelerate in the coming ten to twenty years. The government has launched newly revised requirements on production licenses and has introduced incentive programmes in order to encourage the development of upstream integration among dairy product manufacturers. This would benefit major dairy farming companies in the future.

It is believed that various government policies on the regulation of small to medium sized enterprises and its support for the industry consolidation, the entire industry will be able to maintain a trend of sustainable development. As a well-known and leading enterprise in the dairy farming industry nationwide, we strictly carry out quality control, promote the construction of new farms and continue to identify new opportunities for the business development of the Group, thereby laying a solid foundation for the Group to consolidate our leading position and future development in the industry.

BUSINESS REVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. During the year ended 30 June 2011, the Group completed the construction of five new farms. As of 30 June 2011, the Group had sixteen farms in operation and one farm under construction in China with approximately 110,000 dairy cows in total. Our farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources required by our farms.

Our farms



▲ 已經營中畜牧場 Farms in operation

● 在建畜牧場 Farm under construction

Our financial results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the cost for production of a certain amount 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 7.73 tons in the year ended 30 June 2011, representing an increase of 5.9% from 7.30 tons last year. 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.

Driven by the increase in our milk yield and effective cost control measures, the operating profit margin of the Group increased to 27.2% for the year ended 30 June 2011 from 23.3% last year and the net profit margin increased to 21.9% for the year ended 30 June 2011 from 18.2% last year.

FINANCIAL OVERVIEW

Herd size

	As at	
	30 June 2011	**30 June 2010**
	Head	*Head*
Dairy cows		
Milkable cows	46,267	26,607
Heifers and calves	61,309	45,584
Total dairy cows	107,576	72,191

Sales of raw milk produced

97.4% of the sales of milk produced by our Group were sold to our primary customer, China Mengniu Dairy Company Limited ("Mengniu") (2010: 97.6%). Our total sales of raw milk produced increased by 88.8% from RMB589.8 million in last fiscal year to RMB1,113.4 million for the year ended 30 June 2011. The increase in sales revenue is mainly due to increase in sales volume of raw milk by 82.6% from 158,081 tons in last fiscal year to 288,620 tons for the year ended 30 June 2011 and an increase in average selling price of raw milk. The increase in sales volume is attributable to the expansion of our herd size and increase in average milk yield per cow.

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

As at 30 June 2011, the biological assets of the Group were valued at RMB2,651.4 million (2010: RMB1,742.9 million) by an independent qualified professional valuer, Jones Lang LaSalle Sallmanns Limited. Gain arising from changes in fair value of biological assets decreased by 8.4% from RMB60.6 million in last fiscal year to RMB55.5 million for the year ended 30 June 2011. The slight decrease was primarily due to change in the structure of our herd mix.

Other Income

Other income for the year mainly consists of government grants of RMB88.7 million (2010: RMB59.1 million). A majority of the government grants was unconditional government subsidies for the purchase of heifers.

Farm Operating Expenses

With the expansion of our herd size and general increase in market price of feeds, total feed costs during the year ended 30 June 2011 increased to RMB648.2 million from RMB396.2 million in last fiscal year, representing an increase of 63.6%.

Meanwhile, cost (except employee benefit expenses and depreciation) per ton of raw milk sold dropped by 8.6% from RMB2,768 in last fiscal year to RMB2,530 in the year ended 30 June 2011. This was driven by the increase in average milk yield from 7.30 tons last fiscal year to 7.73 tons in the year ended 30 June 2011, as a result of the efficient adjustment of feed mix formula and improved production efficiency. The increase in milk yield is a result of the improvement in genetic quality of our dairy cows and effective farm management.

Employee benefit expenses

As of 30 June 2011, our Group has 3,067 employees, representing an increase of 16.9% in headcount since 30 June 2010. Our employee benefits expenses increased by 34.4% from RMB66.7 million last fiscal year to RMB89.6 million in the year ended 30 June 2011. The increase was mainly related to an increase in headcount for our new farms and the general increase in basic salary.

Depreciation

Depreciation expenses increased by 52.4% from RMB44.2 million last fiscal year to RMB67.3 million for the year ended 30 June 2011. This is mainly due to more farms have been put into operation and the proportion of milkable cows to total number of dairy cows has also increased.

Other expenses

Other expenses mainly consist of transaction costs attributable to the issue of shares, professional fees, travel expenses and other office administrative expenses. The increase of 109.9% from RMB29.5 million last year to RMB61.9 million for the year ended 30 June 2011 was mainly a result of expanded operations and transaction costs attributable to the issue of shares that amounted to RMB24.7 million charged to income statement for the year (2010: Nil).

Finance costs

Finance costs increased from RMB29.8 million for last fiscal year to RMB59.1 million for the year ended 30 June 2011, which was mainly attributable to the increase in bank loans for acquisition of dairy cows and farm operation.

Net Profit and Profit Attributable to Equity Shareholders

For the year ended 30 June 2011, the Group recorded a net profit of RMB243.9 million, up 127.2% from net profit of RMB107.4 million recorded last fiscal year. This was mainly contributed to the increase in sales revenue and average milk yield.

The Group's profit attributable to equity shareholders was RMB224.6 million for the year ended 30 June 2011, representing an increase of 322.7% from RMB53.1 million for last fiscal year. The increase was attributable to the increase in net profits by 127.2% and the acquisition of additional 47.63% equity interest in an operating subsidiary, Modern Farm, during the year.

Basic earnings per share were approximately RMB5.20 cents (2010: RMB2.59 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 30 June 2011, the Group's net cash inflow from operating activities amounted to RMB310.8 million, as compared to RMB119.0 million in last fiscal year.

At 30 June 2011, the Group's available and unutilised banking facilities amounted to approximately RMB1,424.3 million (2010: RMB1,109.0 million). The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

The table below sets forth our short-term and long-term borrowings as of 30 June 2011.

	As at	
	30 June 2011	**30 June 2010**
	RMB'000	*RMB'000*
Bank borrowings	1,518,697	1,216,992
Other borrowings	4,237	8,125
	1,522,934	1,225,117
Carrying amount repayable:		
Within one year	303,797	384,647
Between one to two years	144,065	162,264
Between two to five years	817,842	407,206
Over five years	257,230	271,000
	1,522,934	1,225,117
Less: amounts due within one year shown under current liabilities	(303,797)	(384,647)
Amounts due after one year	1,219,137	840,470
Secured borrowings	1,223,305	941,251
Unsecured borrowings	210,922	209,696
Guaranteed borrowings	88,707	74,170
	1,522,934	1,225,117

At 30 June 2011, gearing ratio, being the ratio of total borrowings to total assets was 22.0% (2010: 29.1%). The annual interest rate of the bank and other borrowings during the year ended 30 June 2011 varied from 0.4% to 6.46% (2010: 2.40% - 7.47%). As of 30 June 2010, all borrowings were denominated in RMB. At 30 June 2011, apart from a bank borrowing with carrying amount of RMB100 million was denominated in HK Dollars, all other borrowings were denominated in RMB.

PROSPECTS

In spite of recent global economic uncertainty and market fluctuations, China's economy is still expected to maintain a strong growth. The market and business environment are expected to further improve as well. Driven by urbanization, income per capita of urban and rural families in China continues to increase, enabling the constant growth of consumers' purchasing power for quality dairy products. With the government's strengthened regulatory policies towards the dairy product industry, the demand for high quality dairy products remains strong. In 2010, the government introduced a string of favourable policies for integration of the industry, laying a solid foundation for the sustainable and steady development of China's dairy product industry and providing a conducive environment for the growth of quality dairy product companies.

As one of the first companies to adopt a large-scale industrialized free-stall dairy farming business model in China, our farms are designed and constructed with modern and scientific layouts to ensure high milk yield and cost efficiency. This is to ensure that our raw milk is among the highest quality and safest milk in China. With these favourable government policies in place, we could increase profitability of the Group and steadily develop our business by taking advantage of our high quality products, and pursue business opportunities brought by industry consolidation.

We believe that we operate the best large-scale dairy farms in China, with highly experienced management, comprehensive facilities and the advanced breeding, feeding and herd management technology. Under the current favourable economic and policy environment, we will further promote our successful farm operation model and construct new farms in the coming few years in order to strengthen our production capacity and consolidate our leading position in the dairy farming industry in China. Meanwhile, our professional management team will seize the significant opportunities brought by industry consolidation and achieve better financial performance.

BUSINESS STRATEGIES

Continue to replicate our successful business model across China and further broaden our customer base

We plan to build dairy farms in strategically selected regions in China, where we expect demand for high quality milk will continue to grow rapidly. While we will strengthen our strategic relationship with Mengniu, we also plan to further develop strategic relationships with new customers.

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

We have continued to improve our operations since the commencement of our business, resulting in rising average milk yield per annum. Currently, our average milk yield per annum per milkable cow is among the highest produced in China. We believe that the yield and raw milk quality of our milkable cows will continue to rise by improving the genetic mix of our herd for each generation and further increasing the ratio of milkable cows among our herd and optimizing the mix of feed.

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

We will continue to work closely with local farmers and agriculture institutes to 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 the aim to reduce the cost of transporting feed and ensure the quality, nutritional content and stable supply of feed.

PLEDGE OF ASSETS

As at 30 June 2011, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.8 million (2010:RMB14.2 million), RMB117.1 million (2010: RMB144.9 million) and RMB1,636.6 million (2010: RMB1,315.6 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2011, the Group has capital commitments of RMB210.9 million related to acquisition of property, plant and equipment and of RMB34.5 million for purchase of heifers.

The Group did not have any significant contingent liabilities as at 30 June 2011 and 30 June 2010.

FINANCIAL MANAGEMENT POLICIES

The Group continues to closely manage financial risks to safeguard the interests of shareholders. The Group applies its cash flows generated from operation and bank loans to meet its operation and investment needs. With the funds raised through the initial public offering in November 2010, the Group has financial resources that are sufficient to meet its daily operations and future development.

The Directors consider that the Group has limited foreign currency exposure in respect of its operations since our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risks associated with import of heifers, concentrated feeds and farm facilities are not material. In view of the minimal foreign currency exchange risk related to operations, the Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 3,067 employees (30 June 2010: 2,623) in Mainland China and Hong Kong as at 30 June 2011. Total staff costs for the year ended 30 June 2011, excluding directors' fees, were approximately RMB86.8 million (2010: RMB64.7 million).

The Group values recruiting and training quality personnel. We recruit talent from universities and technical schools, and we provide them with pre-employment and on-the-job training. The Group also offers remuneration at competitive rates with the aim of retaining quality personnel.

USE OF PROCEEDS

The shares of the Company were listed on the main board of the Stock Exchange on 26 November 2010 with net proceeds from the global offering of approximately HK$2,197.0 million (after deducting underwriting commissions and related expenses).

The net proceeds are expected to be used in the following manner.

Purpose of net proceeds	Percentage	Amount of net proceeds	Utilized	Balance
		HK$'Million	*HK$'Million*	*HK$'Million*
Import high-quality Holstein dairy heifers from Australia or New Zealand	40%	878.8	(210.0)	668.8
Construction of new farms	30%	659.1	(150.0)	509.1
Purchase of suitable farm facilities including, among other things, milking systems, feed processing machinery, electricity generating machines and herd management software	20%	439.4	(110.0)	329.4
Working capital and other general corporate purposes	10%	219.7	(219.7)	—
		2,197.0	(689.7)	1,507.3

The Directors intend to apply the remaining net proceeds in the manner as set out in the prospectus of the Company dated 15 November 2010.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2011 (2010: Nil).

CORPORATE GOVERNANCE

The Company has, since the listing of its shares on the Stock Exchange, complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct regarding securities transactions by 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 since the listing of the Company's shares on the Stock Exchange.

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 year ended 30 June 2011.

REVIEW OF ANNUAL RESULTS

The results for the year ended 30 June 2011 have been reviewed by the audit committee of the Company (the "Audit Committee").

The Audit Committee comprises Mr. LEE Kong Way Conway, Mr. HUI Chi Kin Max and Prof. GUO Lianheng.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 30 June 2011 will be published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.
DENG Jiuqiang
Chairman

Hong Kong, 14 September 2011

As of the date of this announcement, the executive Directors are Mr. DENG Jiuqiang, Ms. GAO Lina, Mr. HAN Chunlin, the non-executive Directors are Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. LEI Yongsheng, the independent non-executive Directors are Prof. LI Shengli, Prof. GUO Lianheng and Mr. LEE Kong Wai Conway.