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

MODERN FARMING

现代牧业

ANNUAL REPORT

2012/2013

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)
Mr. HAN Chunlin (Chief Operation Officer)
Mr. SUN Yugang (Chief Financial Officer)

Non-Executive Directors

Mr. YU Xubo (Chairman)
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. LEI Yongsheng
Mr. DING Sheng

Independent Non-Executive Directors

Prof. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. LIU Fuchun
Mr. KANG Yan

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway (Chairman)
Mr. HUI Chi Kin, Max
Mr. LIU Fuchun

REMUNERATION COMMITTEE

Prof. LI Shengli (Chairman)
Mr. WOLHARDT Julian Juul
Mr. LIU Fuchun

NOMINATION COMMITTEE

Mr. KANG Yan (Chairman)
Prof. LI Shengli
Mr. LEE Kong Wai, Conway

AUTHORISED REPRESENTATIVES

Ms. GAO Lina
Mr. WONG Kai Hing

COMPANY SECRETARY

Mr. WONG Kai Hing

HEADQUARTERS

Economic and Technological Development Zone
Maanshan City, Anhui Province,
PRC

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104 Cayman Islands

HONG KONG OFFICE

Unit 2402, 24/F,
Alliance Building 130-136
Connaught Road Central Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Finance Limited
PO Box 1093,
Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law

Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to PRC Law

Commerce & Finance Law Offices

As to Cayman Islands Law

Maples and Calder

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Agricultural Development Bank of China Maanshan Branch
China
Construction Bank Maanshan Branch
Bank of Communication Maanshan Branch
Citibank N.A. Hong Kong

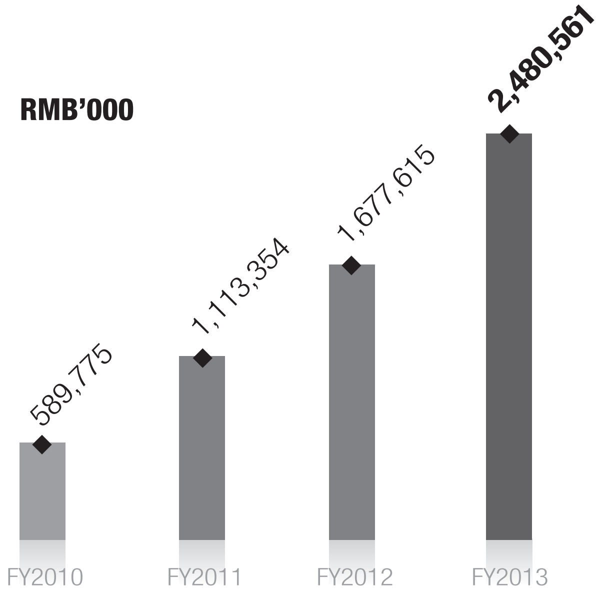
STOCK CODE

The Stock Exchange of Hong Kong Limited: 1117

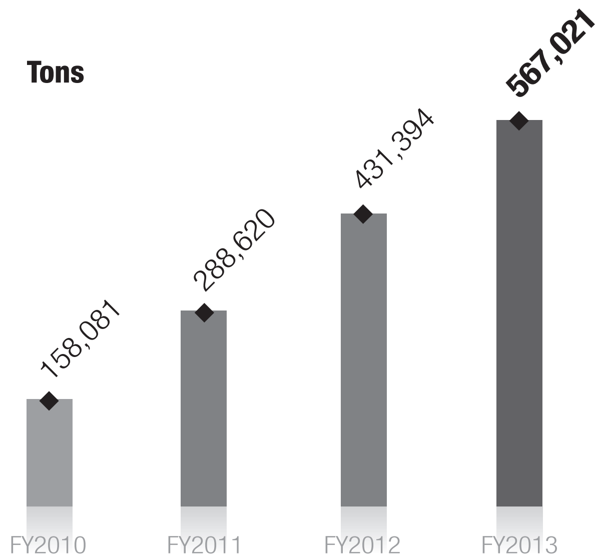
WEBSITE

http://www.moderndairyir.com

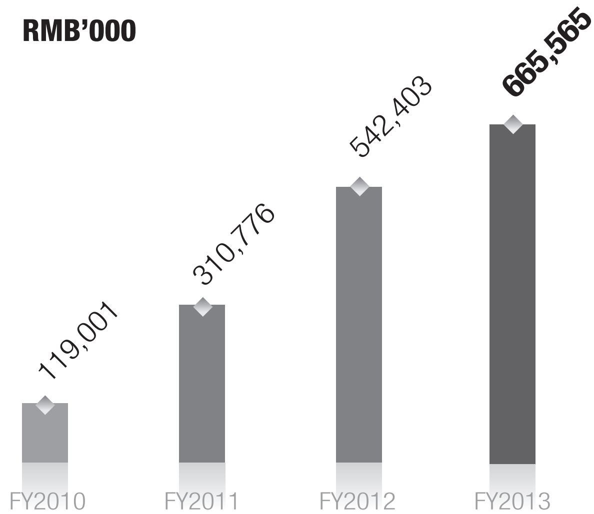
Financial Highlights



SALES REVENUE



SALES VOLUME



NET CASH FROM OPERATING ACTIVITIES

RESULTS

	Year ended 30 June	
	2013 RMB'000	2012 RMB'000
Sales of milk produced	2,480,561	1,677,615
Earnings before interest and tax	503,726	478,774
Cash EBITDA*	677,797	442,091
Cash EBITDA margin	27.3%	26.4%
Net profit	341,996	407,308

FINANCIAL POSITION

	As at 30 June	
	2013 RMB'000	2012 RMB'000
Biological assets	5,465,008	4,185,600
Cash and cash equivalents	378,030	518,277
Total assets	11,163,663	8,651,814
Total borrowing (includes short-term debenture)	4,279,041	2,590,789
Gearing ratio (Total borrowing/ Total assets)	38.3%	29.9%

* EBITDA before gain arising from changes in fair values less costs of selling dairy cows

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or the "Directors") of China Modern Dairy Holdings Ltd. ("Modern Dairy" or the "Company"), together with its subsidiaries (the "Group"), I am pleased to present the annual results of Modern Dairy for the year ended 30 June 2013 (the "year under review") to our shareholders ("Shareholders").

BUSINESS REVIEW

During the year under review, against a backdrop of sluggish international economy and increasing pressure of domestic economic downturn, the PRC government adhered to its strategy of "sustain growth at a steady pace". The continuous promotion of urbanization process greatly boosted consumer demand and investment in second and third tier cities, contributed to a significant increase in the annual consumer spending in those cities and became a key driver for the growth in market demand for high-end dairy products. Meanwhile, the increasing number in individual market players retreated from dairy cows raising industry accelerated the transition of the entire dairy industry from pursuance of extensive growth in quantity to focus on perking up quality efficiency, which gradually showed the trend for whole industrial chain development and industry-wide consolidation. Leveraging on its strong scale advantage, the Group managed to achieve steady growth in business performance, adhered to the safety and quality standards to produce high quality raw milk, and actively developed downstream markets.

For the year ended 30 June 2013, the Group completed the construction of two new farms, and had a total of 22 farms in operation in China. For the year ended 30 June 2013, the Group achieved an average milk yield per milkable cow of 8.23 tons/annum, increased by 1.7% from 8.09 tons/annum in the previous year. EBIT margin of the Group decreased from 28.5% in the previous year to 20.3% during the year under review, while net profit decreased by 16.0% to RMB342.0 million. During the year under review, cash EBITDA (i.e. EBITDA before loss/gain arising from changes in fair value less costs to sell of dairy cows) increased to RMB677.8 million, up 53.3% compared with RMB442.1 million in last year. Cash EBITDA margin increased from 26.4% in last year to 27.3%. During the year under review, total revenue of the Group reached RMB2,480.6 million, up approximately 47.9% from approximately RMB1,677.6 million in the previous year. Profit attributable to Shareholders was approximately RMB323.8 million, down 18.7% from approximately RMB398.5 million in the previous year. Basic earnings per share were approximately RMB6.74 cents, representing a decrease of 18.8% from that of last year being RMB8.30 cents.

For the year ended 30 June 2013, the Group signed up with several new customers who would subscribe raw milk from it, which enabled the Group to further expand and optimize its sales channels and broaden its revenue sources. The proportion of sale volume of milk that was sold to China Mengniu Dairy Company Limited ("Mengniu") and its subsidiaries ("Mengniu Group"), the Group's primary customer, was 83.7%, representing a decrease of 14.1% as compared to 97.8% in the previous year. Moreover, after the launch of its own brand of UHT milk packs at the beginning of 2012, the Group has proactively expanded its market shares, and there was considerable growth in the sales of its UHT milk packs in the cities in Mainland China, which accounted for 7.0% of our total sales. The freshness and purity of our products are highly valued by our customers. Sales of our own brand of milk increased by 478.5% from RMB30.0 million in the last fiscal year to RMB173.3 million for the year ended 30 June 2013. our products are highly recognized by the consumers after trial sale for a year and at the same time, the conventional mode of sales, with which no sales is possible traditionally without advertisements, was changed.

Recruiting¸ retaining and employing outstanding talents are indispensable elements for the purpose of the sustainable development of the Group. To support the rapid development of our Group, steady increase in investment has been made on training and retaining appropriate talents by providing competitive remunerations, trainings and learning opportunities. In addition, the Group has gradually developed and implemented an incentive system to solicit and retain outstanding talents since its listing. On 12 December 2012, the Group granted 40 million options subject to the results of 2013, 2014 and 2015 pursuant to the share option scheme adopted on 17 November 2011, in addition to the existing pre-IPO share option scheme.

The Group ceased to import heifers since January 2013 and relied on organic growth in herd size. This strategy will help the Group in reducing capital expenditure on purchases of milkable cows and enhance the adjustment to the mix of herds in order to realize high core profits for the Company. As a result of effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation, the Group recorded an average annual milk yield per milkable cow of 8.23 tons for the twelve months ended 30 June 2013, representing an increase of 1.7% from 8.09 tons during the corresponding period last year. As more individual farms withdrew from the dairy cow breeding industry and the rising prices of raw milk under the market environment, the competitive strength of the Group in economies of scale became more notable.

On 8 May 2013, Mengniu announced to acquire further shares in our Group, its shareholding in Modern Dairy increased from approximately 1.08% to 27.99% at the transaction amount of approximately HK$3.2 billion and became the largest single shareholder of our Group. This move further strengthened the strategic cooperation relationship between our Group and Mengniu Group, ensuring the stable supply of raw milk for Mengniu Group.

OUR COMPETITIVE STRENGTHS

In terms of herd size and output of raw milk, the Group is the largest dairy cow farming company and the largest raw milk producer in China. Moreover, we are among the first companies in China to adopt a large-scale industrialized free-stall dairy farming business model. The dairy farms of the Group were built according to scientific designs and plans, adopted advanced breeding and feeding techniques and installed with modern equipment. Currently, our business has expanded to 8 regions, and our farms are situated in strategic geographic locations in China, which are close to downstream dairy product processing plants and the feed supply sources required by our farms.

Benefited from the increasing market demand for quality dairy products and various local governments' support for the large-scale dairy industry in recent years, our Group is capable of producing internationally recognized quality milk with increasing milk yields, thereby optimizing and improving cost efficiency through comprehensive modern scientific operations and advanced breeding, feeding and herd management techniques, while safety of our milk products is consistently assured with most stringent standards of quality and safety. The raw milk produced by the Group will continue to remain as one of the best quality and safest dairy milk in China.

The management team of our Group comprises management personnel with extensive operation experience in the industry and dairy cow farming experts with long-term development vision and decision-making power to formulate effective business strategies for creating value for Shareholders. By upholding our market philosophy of "producing only pure products, being a true and faithful corporate, pursuing new management approaches and keeping the market fresh", the management will lead our dedicated staff to build the best quality dairy cow farming company and the largest raw milk producer in China.

As we continue to enhance the management techniques of large-scale dairy farms and fully integrate the upstream and downstream businesses of our Group, we believe, under the leadership of our sophisticated and well-experienced management, the comprehensive strengths of our Group will be further enhanced, both Shareholders and investors will benefit from the healthy development of the Company.

PROSPECTS

Looking ahead, with per capita disposable income and consumer spending continuously rising in China, as well as more attention being paid to health, it is expected that the demand for high quality raw milk will increase. Regulation and supervision continue to promote the development of a standardized industry. Product mix within the industry was enhanced, with high quality and high value-added products gradually receiving market attention. Under the twin driving forces of the external environment and consumer demand, dairy product sales maintained steady growth, and the demand for and prices of raw milk continue to increase. The above factors create a sound environment for development of the Group.

In recent years, the central government has been promoting healthy and sustainable growth of the dairy product industry through various policy documents. In September 2011, the government promulgated the "Twelfth Five-year Plan for the National Development of the Animal Husbandry Industry (2011-2015)", which expressly stated that the development objective of the animal husbandry industry during the Twelfth Five-year Plan period was to remarkably improve the quality of the animal husbandry industry. Standardized large-scale farming would be the key development focus during the Twelfth Five-year Plan period. By 2015, the proportion of large-scale livestock farming in China will increase by 10% to 15% and the percentage of farms nationwide with over 100 dairy cows will exceed 38%. The document also emphasized that China will continue to increase financial support in key animal husbandry areas such as grassland ecology, breeding of fine livestock and forage grass production. At the end of 2011, the government announced the "Development Plan for the Grain-saving Animal Husbandry Industry in China (2011-2020)" yet again. The Plan stated that the dairy industry is a key component of our national grain-saving animal husbandry industry, and that better infrastructure for original and fine breed farms for grain-saving livestock and poultry (including dairy cattle) was needed to improve proprietary breeding capabilities. It also emphasized that the government will continue to increase support for the dairy industry and expand the scope of subsidies to fine breeding. In January 2013, the General Office of the State Council issued Central File No. 1 which clearly states that implementation efforts for a new round of the "Non-staple Food" project will be increased, and that the scale of construction of standardized farms for animal husbandry will be expanded. Support for the fine breed farming project will also be enhanced, and the construction of plantation bases for agricultural crops and exemplary farms for the introduction of new breeds will be accelerated. These policy documents give strong driving force for industry integration and ensure the optimization of large-scale livestock farming and environmental benefits. Further, they enhance consumer confidence in Chinese dairy products, and establish a solid foundation for strengthening the industry-leading position and sustainable growth of the Group.

Leveraging on this, the Group will focus on nurturing its own quality dairy breeds, and adopt comprehensive, modern and scientific breeding and feeding techniques to consistently improve the quality of raw milk. The focus of our Group will also shift from simply acquiring cows till each of our farms have in excess of 10,000 cows to sustainable growth of herd headcount through organic growth. This strategy will not only help the Group gradually reduce capital expenditure on dairy cows, it will also promote sustained development of our farms and maximize their scale and operational efficiency. In respect of farm management, we will emphasize our comprehensive, modern and scientific farm management practices to enhance efficiency. Also we will develop new business initiatives and products to diversify our revenue stream.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my gratitude to our staff for their continuous contribution and dedication. My gratitude also goes to our Shareholders, customers and business partners for their support and trust.

Going forward, the Group will continue to adhere to its principles of "creating the most advanced farms nationwide and producing the highest quality milk nationwide through harmonious development between man and nature". The Group will remain committed to the highest standards of product safety and quality, and will improve our milk yield and quality by continuing to adopt and develop comprehensive modern scientific breeding and feeding techniques and know-how, and to further strengthen our position as the market leader in China's large-scale dairy farming industry. The Group will continue to pursue business expansion opportunities by leveraging on the rapid growth of China's economy and the rising market demand for dairy products to bring satisfactory return to our Shareholders, customers and business partners.

YU Xubo
Chairman

Hong Kong, 27 August 2013

Management Discussion and Analysis

INDUSTRY OVERVIEW

During the year under review, despite the complex economic climate both domestically and internationally, the economy of China continued to maintain steady growth. In the dairy product industry, the State government and society continued to promote the development of a standardized industry through measures such as media supervision. Under the dual driving forces of the external environment and consumer demand, dairy product industry sales maintained steady growth. At the same time, because of the increased consumer demand for high-end dairy products, the internal product mix of the industry was further upgraded. High priced and value-added products increased in popularity. Enhancing the quality and safety of dairy products by focusing on milk sources, as well as developing self-owned dairy brands will become the dominant future trends of China's dairy industry.

In recent years, China's dairy product industry has engaged in self-review and is seeking a breakthrough. Development models such as "milk source first, market later" and "self-developed farms", etc. gradually became popular. Leading enterprises of the dairy industry invested heavily to develop their own farms and some even constructed plants overseas to secure premium quality milk sources. However, because general price levels rose continuously, the feeding costs of farms increased rapidly. Correspondingly raw milk prices inflated. Faced with intense competition from international players, standardized farming provided domestic enterprises with a key competitive edge.

In January 2013, in order to ensure the healthy and sustainable development of China's dairy product industry, the General Office of the State Council issued Central File No. 1, which expressly states that "a new round of the Non-staple Food Project will be implemented with force, enhanced and the scale of construction of pilot fields for standardized raising and breeding of livestock and poultry will be expanded. The fine breeding project for raising crops will be promoted and the construction of the plantation bases for crops and exemplary fields for the introduction of new breeds will be accelerated".

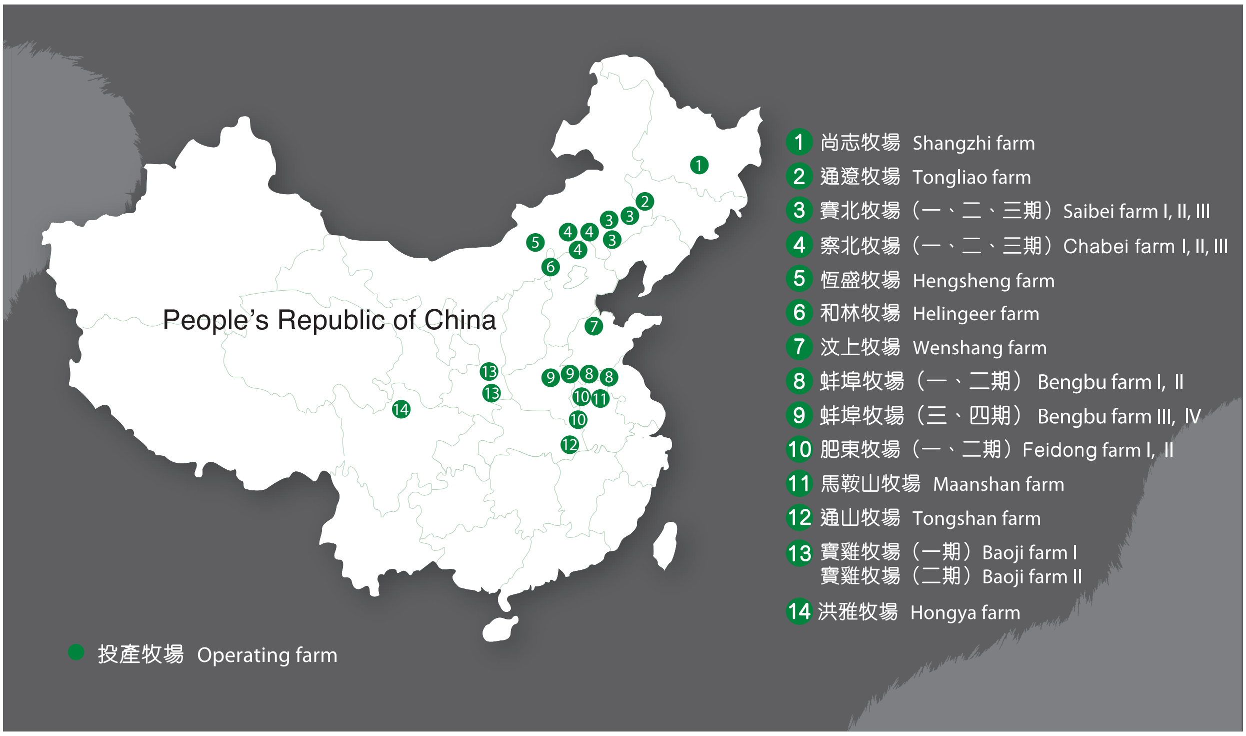
In early 2012, the Ministry of Agriculture pointed out with its "Development Plan for the Grain-saving Animal Husbandry Industry in China (2011-2020)" that the dairy industry is a key component of our national grain-saving animal husbandry industry, and that more resources should be invested in the industry. This includes infrastructure for breeding fine dairy cattle to enhance China's breeding capabilities in general. The Development Plan also stated that the scope of subsidies for raising fine cattle breed will be expanded, while full subsidies for raising fine dairy cattle breed will continue to be provided. Foreign dairy cattle breeds will also be gradually imported into China in an attempt to introduce better genes into the local genepool. It is targeted that dairy output will reach 50 million tons and 64 million tons by 2015 and 2016 respectively.

The series of policies and measures implemented by the government shows that China's dairy product industry is undergoing a fast consolidation. Market competition will also play a more significant role than ever. Large-scale dairy corporations that possess strong financial bases, well-known reputation, advanced technologies and economies of scale will benefit from the growth of the dairy industry. As a well-known and leading enterprise in the nationwide dairy farming industry, we carried out strict quality control, implemented comprehensive and modern scientific farm management techniques to enhance operation efficiency, and diversified our revenue streams through the development of new businesses and products. This allowed us to lay a solid foundation for the Group so as to consolidate our position as an industry leader and for our development in future.

BUSINESS REVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. During the financial year ended 30 June 2013, the Group's operating results reached a historical high due to increases in productivity and the increased demand for high-end dairy products in China. The Group also completed the construction of two new farms. As of 30 June 2013, the Group had 22 farms in operation in China with 177,921 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. Total sales volume for the Group amounted to 567,021 tons. This represented an increase of 31.4% from 431,394 tons in the last fiscal year and indicates that the Group has established a stable and leading market position in China's raw milk market. Owing to the quality of our Group's raw milk, we hold majority of the high-end milk source market share in China. In terms of production, our Group accounted for 70% of the milk source supply of Milk Deluxe, Mengniu Group's premium brand of milk. For other third parties, our raw milk is also used for the production of premium milk. The sales volume of premium milk has increased at levels consistently above 10% in recent years. Looking forward, our Group's emphasis on quality and premium milk sales remains the growth engine of the future.

Our farms



Our financial results are directly affected by our milk yield per cow. In general, as the 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 per cow of 8.23 tons for the Review Year. This represents an increase of 1.7% from 8.09 tons last year. Such a result is attributable to effective herd management, genetic improvement of our cows across generations and the increase in number of cows reaching the peak stage of lactation.

The EBIT margin of the Group decreased to 20.3% for the financial year ended 30 June 2013 from 28.5% last year. Cash EBITDA (EBITDA before gains arising from changes in fair values less costs to sell of dairy cows) increased by 53.3% from RMB442.1 million last year to RMB677.8 million for the year ended 30 June 2013.

FINANCIAL OVERVIEW

	2013 RMB'000	2012 RMB'000
Included in the sales of milk produced:		
Sales of raw milk	2,307,227	1,647,652
Sales of processed milk	173,334	29,963
	2,480,561	1,667,615

Herd size

	As at	
	30 June 2013 Head	30 June 2012 Head
Dairy cows		
Milkable cows	86,710	70,793
Heifers and calves	91,211	88,554
Total dairy cows	177,921	159,347

The Group purchased 11,442 heifers and milkable cows for the financial year ended 30 June 2013. As at 30 June 2013, the current herd size is 177,921 compared to 159,347 as at 30 June 2012. Since January 2013 onwards, the Group ceased to import heifers and relied on organic growth. This strategy helped the Group reduce capital expenditure on dairy cows and enhanced herd mix, resulting in the high core profits of the Company.

Sales of milk produced

The Company entered into a 10-year agreement to supply raw milk to our primary customer "Mengniu" in October 2008. During the financial year ended 30 June 2013, 83.7% of the Group's sales volume of milk was sold to Mengniu Group (2012: 97.8%). In the same year, the Group acquired several new customer accounts and continuously expanded the market share of the Group's own brand. Our total sales of milk produced increased by 47.9% from RMB1,677.6 million in the last fiscal year to RMB2,480.6 million for the year ended 30 June 2013. Sales of our own brand of milk increased by 478.5% from RMB30.0 million in the last fiscal year to RMB173.3 million for the year ended 30 June 2013. The increase in sales revenue is mainly due to an increase in sales volume of milk by 31.4% from 431,394 tons in the last fiscal year to 567,021 tons for the year ended 30 June 2013. The sales volume of our own brand of milk increased by 624.5% from 2,101 tons in the last fiscal year to 15,223 tons for the year ended 30 June 2013. The increase in sales volume is attributable to the expansion of our herd size and an increase in average milk yield per cow. Currently, the raw milk produced by the Group is mainly used for the production of Mengniu Group's Milk Deluxe and other high quality lines of milk.

In addition, since the introduction of UHT milk packs of our own brand in 2012 which account for 7% of total sales, the Group has actively increased its market share. The freshness and purity of our products are highly valued by our customers. Sales of our own brand of milk increased by 478.5% from RMB30.0 million in the last fiscal year to RMB173.3 million for the financial year ended 30 June 2013. After a trial which lasted more than a year, our products are now highly recognized by consumers. We have also successfully challenged the traditional sales model, which stipulates that products cannot be sold without advertisements. Our sales model is marketing by words of mouth, which is a method of marketing by passing the relevant information about the commodity verbally from person to person through consumers' trust in our products.

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

As at 30 June 2013, the biological assets of the Group were valued at RMB5,465.0 million (2012: RMB4,185.6 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Loss arising from changes in the fair value of biological assets was RMB38.6 million for the financial year ended 30 June 2013 (2012: Gain arising from changes in fair value of biological assets RMB131.5 million). Such unexpected loss arising from changes in fair value less costs to sell of dairy cows was primarily due to adjustments in a number of principal valuation assumptions adopted by the valuer when determining the fair value of the dairy cows of the Group as at 30 June 2013. The Board was informed by the valuer that such adjustments are made so as to take into account the current prevailing market and industry conditions.

Other Income

Other income for the year mainly consists of government grants amounting to RMB92.4 million (2012: RMB100.0 million). Majority of the government grants were unconditional subsidies for the purchase of quality breed heifers. The remainder consisted of subsidies for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy and sizable farm subsidy, etc.). Categories of such subsidies will continue to increase as the State emphasizes the importance of the agricultural sector.

Farm operating expenses

	2013 RMB'000	2012 RMB'000
Feeds	1,386,506	1,013,933
Utilities	56,609	39,258
Other farm operating expenses	212,688	95,506
Total	1,655,803	1,148,697

With the expansion of our herd size and general increase in the market price of feeds, total feed costs for the financial year ended 30 June 2013 increased to RMB1,386.5 million from RMB1,013.9 million in the last fiscal year. This represents an increase of 36.7%. During the same period, our total sales of milk produced increased by 47.9 % from RMB1,677.6 million in the last fiscal year to RMB2,480.6 million for the year ended 30 June 2013.

Meanwhile, cost (excluding employee benefit expenses and depreciation) per ton of raw milk sold increased by 9.7% from RMB2,663 in the last fiscal year to RMB2,920 for the financial year ended 30 June 2013. This was driven by increases in the price of feeds. The Company was, however, able to transfer the increase in costs to customers effectively. The price of milk increased by 12.3% from RMB3.89 per kg in the last fiscal year to RMB4.37 per kg for the financial year ended 30 June 2013. This alleviates the pressure of rising costs, including rising feed costs.

Employee benefit expenses

As of 30 June 2013, our Group has 4,955 employees. This represents a 30.5% increase in headcount from 30 June 2012. Our employee benefits expenses increased by 33.5% from RMB128.0 million in the last fiscal year to RMB170.8 million for the financial year ended 30 June 2013. The increase was mainly related to the increased headcount as well as a general increase in basic salary following an increase in the proportion of milkable cows to total number of dairy cows.

Depreciation

Depreciation expense increased by 42.9% from RMB94.8 million in the last fiscal year to RMB135.5 million for the financial year ended 30 June 2013. This is mainly due to more farms being put into operation and the proportion of milkable cows to total number of dairy cows increasing.

Other expenses

Other expenses mainly consist of professional fees, milk transportation cost, travelling expenses and other office administrative expenses. The increase of 28.6% from RMB72.0 million in the last fiscal year to RMB92.6 million for the year ended 30 June 2013 was mainly due to increases in transportation costs following the increase in sales volume of milk. Transportation costs increased from RMB27.1 million in the last financial year by 32.5% to RMB35.9 million for the financial year ended 30 June 2013.

Finance costs

Finance costs increased from RMB71.3 million for the last fiscal year to RMB153.7 million for the year ended 30 June 2013. This was mainly attributable to the increase in bank loans and interest expense no longer being capitalised following the transfer of construction in progress to property, plant and equipment.

Profit attributable to owners of the Company

Taking into account all of the above factors, the Group's profit attributable to the owners of the Company was RMB323.8 million for the financial year ended 30 June 2013. This represents a decrease of 18.7% from RMB398.5 million from last year.

Basic earnings per share were approximately RMB6.74 cents (2012: RMB8.30 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the financial year ended 30 June 2013, the Group's net cash inflow from operating activities amounted to RMB665.6 million, as compared to RMB542.4 million in the last fiscal year.

During the year ended 30 June 2013, the first tranche of domestic short term notes ("STN") with an aggregate principal amount of RMB0.7 billion was issued in the PRC by Modern Farming (Group) Co., Ltd., a non-wholly owned subsidiary of the Company. The first tranche of the STN is unsecured with a term of 1 year and bears a fixed interest rate of 4.99% per annum. This interest rate is more favourable compared to most of the bank loans of the Group. The Group issued the STN at a lower interest rate to optimize the debt structure. The net proceeds from the STN have been used to repay bank loans and as general working capital of the Group.

As at 30 June 2013, the Group's available and unutilised banking facilities amounted to approximately RMB2,216.9 million (2012: RMB740.0 million). The directors of the Company 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 2013.

	As at	
	30 June 2013 RMB'000	30 June 2012 RMB'000
Bank borrowings	3,528,349	2,589,982
Other borrowings	50,692	807
	3,579,041	2,590,789
Unsecured borrowings	1,387,044	1,080,459
Secured borrowings	2,105,707	1,440,330
Guaranteed borrowings	86,290	70,000
	3,579,041	2,590,789
Carrying amount repayable:		
Within one year	1,330,959	664,217
Between one to two years	1,035,927	643,442
Between two to five years	1,212,155	1,180,200
Over five years	—	102,930
	3,579,041	2,590,789
Less: Amounts due within one year shown under current liabilities	(1,330,959)	(664,217)
	2,248,082	1,926,572

At 30 June 2013, gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 38.3% (2012: 29.9%). The annual interest rate of the bank and other borrowings during the year ended 30 June 2013 varied from 2.00% to 7.05% (2012: 2.45%- 7.05%). As of 30 June 2013, all borrowings were denominated in Renminbi, U.S. dollars and Hong Kong dollars.

PLEDGE OF ASSETS

As at 30 June 2013, trade receivables, land use rights, buildings and equipment, and biological assets with carrying value of RMB110.0 million (2012: nil), RMB10.3 million (2012: RMB10.5 million), RMB61.5 million (2012: RMB66.1 million) and RMB4,014.2 million (2012: RMB2,372.9 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENT AND CONTINGENCIES

As at 30 June 2013, the Group has capital commitments of RMB190.5 million relating to the acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 30 June 2013 and 30 June 2012.

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.

The management 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. The Company's existing foreign currency borrowings, with a maturity term of approximately 1 to 2 years, accounts for 10% of its total borrowings. Taken into account of the current Renminbi appreciation trend, our management considers that there is no need to lock in a foreign exchange rate at the present stage, however, they will closely monitor any fluctuations in the foreign exchange market, and will use derivative contracts for hedging transactions at any time based on their judgments.

EMPLOYEES AND REMUNERATION POLICIES

The Group had approximately 4,955 employees (30 June 2012: 3,798) in Mainland China and Hong Kong as at 30 June 2013. Total staff costs for the year ended 30 June 2013, excluding directors' and chief executive's emoluments, were approximately RMB166.4 million (2012: RMB124.7 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. Employees are paid competitively, taking into account individual performance, experience, and their respective roles and positions. Other benefits offered by the Group included statutory provident funds, year-end bonuses, and share options granted to selected employees based on their individual performance.

BUSINESS STRATEGIES

Further broaden our customer base and expand our own brand

We will strengthen our strategic relationship with Mengniu Group, we also plan to further develop strategic relationships with new customers and continuously expanded the Group's market share of products of our own brand.

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, 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 the feed.

Continue to enhance the sales of branded milk

We will continue to expand our sales regions and widen the sales channels of our branded milk, hence improving the Company's profitability as a whole.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. GAO Lina (高麗娜), aged 56, is an executive Director, Chief Executive Officer and Deputy Chairman of the Company. Ms. Gao is one of the founders of our Group and is currently a director of Modern Farm and 24 other subsidiaries of the Company. Ms. Gao has significant experience in cross-border trading, resource integration and administrative management. Prior to joining the Group in August 2005, Ms. Gao was the general manager of Taian Foreign General Trade Corporation (泰安市外貿總公司) between October 1993 to June 2005. Ms. Gao was the director general of Tai'an Municipal Trade Promotion Bureau (泰安市招商局) between October 2003 and June 2005. Ms. Gao developed her experience in managing dairy farms since joining our Group and she was appointed as an executive Director of the Company on 14 November 2008.

She was awarded "Tai'an City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao was awarded the "Scientific and Technological Progress Award (Class 1 of Promotion Category) (科學技術進步獎推廣類一等獎)" by the Ministry of Education of the PRC (中國教育部) in January 2013. Ms. Gao completed an undergraduate course at Tai'an Municipal CPC Party School (中共泰安市委黨校) majoring in economic management in December 1999. Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd. ("Jinmu").

Mr. HAN Chunlin (韓春林), aged 41, is an executive Director and the Chief Operating Officer of the Company. Mr. Han is also a director of Modern Farm and Helingeer Modern Farming Co., Ltd. ("Helingeer Modern Farm"). Mr. Han has more than 15 years of experience in food and beverage industry in China. Prior to joining the Group in September 2008 and his appointment as an executive Director of the Company on 14 November 2008, Mr. Han worked as the marketing vice general manager of Nowara Shinnosuke (Fujian) Food Industry Company from February 2006 to July 2008. From January 1999 to September 2004, he served at the Liquid Milk Department of Mengniu (Inner Mongolia) as marketing manager. Prior to that, Mr. Han was a branch-plant manager at the Milk Powder Department of Inner Mongolia Yili Industrial Group Company Limited from July 1994 to January 1999. Mr. Han received a bachelor's degree in biology from Inner Mongolia University in July 1994.

Mr. Sun Yugang (孫玉剛), aged 33, is an executive Director and the Chief Financial Officer of the Company. Mr. Sun is also a director of Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd, a supervisor of 22 other subsidiaries of the Company and a director of one of other subsidiaries. Prior to joining the Company in March 2007, Mr. Sun was a manager of the Finance and Investment Department of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. from May 2002 to March 2007. Mr. Sun graduated from Inner Mongolia Finance and Economics College in December 2003.

NON-EXECUTIVE DIRECTORS

Mr. Yu Xubo (于旭波), aged 47, is a non-executive Director and Chairman of the Company. He was appointed as the Chairman of the Company with effect from 28 June 2013. Mr. Yu is currently the president of COFCO Corporation ("**COFCO**"), a director of COFCO (Hong Kong) Limited and the chairman of both COFCO Meat Investment Company Limited and COFCO Coca-Cola Beverages Limited. Mr. Yu is an executive director and the chairman of China Agri-Industries Holdings Limited (stock code: 606) and a non-executive director and the chairman of China Foods Limited (stock code: 506), both companies are listed in Hong Kong. Mr. Yu is also a director of Glory River Holdings Limited, convertible bonds of which are listed in Singapore. Mr. Yu also serves as a non-executive director and vice-chairman of China Mengniu Dairy Company Limited ("**Mengniu**") (stock code: 2319), a company listed in Hong Kong and a substantial shareholder of the Company. Mr. Yu holds a Bachelor's degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration degree from China Europe International Business School.

Mr. WOLHARDT Julian Juul, aged 40, is a non-executive Director of the Company and a director of Modern Farm. Mr. Wolhardt was the Chairman of the Company from 17 September 2012 to 28 June 2013. Mr. Wolhardt is currently a partner of KKR Asia Limited focusing on private equity transactions in the Greater China region. He has been actively involved in advising on investments in Yageo Corporation, a company listed on the Taiwan Stock Exchange (stock code: 2327), Tianrui Group Cement Company Limited and International Far Eastern Leasing Company Limited since he joined KKR Asia Limited in 2006. Before joining KKR Asia Limited, Mr. Wolhardt was with Morgan Stanley Private Equity from 1998 to 2006 and was responsible for its private equity business in China. While at Morgan Stanley Private Equity, Mr. Wolhardt advised on investments in a number of highly successful companies in China, several of which, such as China Dongxiang (Group) Company Limited (stock code: 3818), Hengan International Group Company Limited (stock code: 1044), Mengniu, China Shanshui Cement Group Limited (stock code: 691) and Ping An Insurance (Group) Company of China, Limited (stock code: 2318), have been listed on the Main Board of the Stock Exchange. He is also a non-executive director of Mengniu and Novo Holdco Limited. He is independent non-executive director of China Cord Blood Corporation, a company listed on New York Stock Exchange (Stock code: CO). Mr. Wolhardt is a Certified Public Accountant and Certified Management Accountant. He received a bachelor's degree in accounting from the University of Illinois (Urbana-Champaign) in 1995. He joined our Group in July 2008 and was appointed as a non-executive Director of the Company on 30 July 2008, and has been involved in the corporate development and strategic planning of our Group.

Mr. HUI Chi Kin Max (許志堅), aged 40, is a non-executive Director of the Company and a director of Modern Farm. Mr. Hui is currently the Chief Executive Officer and a managing director of CDH Investment Advisory Private Limited. From 1999 to 2000, he worked with the private equity division of Morgan Stanley Asia Limited in Hong Kong and the investment banking department of Schroders & Co in New York. Prior to working in the financial industry, Mr. Hui was an engineer at the oil and gas pipeline division of Bechtel Corporation in San Francisco from 1997 to 1998. Mr. Hui graduated from the University of California, Berkeley in 1996 with a bachelor's degree in chemical engineering and received a master's degree of engineering from Princeton University in 1999. He joined our Group in February 2009 and was appointed as a non-executive Director of the Company on 23 February 2009, and has been involved in the corporate development and strategic planning of our Group.

Mr. LEI Yongsheng (雷永勝), aged 51, is a non-executive Director of the Company and a director of Modern Farm. Mr. Lei is currently a managing director and the secretary-general of Lao Niu Foundation, a non-public fund engaged in charitable activities in the PRC. He is also a director of Brightmoon Limited. Prior to joining Lao Niu Foundation in July 2008, Mr. Lei worked for Mengniu (Inner Mongolia) as the vice president and secretary to the board of directors and for China Mengniu (Hong Kong) Company Limited (中國蒙牛(香港)有限公司) as the chief executive officer from 2003. Prior to that, Mr. Lei worked for the general office of the Department of Finance of the Inner Mongolia Autonomous Region (內蒙古自治區財政廳綜合處) as a deputy head from 1999 to 2001. Mr. Lei also worked for the Valuation Management Centre of the State-owned Assets Administration Bureau of the Inner Mongolia Autonomous Region (內蒙古自治區國有資產管理局評估管理中心) as a deputy head from 1991 to 1998 and taught in the Department of Accountancy of the Inner Mongolia University of Finance and Economics (內蒙古財經大學) from 1985 to 1990. Mr. Lei graduated from Inner Mongolia Finance and Economics College in 1985 with a bachelor's degree in economics. He joined our Group in July 2010 and was appointed as a non-executive Director of the Company on 27 July 2010, and has been involved in the corporate development and strategic planning of our Group.

Mr. Ding Sheng (丁聖), aged 45, is a non-executive Director of the Company. Mr. Ding graduated from Inner Mongolia Light Industry Institute majoring in dairy products techniques and is a senior engineer. Mr. Ding joined Inner Mongolia Mengniu Dairy (Group) Company Limited ("**Inner Mongolia Mengniu**") in 2003. Mr. Ding served as the general manager of yogurt division of Inner Mongolia Mengniu and has extensive management experience in the dairy industry. Mr. Ding was elected as a "Labour Model (Advanced Staff) of Inner Mongolia Autonomous Region" in 2010. Mr. Ding currently serves as a member of the Chinese Institute of Food Science and Technology and the vice-chairman of the lactic acid bacteria branch of the Chinese Institute of Food Science and Technology. Since March 2010, Mr. Ding has been appointed as the executive director of Mengniu (stock code: 2319), a listed company in Hong Kong and a substantial shareholder of the Company, and he is also the vice president of Inner Mongolia Mengniu.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. LI Shengli (李勝利), aged 47, is an independent non-executive Director of the Company since 27 October 2010. Prof. Li graduated from Shihezi Agricultural College (石河子農學院) with a bachelor's degree in animal husbandry and veterinary science in July 1987. He then obtained his doctorate degree in animal nutrition science from China Agricultural University in July 1996. Since 2003, Prof. Li has been with China Agricultural University, working at various times as an assistant professor and professor. Prof. Li is currently vice-director (Animal Nutrition) of the State Key Laboratories, Director of the council of the directors' association of the Sino-US Dairy Research Center, chief scientist in national dairy products industry technology system (國家奶牛產業技術體系), an advisor to the China School Milk Programme (國家學生飲用奶計劃) and a specialist in the Cattle and Poultry Research Centre of Beijing Sanyuan Breeding Technology Co,. Ltd. (北京三元種業科技股份有限公司畜牧研究院). Prof. Li is a member of the Eighth Committee of the Technology Committee of the Ministry of Agriculture (第8屆農業部科技委員會) and an advisor to the Beijing Municipal Government in the development of agricultural sciences and technologies and the Working Committee of National Dairy Herd Improvement Programme (DHI) (全國奶牛生產性能測定工作委員會) of the Dairy Association of China (中國奶業協會)) and the chairman of China Institute of Animal Husbandry and Veterinary Cattle Chapter (中國畜牧獸醫學會養牛分會). In 2007, Prof. Li obtained a patent on Rubeili (乳倍利), a type of high-energy and high-protein supplementary feed for dairy cows. Prof. Li was awarded the Second Prize and a Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2007 respectively, and was recognized by the Beijing Municipal Government as "Top 10 Scientists with Contribution to the Economic Development in Rural Villages of Beijing" (對北京農村經濟發展作出貢獻的「十佳」科學家) in 2009 and received the first prize for advancement in science and technology awarded by the Education Department(教育部科技進步一等獎) in 2012. Prof. Li was appointed as an independent director of Modern Farm in October 2006 and resigned in June 2009. He has been appointed as an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司) a company listed on China Venture Exchange (stock code: 300106) since July 2009.

Mr. LEE Kong Wai Conway (李港衛), aged 59, is an independent non-executive Director of the Company since 27 October 2010. Mr. Lee graduated from Kingston University (formerly known as Kingston Polytechnic) in London with a bachelor's degree in business studies in July 1980 and further obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young and held key leadership positions in the development of his firm in China. Mr. Lee is currently an independent non-executive director of West China Cement Limited (stock code: 2233), Chaowei Power Holdings Limited (stock code: 951), GOME Electrical Appliances Holding Limited (stock code: 493), Tibet 5100 Water Resources Holdings Ltd (stock code: 1115) and NVC Lighting Holding Limited (stock code: 2222), companies listed on the Main Board of the Stock Exchange, and CITIC Securities Company Limited, a company listed on the Stock Exchange (stock code: 6030) and Shanghai Stock Exchange (stock code: 600030). Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Since 2007, Mr. Lee has been a member of Chinese People's Political Consultative Conference of Hunan Province.

Mr. Liu Fuchun (劉 福 春), aged 67, is an independent non-executive Director of the Company. Mr. Liu graduated from the Beijing Foreign Trade Institute and is a senior commerce specialist. Prior to his retirement in 2007, Mr. Liu acted as an executive director and president of COFCO. He served in various departments in COFCO, including the finance department, business planning department, general office and oils and fats department of COFCO, the representative office of COFCO in the United States and Top Glory (London) Limited, a subsidiary of COFCO in the United Kingdom. Mr. Liu was the deputy consulate of the Chinese Consulate-General in Vancouver. Currently, Mr. Liu serves as an independent non-executive director of Mengniu (stock code: 2319) (a substantial shareholder of the Company) and DaChan Food (Asia) Limited (stock code: 3999), both companies are listed in Hong Kong, and as an independent director of China Aviation Oil (Singapore) Corporation Ltd, a company listed in Singapore.

Mr. Kang Yan (康　龑), aged 38, is an independent non-executive Director of the Company. Mr. Kang graduated from the Renmin University of China in 1998. Mr. Kang is a qualified practicing attorney in China and is currently a partner of Haiwen & Partners. He joined Beijing Commerce & Finance Law Offices in 2002 and was promoted to a partner in 2008. Mr. Kang has over 10 years of experience in legal corporate advisory on mergers and acquisitions and initial public offerings.

SENIOR MANAGEMENT

Mr. Hai Tu (海　濤), aged 44, is the assistant to the Chief Executive Officer of the Group and the head of Modern Farm (Feidong) Co., Ltd.（肥東牧場）. Mr. Hai joined the Group in October 2008 and has since been responsible for the planning and management of the farm. Prior to joining the Group, Mr. Hai worked as a deputy general manager for Shenzhen True Color Industrial Co., Ltd.（深圳色彩實業有限公司）from August 2001 to September 2008. Prior to that, Mr. Hai was the customer representative for the Beijing region of Shanghai Sangon Biological Engineering Technology & Services Company（上海生工生物工程技術服務公司）between September 1998 and June 2001. Mr. Hai served as a member of the Epidemic Division of the Daxing Anling Hygiene and Prevention Quarantine of Disease from August 1994 to May 1998. Mr. Hai graduated from Inner Mongolia University in July 1994, majoring in biology.

Mr. WANG Chun Jiang (王春江), aged 31, is the assistant to Chief Executive Officer of the Group. Mr. Wang joined the Group in May 2009 and has since been responsible for cattle breeding. Prior to joining the Group, Mr. Wang worked for Inner Mongolia Mengniu AustAsian Model Diary Farm Co., Ltd. from August 2004 to May 2009, and has served as head of farms since March 2008. Mr. Wang graduated from Inner Mongolia Agricultural University in July 2004, and has been pursuing a postgraduate course for student under employment at Inner Mongolia Agricultural University since October 2010.

Corporate Governance Report

Our Directors and management are committed to upholding a high standard of corporate governance to safeguard the interests of Shareholders and the Company as a whole.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules. The Company has, throughout year ended 30 June 2013 complied with the code provisions set out in the CG Code. except for the deviations from code provisions A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. One non-executive Director and one independent non-executive Director were not able to attend the extraordinary general meeting and the annual general meeting of the Company held on 30 November 2012 due to other personal business engagements.

THE BOARD

Role of Directors

The Board is accountable to the Shareholders for managing the Company in a responsible and effective manner. Every Director is committed to act in the best interest of the Company and to contribute their expertise and knowledge to the Company. The Board decides on overall strategies and monitors the Group's performance on behalf of the Shareholders.

The Board determines the objectives, strategies and policies of the Group. In addition, the Board monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. The day-to-day management of the Group's business is delegated to the Chief Executor Officer and the management of the Group under the supervision of the executive directors of the Company. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, financial objectives, dividend policy, changes in accounting policies, material acquisition and disposal of assets, investments and capital projects, banking facilities, provision of guarantees and indemnities, determination and adoption of documents (including the publication of announcements, reports and statements to shareholders) that are required by the Company's constitutional documents, statutes and other applicable regulations and monitoring the compliance with corporate governance practices and applicable laws and regulations as well as the financial covenants imposed by banks.

During the year under review, the key non-routine matters addressed by the Board included approval of continuing connected transaction – New Framework Supply Agreement with Qiushi, Grant of share options under the Share options Scheme and appointments of Directors.

Composition

The Board, which currently comprises twelve Directors, is responsible for supervising the management of the Group. It currently comprises three executive Directors, five non-executive Directors and four independent non-executive Directors. The biographical details of the Board members are set out on pages 16 to 19 of this annual report. Each of the Directors signed a formal letter of appointment setting out the key terms and conditions of his appointment in compliance with code provision of D1.4 of the CG Code. A list containing the names of all Directors and their roles and functions was published on the respective websites of the Stock Exchange and the Company pursuant to code provision A3.2 of the CG Code.

The diversified expertise and experience of the non-executive Directors contribute significantly in advising management on strategy and policy development. The non-executive Directors also serve to ensure that high standards in financial and other mandatory reporting are maintained and to provide adequate checks and balances for safeguarding the interests of the Shareholders and the Company as a whole. Having considered the functions of non-executive Directors, particularly their roles in respect to providing the checks and balances for the Company, it is considered that there is a reasonable balance between the executive and non-executive Directors on the Board.

To the best knowledge to the Directors, the Board is not aware of any financial, business, family or other material/relevant relationships among Board members.

The Company has in force appropriate insurance coverage on director's and officer's liabilities arising from the Group's business. Management reviews the insurance coverage on an annual basis.

Non-executive Directors

Each of the non-executive Directors is appointed for a specific term of 3 years, subject to retirement by rotation under the Articles of Association of the Company.

Independent Non-executive Directors

Each of the independent non-executive Directors is appointed for a specific term of 3 years, subject to retirement by rotation under the Articles of Association of the Company. Mr. LEE Kong Wai, Conway, one of the independent non-executive Directors, has the appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent. The number of its independent non-executive Directors is four and one-third of the board as required under Rule 3.10(1) and 3.10A of the Listing Rules.

Appointment, Re-election of Directors

In accordance with the CG Code and the Company's Articles of Association, all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. The composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Corporate Governance Functions

The Company has not established a Corporate Governance Committee. Audit Committee is responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 of Corporate Governance Code and Corporate Governance Report. The primary duties of corporate governance function are to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; review and monitor the training and continuous professional development of directors and senior management; review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and review the issuer's compliance with the code and disclosure in the Corporate Governance Report.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are currently held by Mr. Yu Xubo and Ms. GAO Lina, respectively. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. He also steers the Board and the Company towards its corporate goals. The Chief Executive Officer is responsible for the effective implementation of the overall strategies and initiatives adopted by the Board as well as the daily operation of the Group.

With the support of the Chief Executive Officer and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and that they receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

Directors' Duties

The Directors are continuously updated with the regulatory requirements, business activities and development of the Company that would facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Board process

During the year ended 30 June 2013, the Board has held four regular board meetings to discuss the overall strategy as well as the operations and financial performance of the Group. The Directors participated in person or through electronic means of communication. The attendance of each Director is set out as follows:

	Number of regular Board meetings+, Board Committee meetings and general meetings attended/held					
Name of Director	Annual General Meeting	Extraordinary** General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors						
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	1/1	1/1	4/4	N/A	N/A	N/A
Mr. HAN Chunlin (Chief Operation Officer)	1/1	1/1	4/4	N/A	N/A	N/A
Mr. DENG Jiuqiang (resigned on 26 February 2013)	1/1	1/1	1/3	N/A	N/A	N/A
Mr. SUN Yugang (appointed on 28 June 2013)	—*	—*	—*	N/A	N/A	N/A
Non-executive Directors						
Mr. YU Xubo (Chairman, appointed as Chairman on 28 June 2013)	—*	—*	—*	N/A	N/A	N/A
Mr. WOLHARDT Julian Juul (Chairman, ceased to be Chairman on 28 June 2013)	1/1	1/1	4/4	N/A	1/1	N/A
Mr. HUI Chi Kin, Max	0/1	0/1	4/4	2/2	N/A	N/A
Mr. LEI Yongsheng	0/1	0/1	4/4	N/A	N/A	N/A
Mr. DING Sheng (appointed on 28 June 2013)	—*	—*	—*	N/A	N/A	N/A
Independent Non-executive Directors						
Prof. LI Shengli	1/1	1/1	4/4	N/A	1/1	1/1
Mr. GUO Lianheng (resigned on 28 June 2013)	1/1	1/1	3/4	1/2	1/1	—*
Mr. LEE Kong Wai, Conway	1/1	1/1	4/4	2/2	N/A	1/1
Mr. LIU Fuchun (appointed on 28 June 2013)	—*	—*	—*	—*	—*	N/A
Mr. KANG Yan (appointed on 28 June 2013)	—*	—*	—*	N/A	N/A	1/1

* Attendance taken during term of service for the year ended 30 June 2013

** Extraordinary General Meeting held on 30 November 2012

+ Ad hoc meetings are not included

Our Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and may make inquiries if necessary. Director of the Company who considers it necessary to seek independent professional advice in order to perform his/her duties as a Director of the Company may convene, or request the Company Secretary to convene, a meeting of the Board to approve the consultation of independent legal or other professional advisor for advice. For regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors at least three days before the proposed date of a meeting. Additional Board meetings, if necessary, are arranged and held as and when required.

Every Director is entitled to access the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are open for inspection by any Director during normal office hours with reasonable advance notice. Matters considered and decisions reached at Board and Committee meetings are recorded with sufficient detail in the meeting minutes. Draft and final versions of minutes of Board meetings have been sent to all Directors for their comments and record within a reasonable time after the relevant meeting was held.

If the Board considers a substantial Shareholder or a Director has a conflict of interest in a matter, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company shall be responsible for arranging suitable training for all Directors at the Company's expense. The Group continuously updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year under review, the Directors (including Ms. GAO Lina, Mr. WOLHARDT Julian Juul, Mr. SUN Yugang, Mr. HUI Chi Kin, Max, Prof. LI Shengli, Mr. GUO Lianheng, Mr. LEE Kong Wai, Conway) attended the training course with relevant reading material provided by lawyer on the topic of disclosure of insider information for the purpose of achieving their continuing professional development (the "CPD") training. Mr. XU Yubo, Mr. HAN Chunlin, Mr. LEI Yongsheng, Mr. DING Sheng, Mr. LIU Fuchun and Mr. KANG Yan have been given the CPD course material for their reference and studying.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the members of the senior management by band for the year ended 30 June 2013 is set out below:

	Number of members	
	2013	2012
Emolument bands		
Nil to RMB$1,000,000	2	3

Further particulars regarding Directors' emoluments and the 5 highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 13 and 14 to the financial statements.

BOARD COMMITTEES

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with the defined terms of reference in line with the CG Code. The term of reference are published on the respective websites of the Stock Exchange and the Company. The Board Committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice in appropriate circumstances upon request. Details of these Board committees including their composition, major responsibilities and functions and worked performed are as follows:

Remuneration Committee

The Chairman of the Remuneration Committee is Prof. LI Shengli and other members are Mr. WOLHARDT Julian Juul and Mr. LIU Fuchun. The Remuneration Committee is chaired by independent non-executive Director and the majority being independent non-executive Directors of the Company.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for non-executive Directors, mainly comprising Directors' fees, is subject to annual assessment with reference to the market standard. Individual Directors and senior management would not be involved in deciding their own remuneration. The Remuneration Committee has been provided with sufficient resources to discharge its duties.

During the year ended 30 June 2013, the Remuneration Committee reviewed, discussed and/or approved the director fee of independent non-executive directors and the granting of share options to certain Directors and employees under the share option scheme of the Company and made recommendation to Board for its approval.

Audit Committee

The Chairman of the Audit Committee is Mr. LEE Kong Wai, Conway and other members are Mr. HUI Chi Kin, Max and Mr. LIU Fuchun, the majority being independent non-executive Directors of the Company. The Audit committee is chaired by an independent non-executive director. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard. The Audit Committee has been provided with sufficient resources to discharge its duties.

At the meetings, the Audit Committee reviewed the consolidated financial statements and both annual report and interim report before submission to the Board for approval. It reviewed the external auditor's letter to the management and ensured the Board provided timely responses to the issues raised therein. The Audit Committee had also reviewed the Group's accounting policies and practices, Listing Rules and statutory compliance, internal controls, financial reporting matters and continuing connected transactions of the Group.

Nomination Committee

This Committee currently consists of three members, including Mr. KANG Yan (Chairman of the Committee), Prof. LI Shengli and Mr. LEE Kong Wai, Conway, all being independent non-executive Directors of the Company.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assess the independence of independent non-executive directors; and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. The Nomination Committee has been provided with sufficient resources to discharge its duties.

At the meetings, the Nomination Committee reviewed and recommended the structure, size and composition (including skills, knowledge and experience) of the Board. It also reviewed the independence of the independent non-executive Directors.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 30 June 2013, the remuneration to the auditor of the Company was approximately RMB2.3 million for audit services and RMB0.6 million for interim review services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The management provides the explanations and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. In preparing the financial statements for the year ended 30 June 2013, the requirements of the International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") issued by the International Accounting Standards Board and the applicable laws were complied with.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as going concern. The Board has prepared the financial statements on a going concern basis.

The reporting responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report".

Pursuant to code provision C1.2 of the CG Code, the management of the Company should provide all members with monthly updates giving a fair and understandable assessment of the Company's performance, financial position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge his duties under Rule 3.08 and Chapter 13 of the Listing Rules. Monthly Updates such as condensed monthly managements accounts and updated information has been provided to all members of the Board for the financial period.

INTERNAL CONTROL

The Board is responsible for reviewing the effectiveness of the internal control system of the Group. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risk management functions. Such annual review also considers the adequacy of resources, qualifications and experience of the staff of the Company in relation to its accounting and financial reporting function, and their training programmes and budget. The internal control review function reports directly to the chairman of the Audit Committee. Regular internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved scope.

During the year, management has conducted regular reviews on the effectiveness of the internal control system covering all material controls in area of financial and compliance controls and various functions for risk management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management function for the year ended 30 June 2013. The Audit Committee is satisfied that the internal control system maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and proper accounting records are properly maintained.

The Group will continue to enhance the system to cope with the changes in the business environment.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Confirmations have been sought from all Directors that they have complied with the required standards set out in the Model Code throughout the year ended 30 June 2013.

COMPANY SECRETARY

The Company Secretary of the Company has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge for the year ended 30 June 2013.

COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Company discloses relevant information to Shareholders through the Company's annual report and financial statements, the interim report, as well as the annual general meeting ("AGM"). The section under "Chairman's Statement" and "Management Discussion and Analysis" of the annual report facilitate the Shareholders' understanding of the Company's activities. The AGM allows the Directors to meet and communicate with Shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

To manage its relationship with the investment community, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations.

To further promote effective communication, the corporate website is maintained to disseminate Company announcements and other relevant financial and non-financial information electronically on a timely basis.

Procedure for shareholders to convene an extraordinary general meeting

Pursuant to the Articles of Association, any one or more Shareholders holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary either via personal delivery or mail (Attn: Board of Directors/ Company Secretary, at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong) or via email (info@moderndairyir.com). The Board shall proceed duly within 21 days from the date of deposit of the requisition to convene a general meeting to be held within a further 21 days.

Procedures for sending enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board.

Procedures for making proposals at shareholder's meeting

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at general meetings. Proposals shall be sent to the Board pursuant to the following address via personal delivery, mail or courier to: Attention: Shareholder Communication, Board of Directors, Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong

The Board may, in its sole discretion, consider if such proposals are appropriate and shall be put forward to the Shareholders for approval at next annual general meeting or at an extraordinary general meeting to be convened by the Board, as appropriate.

Voting by way of poll

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the AGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to article 76 of the Articles of Association. The relevant details of the proposed resolutions, including biographies of each Director standing for re-election, will be included in the circular to Shareholders dispatched together with the annual report. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

INVESTOR RELATIONS

During the year ended 30 June 2013, there had been no change in the Company's constitutional documents. An up-to-date consolidated version of the Memorandum and Articles of Association of the Company is published on the websites of the Group and the Stock Exchange.

The Board of Directors presents its annual report together with the audited financial statements for the year ended 30 June 2013.

PRINCIPAL PLACE OF BUSINESS

China Modern Dairy Holdings Ltd is a company incorporated in the Cayman Islands and has its registered office at 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 PRC.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the production and sale of raw milk in the PRC.

The particulars of the subsidiaries are set out in note 36 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 30 June 2013 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 41 to 98.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 29 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the year ended 30 June 2013.

RESULTS AND RESERVES

The results of the Group for the year ended 30 June 2013 are set out in the consolidated statement of comprehensive income on page 43 of the annual report. The movements in reserves are in the consolidated statement of changes in equity on page 46 of the annual report.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2013 (2012: Nil).

DISTRIBUTABLE RESERVES

In addition to the retained profits of the Company, the share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid in accordance with the Companies Law of the Cayman Islands.

As at 30 June 2013, the Company's distributable reserve was RMB 3,711.9 million (2012: 3,720.0 million).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 97 to 98 of the annual report.

PROPERTY, PLANT AND MACHINERY

Details of the movements in fixed assets of the Group are set out in note 17 to the financial statements.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 30 June 2013 are set out in note 26 and 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the Group's primary customer, Mengniu Group accounted for approximately 79.1% (2012: 96.4%) of the Group's total turnover for the year ended 30 June 2013. The Group's five largest customers contributed in aggregate 90.6% (2012: 98.4%) of the Group's total turnover for the year ended 30 June 2013.

During the year, the five largest suppliers of the Group in aggregate represented 15.0% (2012: 19.3%) of the Group's total purchases. Purchases from the largest supplier accounted for approximately 5.8% (2012: 5.1%) of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTION" and note 35 to the Financial Statement, none of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Ms. GAO Lina *(Deputy Chairman & Chief Executive Officer)*
Mr. HAN Chunlin *(Chief Operation Officer)*
Mr. DENG Jiuqiang *(ceased to be Chairman on 17 September 2012 and resigned as executive Director on 26 Feb 2013))*
Mr. SUN Yugang *(Chief Financial Officer) (appointed as executive Director on 28 June 2013)*

Non-executive Directors

Mr. YU Xubo *(Chairman, appointed as Chairman and non-executive Director on 28 June 2013)*
Mr. WOLHARDT Julian Juul *(Chairman, appointed as Chairman on 17 September 2012 and ceased to be Chairman on 28 June 2013)*
Mr. HUI Chi Kin, Max
Mr. LEI Yongsheng
Mr. DING Sheng *(appointed as non-executive Director on 28 June 2013)*

Independent Non-executive Directors

Prof. LI Shengli
Mr. GUO Lianheng *(resigned as independent non-executive Director on 28 June 2013)*
Mr. LEE Kong Wai, Conway
Mr. LIU Fuchun *(appointed as independent non-executive Director on 28 June 2013)*
Mr. KANG Yan *(appointed as independent non-executive Director on 28 June 2013)*

In accordance with Article 17.18 of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

None of the Directors being proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The Company received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 16 to 19 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2013, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Ms. GAO Lina(1)	Interest in controlled corporation	218,157,733	4.53%
	Beneficial owner	32,156,516(2)	0.67%
Mr. HAN Chunlin	Beneficial owner	28,054,583(2)	0.58%
Mr. SUN Yugang	Beneficial owner	15,368,008(2)	0.32%

(1) Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd. ("Jinmu"). Ms. Gao is deemed to be interested in the 218,157,733 shares held by Jinmu under the SFO.

(2) These represent interest in underlying shares of the management options (the "Management Options") and share options granted by the Company, details of which are set out in the section "Management Options" and "Share Option Scheme" below.

Saved as disclosed above, as at 30 June 2013, none of the Directors and the chief executives of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and the related party transactions are set out on pages 91 to 92 of this annual report respectively. Save for the above, no other contract of significance to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year ended 30 June 2013 or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year.

MANAGEMENT OPTIONS

The Company granted the management options on 31 October 2010 to Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang. The following share options were outstanding during the year:

		Number of underlying shares which may be issued pursuant to the management option				
Name of grantee	**Date of grant**	**As at 1 July 2012**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 30 June 2013**
Ms. GAO Lina	31 October 2010	29,276,916	—	—	—	29,276,916
Mr. HAN Chunlin	31 October 2010	29,276,916	—	(3,123,000)	—	26,153,916
Mr. SUN Yugang	31 October 2010	28,858,675	—	(15,412,733)	—	13,445,942
		87,412,507	—	(18,535,733)	—	68,876,774

These options are exercisable during the period commencing from the Listing Date 26 November 2010 until 10 years from the date of offer.

As at 30 June 2013, the number of shares to be issued upon the exercise of the outstanding options is 68,876,774 shares, representing 1.43% of the issued share capital of the Company as at that date.

SHARE OPTION SCHEME

The Company unconditionally adopted a share option scheme (the "Share Option Scheme") on 17 November 2011, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme

The Share Option Scheme seeks to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(b) Qualified Participants

The Board may at its discretion grant options to: any executive director, or employee (whether full time or part time) of the Company, any Subsidiary or any Invested Entity. The basis of eligibility of any Qualified Participants to the grant of the Options shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

(c) Maximum number of shares available for issue under the Share Option Scheme

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not exceed 40,000,000 as approved by shareholders at 2011 AGM. As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 36,109,985 shares, representing approximately 0.75% of the total number of shares in issue of the Company.

(d) Maximum entitlement of each Qualified Participant under the Share Option Scheme

Unless approved by the shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may not grant options to any Qualified Participants if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total number of shares in issue of the Company at the time.

(e) Timing for exercise of options

In respect of an Option, the option period shall be notified by the Board to each Grantee, which the Board may in its absolute discretion determine, save that such period must expire not more than 3 years from the Offer Date.

The vested Options must be exercised within 5 years on the day when they become vested and after such period the vested Options will automatically lapse.

(f) Performance targets and vesting of option

Once the Options are granted to the relevant Qualified Participant (the "Granted Options"), the Granted Options will be deemed to be divided into three tranches, each of which will consist of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). Such Performance Target will be determined at the Board's discretion and specified in the offer letter when the Options are granted. The financial period for the first tranche will be the financial year of the Company in which the Options are first granted to the relevant Qualified Participant (the "First year"), the financial period for the second tranche will be the financial year of the Company immediately following the First Year (the "Second Year") and the financial period for the third tranche will be the financial year of the Company immediately following the Second Year (the "Third Year"). The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.

(g) Payment for acceptance of option

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as a consideration for the grant.

(h) Basis of determining the exercise price

The exercise price shall be a price determined by the Board but in any event shall not be lower than the highest of: (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Participant (the "Offer Date"); (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; (iii) the nominal value of the shares; and (iv) the initial public offer price of the Shares.

(i) Period of the Share Option Scheme

Subject to earlier termination by the Company at a general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of three years from 17 November 2011.

The following share options were outstanding under the Share Option during the year:

Name or category of participant	As at 1 July 2012	Granted during the year	Exercised during the year	Cancelled and lapsed during the year	As at 30 June 2013	Option period
	Number of shares which may be issued pursuant to the share options scheme					
Directors						
Ms. GAO Lina	—	3,000,000	—	(120,400)	2,879,600	12.12.2012-30.6.2020
Mr. HAN Chunlin	—	2,000,000	—	(99,333)	1,900,667	12.12.2012-30.6.2020
Mr. SUN Yugang	—	2,000,000	—	(77,934)	1,922,066	12.12.2012-30.6.2020
Subtotal	—	7,000,000	—	(297,667)	6,702,333	
Other employees						
In aggregate	—	33,000,000	—	(3,592,348)	29,407,652	12.12.2012-30.6.2020
Total	—	40,000,000	—	(3,890,015)	36,109,985	

Notes:

1) All the share option were granted on 12 December 2012 and the exercise price is HK$2.89.

2) the share options granted to each Grantee (the "Granted Options") are deemed to be divided into three tranches, each of which consists of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). The Performance Target has been determined by the Board and specified in the offer letter to each Grantee. The financial period for the first tranche will be the financial year ending 30 June 2013; the financial period for the second tranche will be the financial year ending 30 June 2014; and the financial period for the third tranche will be the financial year ending 30 June 2015. The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.

3) The Granted Options accrued in accordance with the above paragraph shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 30 June 2015. Any Granted Options not accrued as a result of non-fulfillment of any Performance Target shall automatically lapse.

4) The share options represent personal interest held by the relevant Directors as beneficial owners.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the section headed "Management Option" and "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to have any right to subscribe for securities of the Company or any or its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporate.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2013, the interests or short positions of substantial Shareholders, other than the Directors or the chief executive of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
China Mengniu Dairy Company Ltd	Beneficial interest	1,347,903,000	27.97%
Yinmu Holdings Co Ltd.	Beneficial interest	739,559,117	15.35%
Xinmu Holdings Co Ltd.	Beneficial interest	711,021,025	14.76%

Note:

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company or as recorded in the register required to be maintained under Section 336 of the SFO as at 30 June 2013.

CONTINUING CONNECTED TRANSACTION

I FRAMEWORK SUPPLY AGREEMENT

On 8 June 2012, Modern Farming (Group) Co, Ltd., ("Modern Farm") a non-wholly owned subsidiary of the Company, has entered into the Framework Supply Agreement with Qiushi Grass Industry Co. Ltd. ("Qiushi") in relation to the supply of Forage Grass to the Modern Farm's Group. For a term commencing from 8 June 2012 to 30 November 2012, sales and supply of Forage Grass by the Qiushi Grass Industry Co. Ltd. and its subsidiaries to the Buyer Group in an aggregate amount of RMB50,000,000. Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng Yuan, the child of Mr. Deng Jiuqiang, a former executive Director and former Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi.

II NEW FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI

Given the supply from Qiushi Grass Industry Co. Ltd. ("Qiushi") from June 2012 has been stable and proven to meet the requirements of the Group, the Company intends to purchase a larger amount of Forage Grass from Qiushi for a longer period of time. The Board announces that Modern Farming (Group) Co., Ltd. ("Modern Farming") entered into the New Framework Supply Agreement with Qiushi on October 10, 2012 with the intention of replacing and substituting the Framework Supply Agreement.

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng Yuan, the child of Mr. Deng Jiuqiang, a former executive Director and former Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi.

The principal terms of the New Framework Supply Agreement are as follows:

Date:	October 10, 2012
Parties	(i) Modern Farm as the Buyer; and (ii) Qiushi as the Seller.
Duration:	For a term commencing from 30 November 2012 to June 30, 2015.
Nature of Transaction:	Sales and supply of Forage Grass by the Seller Group to the Buyer Group.
Caps:	The maximum aggregate purchase amount for each of the financial year ending 30 June 2013, 2014 and 2015 shall not exceed RMB357,800,000, RMB486,060,000 and RMB535,840,000.
Pricing:	(i) For alfafa and oat grass, the unit price = (base price + adjusted price) x 90%; and (ii) For silage corn and wheat straw, the unit price = (base price + adjusted price).

Details of the New Framework Supply Agreement have been disclosed in the Company's announcement dated 10 October 2012.

The aggregate purchase amount pursuant to the New Framework Supply Agreement during the year amounted to approximately RMB150,580,000.

III OFF-TAKE AGREEMENT

The Company started to sell raw milk to Mengniu in 2006, and in October 24, 2008 following arm's length negotiations, Modern Farming entered into the Off-Take Agreement with) Inner Mongolia Mengniu Dairy (Group) Company Limited ("Mengniu (Inner Mongolia)"), pursuant to which the Company shall supply raw milk to Mengniu (Inner Mongolia).

Date:	October 24, 2008
Parties:	(i) Modern Farm, a non-wholly owned subsidiary of the Company (ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Nature of the Transaction:	Modern Farm shall supply raw milk to Mengniu (Inner Mongolia).
Committed Purchase:	Both parties shall start to discuss estimates of annual supply three months prior to the beginning of each calendar year. Should the parties fail to reach an agreed amount, Modern Farming shall be entitled to require Mengniu (Inner Mongolia) to purchase, subject to certain limitations, all of its raw milk production in the upcoming calendar year.
Right to sell to other parties:	Modern Farming may sell up to 30% of its raw milk produced daily at each dairy farm to third parties at its discretion, except to two of Mengniu's competitors. Other than the aforesaid, the Off-Take Agreement contains no other restrictions on Modern Farming's sales of raw milk to third parties or development of its own dairy products.

Pricing:	The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustment for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if the Modern Farming's farms are within an agreed proximity to Mengniu Group's dairy processing plants. The base price is based on the price which Mengniu Group at the relevant time offers to buy raw milk from other mid- to large-scale dairy farms (which can offer raw milk of comparable quality) or, if there are no such mid- to large-scale dairy farms in such region, other comparable dairy farms in nearby regions with adjustments (reflecting the prices in different regions). The base price and upward adjustment payable by Mengniu Group under the Off-Take Agreement shall not be lower than the base price and upward adjustment it pays respectively to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases). Mengniu (Inner Mongolia) also grants Modern Farming an option to sell to Mengniu (Inner Mongolia) the same amount of raw milk at the same terms and prices Mengniu (Inner Mongolia) offers to any third party suppliers.
Term:	The Off-Take Agreement shall be for an term of 10 years commencing from October 24, 2008 and will be automatically extend for another 10 years upon expiry in the absence of any force majeure or events of default.

Details of The Off-Take Agreement have been disclosed in the Company's announcement dated 23 May 2013.

The aggregate sales amount pursuant to the Off-take Agreement during the period from 22 May 2013 to 30 June 2013 amounted to approximately RMB 237,479,000.

IV PROCESSING AGREEMENT

On April 25, 2013, Modern Farming (Feidong) Co., Ltd ("Feidong Modern Farm") and Mengniu (Inner Mongolia) entered into the Processing Agreement, pursuant to which Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its "Mengniu" liquid milk products.

Date:	April 25, 2013
Parties:	(i) Feidong Modern Farm , an indirect non-wholly owned subsidiary of the Company (ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Subject Matter :	Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its "Mengniu" liquid milk products.
Term:	From April 25, 2013 to December 31, 2013

Details of the Processing Agreement have been disclosed in the Company's announcement dated 23 May 2013.

The aggregate amount pursuant to the Processing Agreement during the period from 22 May 2013 to 30 June 2013 amounted to approximately RMB 1,169,000.

On 21 May 2013, the shareholding interest of Mengniu in the Company increased to 10% or more, meaning that Mengniu became a substantial shareholder the Company, and thus a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from 21 May 2013. As Mengniu (Inner Mongolia) is a non-wholly owned subsidiary of Mengniu, it also became a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from 21 May 2013. As a result, the transactions contemplated under the Off-Take Agreement and the Processing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules with effect from 21 May 2013.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions regarding the purchase of Forage grass from Qiushi, the sales of raw milk to Mengniu (Inner Mongolia) and the process of "Mengniu" liquid milk products have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or on terms no less favourable than terms available from independent third parties; and

3. in accordance with the relevant agreements governing them and on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has engaged the auditors of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Save as disclosed above, there are no other transactions of the Company which require disclosure in the annual report in accordance with the Listing Rules.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information of the Directors are as follows:

In responses to the Group's performance and the market condition, the Board has resolved to increase the remuneration of the independent non-executive Directors. The annual remuneration of each independent non-executive Directors would be increased from RMB100,000 to RMB200,000 with effect from 1 July 2013.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws in the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing Shareholders.

POST BALANCE SHEET EVENTS

There is no significant event subsequent to the balance sheet date as at 30 June 2013.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

Deloitte Touche Tohmatsu has retired and, is eligible to, offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board
Yu Xubo
Chairman

Hong Kong, 27 August 2013

Deloitte.
德勤

TO THE MEMBERS OF CHINA MODERN DAIRY HOLDINGS LTD.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 96, which comprise the consolidated statement of financial position as at 30 June 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 August 2013

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

	Notes	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Sales of milk produced	5	2,480,561	1,677,615
(Loss)/gain arising from changes in fair value less costs to sell of dairy cows	21	(38,599)	131,481
Other income	6	106,343	116,551
Farm operating expenses	7	(1,655,803)	(1,148,697)
Employee benefits expense	8	(170,847)	(127,989)
Depreciation		(135,472)	(94,798)
Share of profit of an associate	20	3,371	1,983
Net foreign exchange gain/(loss)		9,127	(4,335)
Other gains and losses	9	(2,400)	(1,052)
Other expenses		(92,555)	(71,985)
Profit before finance costs and tax	10	503,726	478,774
Finance costs	11	(153,679)	(71,323)
Profit before tax		350,047	407,451
Income tax expense	12	(8,051)	(143)
Profit and total comprehensive income for the year		341,996	407,308
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		323,832	398,482
Non-controlling interests		18,164	8,826
		341,996	407,308
Earnings per share (RMB)	16		
Basic		6.74 cents	8.30 cents
Diluted		6.67 cents	8.22 cents

Consolidated Statement of Financial Position

At 30 June 2013

	Notes	30/6/2013 RMB'000	30/6/2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	3,772,270	2,964,585
Land use rights	18	67,098	67,577
Goodwill	19	310,426	310,426
Interest in an associate	20	26,594	15,483
Long-term prepaid rentals		—	65
Deposit for acquisition of biological assets		—	9,024
Biological assets	21	5,465,008	4,185,600
		9,641,396	7,552,760
CURRENT ASSETS			
Inventories	22	342,140	263,882
Trade and other receivables	23	357,683	181,037
Land use rights	18	1,667	1,696
Pledged bank balances	24	442,747	134,162
Cash and bank balances	24	378,030	518,277
		1,522,267	1,099,054
CURRENT LIABILITIES			
Trade and other payables	25	1,190,785	821,230
Amount due to an associate	35(b)	63,116	7,888
Tax payable		4,785	—
Borrowings - due within one year	26	1,330,959	664,217
Short-term debenture	27	700,000	—
Deferred income	28	9,750	7,764
		3,299,395	1,501,099
NET CURRENT LIABILITIES		(1,777,128)	(402,045)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,864,268	7,150,715

	Notes	30/6/2013 RMB'000	30/6/2012 RMB'000
CAPITAL AND RESERVES			
Share capital	29	414,564	413,075
Share premium and reserves		4,992,220	4,653,415
Equity attributable to owners of the Company		5,406,784	5,066,490
Non-controlling interests		101,940	66,226
		5,508,724	5,132,716
NON-CURRENT LIABILITIES			
Borrowings - due after one year	26	2,248,082	1,926,572
Deferred income	28	107,462	91,427
		2,355,544	2,017,999
		7,864,268	7,150,715

The consolidated financial statements on pages 43 to 96 were approved and authorised for issue by the board of directors on 27 August 2013 and are signed on its behalf by:

GAO Lina	**HAN Chunlin**
Director	Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 July 2011	413,075	2,390,483	1,585,752	9,072	269,626	4,668,008	54,700	4,722,708
Profit and total comprehensive income for the year	—	—	—	—	398,482	398,482	8,826	407,308
Contributions from non-controlling interests	—	—	—	—	—	—	2,700	2,700
Balance at 30 June 2012	413,075	2,390,483	1,585,752	9,072	668,108	5,066,490	66,226	5,132,716
Profit and total comprehensive income for the year	—	—	—	—	323,832	323,832	18,164	341,996
Contributions from non-controlling interests	—	—	—	—	—	—	17,550	17,550
Recognition of equity-settled share-based payment (Note 30(a))	—	—	—	3,650	—	3,650	—	3,650
Exercise of share options (Note 30(b))	1,489	13,247	—	(1,924)	—	12,812	—	12,812
Balance at 30 June 2013	414,564	2,403,730	1,585,752	10,798	991,940	5,406,784	101,940	5,508,724

Notes: Other reserve balance at 1 July 2011 represented the contribution from the owners of the Company for the operation of the Group.

Consolidated Statement of Cash Flows

For the year ended 30 June 2013

	Notes	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
OPERATING ACTIVITIES			
Profit before tax		350,047	407,451
Adjustments for:			
Depreciation of property, plant and equipment		135,472	94,798
Release of land use rights and long-term prepaid rental		1,715	1,619
Bank interest income	6	(10,044)	(15,360)
Government grant credited to income	6	(8,645)	(5,391)
Finance costs	11	153,679	71,323
Share of profit of an associate	20	(3,371)	(1,983)
Payables written off	6	(724)	(688)
Loss on disposal of property, plant and equipment	9	2,400	1,052
Expense recognized in respect of equity-settled share-based payments	30(a)	3,650	—
Loss/(gain) arising from changes in fair value less costs to sell of dairy cows	21	38,599	(131,481)
Operating cash flows before movements in working capital		662,778	421,340
Increase in inventories		(78,258)	(51,163)
Increase in trade and other receivables		(172,977)	(45,597)
Decrease in non-current other payable		—	(100,000)
Increase in trade and other payables		257,288	317,966
Cash generated from operations		668,831	542,546
Income taxes paid		(3,266)	(143)
NET CASH GENERATED FROM OPERATING ACTIVITIES		665,565	542,403
INVESTING ACTIVITIES			
Interest received		7,596	16,699
Purchases of property, plant and equipment		(853,747)	(842,146)
Addition in biological assets		(1,415,648)	(1,409,600)
Addition in pledged bank balances		(442,747)	(134,162)
Release of pledged bank balances		134,162	287,119
Purchases of land use rights		(1,142)	(6,524)
Proceeds on disposal of property, plant and equipment		282	193
Proceeds on disposal of dairy cows		235,147	88,921
Investment in an associate		(7,740)	(13,500)
Government grants received	28	26,666	26,102
NET CASH USED IN INVESTING ACTIVITIES		(2,317,171)	(1,986,898)

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
FINANCING ACTIVITIES		
Interest paid	(198,316)	(128,061)
New borrowings raised	2,149,361	1,865,046
Repayment of borrowings	(1,161,109)	(797,191)
Proceeds from issue of short-term debenture	700,000	—
Transaction costs attributable to issue of short-term debenture	(2,800)	—
Proceeds from issue of shares upon exercise of share options	12,812	—
Transaction costs attributable to issue of new shares	(6,139)	(1,413)
Contribution from non-controlling interests	17,550	2,700
NET CASH GENERATED FROM FINANCING ACTIVITIES	1,511,359	941,081
DECREASE IN CASH AND CASH EQUIVALENTS	(140,247)	(503,414)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	518,277	1,021,691
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by cash and bank balances	378,030	518,277

1. GENERAL INFORMATION AND BASIS OF PREPARATION

China Modern Dairy Holdings Ltd. (the "Company") is a public limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands. The principal place of business of the Company is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in production and sales of milk. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

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

Basis of preparation

In preparing the consolidated financial statements for the year ended 30 June 2013, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB1,777,128,000 as at 30 June 2013 (30 June 2012: RMB402,045,000). Having considered the secured credit facilities of approximately RMB2,216,902,000 which remains unutilised as at 30 June 2013, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied all the amendments to standards ("new and revised IFRSs") issued by the International Accounting Standards Board, which are mandatorily effective for the Group's financial year beginning 1 July 2012.

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

Amendments to IAS 1: Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments have been applied retrospectively, and hence the title of consolidated statement of comprehensive income is changed to consolidated statement of profit or loss and other comprehensive income.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transaction Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[3]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (Revised 2011)	Separate Financial Statements[1]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[3]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[3]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]
IFRIC 21	Levies[3]

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

2 Effective for annual periods beginning on or after 1 January 2015.

3 Effective for annual periods beginning on or after 1 January 2014.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that IFRS 13 will be adopted by the Group for the annual period beginning on 1 July 2013 and that the application of the new standard will result in application of the new fair value measurements on its biological assets and more extensive disclosures in the consolidated financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised 2011) and IAS 28 (Revised 2011).

Key requirements of these five standards that are relevant to the Group are described below.

IFRS 10 replaces the parts of IAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and SIC 12 "Consolidation - Special Purpose Entities". 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) the 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.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company considered the application of these five standards will have no material impact on the results and financial position of the Group but will result in more extensive disclosure.

The directors of the Company anticipate that the application of other new and revised standards, amendments to standards and interpretations will have no material impact on the consolidated financial statements of the Group upon initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under the historical cost basis except for the biological assets, which are measured at fair value less costs to sell, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of that associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not relate to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of milk produced is recognised when the milk is delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases payments are recognised as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses, if any, are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the functional currency, i.e. RMB).

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

Other grants

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Share-based payment transactions

Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

Biological assets

Dairy cows

Dairy cows, including milkable cows, heifers and calves are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows is determined based on its present location and condition and is determined independently by professional valuer.

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the far value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 to 120 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed do not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including borrowings, trade and other payables and amount due to an associate are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in Note 21.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2013, the carrying amount of goodwill are RMB310,426,000 (30 June 2012: RMB310,426,000). Details of the recoverable amount calculation are disclosed in Note 19.

5. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced include sales of raw milk, which represented mainly the fair value of milk produced at the point of harvest and sales of processed milk, which is measured at the fair value of the consideration received or receivable.

Included in the sales of milk produced:

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Sales of raw milk	2,307,227	1,647,652
Sales of processed milk	173,334	29,963
	2,480,561	1,677,615

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 constitutes one operating and reportable segment i.e. production and sales of milk produced in the PRC.

For the purpose of resources allocation and assessment of performance, the Chairman reviewed the profit before tax, assets and liabilities of the Group as a whole. The information reported to the Chairman for the purpose of resources allocation and assessment of performance is same as the amounts reported under IFRSs.

All external sales of milk produced by the Group during the year were sold to customers in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in the PRC by physical location of assets.

Sales of milk produced of RMB1,962,159,000 (2012: RMB1,616,494,000) is to the Mengniu Group (defined in Note 35).

6. OTHER INCOME

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Government grant related to		
– Biological assets (Note i)	74,089	90,017
– Income (Note ii)	9,698	4,595
– Other assets (Note 28)	8,645	5,391
Bank interest income	10,044	15,360
Write-off of payables	724	688
Others	3,143	500
	106,343	116,551

Notes:

i. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of supporting the Group to purchase dairy cows.

ii. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

7. FARM OPERATING EXPENSES

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Feeds	1,386,506	1,013,933
Utilities	56,609	39,258
Other farm operating expenses	212,688	95,506
Total farm operating expenses	1,655,803	1,148,697

8. EMPLOYEE BENEFITS EXPENSE

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Salaries, bonuses and allowances	148,007	115,290
Contributions to retirement benefit schemes	19,190	12,699
Equity-settled share-based payments	3,650	—
	170,847	127,989

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The Group also participates a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000 in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The cost charged to the profit or loss represented contribution payable to the MPF Scheme by the Group at the rates specified in the rules of the MPF Scheme.

9. OTHER GAINS AND LOSSES

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Loss on disposal of property, plant and equipment	2,400	1,052

10. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Auditors' remuneration	2,881	2,956
Release of land use rights	1,650	1,554

11. FINANCE COSTS

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	200,715	122,948
Bank borrowings wholly repayable after five years	—	6,351
Other borrowings wholly repayable within five years	2,392	49
Short-term debenture repayable within five years	9,121	—
Total borrowing cost	212,228	129,348
Less: Capitalised amount	(58,549)	(58,025)
	153,679	71,323

The borrowing cost was capitalised based on the terms of the specific bank borrowings and general bank borrowings in respect of construction in progress. The weighted average capitalisation rate on general borrowings is 5.98% per annum (2012: N/A).

12. INCOME TAX EXPENSE

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	8,051	143

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.

Since 2008, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises. In addition, qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

Dividend income of Acquitair (defined in note 36) from Modern Farm is subject to Irish Income Tax at 25%. As at 30 June 2013, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm for which deferred tax liabilities have not been recognised was RMB1,081,091,000 (30 June 2012: RMB732,865,000). 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.

12. INCOME TAX EXPENSE *(continued)*

According to the prevailing tax rules and regulation in the PRC, the entities of the Group which operates in agricultural business in the PRC are exempted from enterprise income tax and which are listed as below:

	Year ended 30 June 2013	Year ended 30 June 2012
Modern Farming (Group) Co., Ltd ("Modern Farm")	Exempted	Exempted
Helingeer Modern Farm Co., Ltd.	Exempted	Exempted
Zhangjiakou Saibei Modern Farm Co., Ltd.	Exempted	Exempted
Wenshang Modern Farm Co., Ltd.	Exempted	Exempted
Shangzhi Modern Farm Co., Ltd.	Exempted	Exempted
Hongya Modern Farm Co., Ltd.	Exempted	Exempted
Modern Farming (Chabei) Co., Ltd.	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd.	Exempted	Exempted
Modern Farm (Feidong) Co., Ltd.	Exempted	Exempted
Modern Farming (Tongshan) Co., Ltd.	Exempted	Exempted
Modern Farming (Tongliao) Co., Ltd.	Exempted	Exempted
Modern Farm (Chabei) Hengsheng Co., Ltd.	Exempted	Exempted
Modern Farm (Bengbu) Co., Ltd.	Exempted	Exempted

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong.

12. INCOME TAX EXPENSE *(continued)*

The tax expense for this year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Profit before tax	350,047	407,451
Tax at applicable income tax rate at 25%	87,512	101,863
Effect of tax exemption granted to agricultural entities	(79,461)	(101,720)
Income tax expense	8,051	143

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the directors' and the chief executive's emoluments are as follows:

	Year ended 30 June 2013					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Share-based payment RMB'000	Discretionary bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors						
Ms. Gao Lina	–	1,056	303	–	25	1,384
Mr. Han Chunlin	–	838	200	–	25	1,063
Mr. Sun Yugang(Note iii)	–	631	202	–	25	858
Mr. Deng Jiuqiang (Note ii)	–	848	–	–	25	873
Non-executive directors						
Mr. Yu Xubo(Note iii)	–	–	–	–	–	–
Mr. Wolhardt Julian Juul	–	–	–	–	–	–
Mr. Hui Chi Kin Max	–	–	–	–	–	–
Mr. Lei Yongsheng	–	–	–	–	–	–
Mr. Ding Sheng (Note iii)	–	–	–	–	–	–
Independent non-executive directors						
Professor Li Shengli	90	–	–	–	–	90
Mr. Guo Lianheng (Note iv)	90	–	–	–	–	90
Mr. Lee Kong Wai Conway	90	–	–	–	–	90
Mr. Liu Fuchun (Note iii)	–	–	–	–	–	–
Mr. Kang Yan (Note iii)	–	–	–	–	–	–
	270	3,373	705	–	100	4,448

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	Year ended 30 June 2012					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Share-based payment RMB'000	Discretionary bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors						
Ms. Gao Lina	—	1,005	—	25	—	1,030
Mr. Han Chunlin	—	771	—	25	—	796
Mr. Deng Jiuqiang	—	1,201	—	25	—	1,226
Non-executive directors						
Mr. Wolhardt Julian Juul	—	—	—	—	—	—
Mr. Hui Chi Kin Max	—	—	—	—	—	—
Mr. Lei Yongsheng	—	—	—	—	—	—
Independent non-executive directors						
Professor Li Shengli	73	—	—	—	—	73
Professor Guo Lianheng	73	—	—	—	—	73
Mr. Lee Kong Wai Conway	73	—	—	—	—	73
	219	2,977	—	75	—	3,271

Ms. Gao Lina, Mr. Han Chunlin and Mr. Sun Yugang are also chief executives of the Company and their emoluments disclosed above include those for services rendered by them as chief executives.

Notes:

i. No directors waived or agreed to waive any emoluments during this year (2012: nil).

ii. Pursuant to the Company's announcement dated 26 February 2013, Mr. Deng Jiuqiang, an executive director, has resigned from his office with effect from 26 February 2013.

iii. Pursuant to the Company's announcement dated 2 July 2013, Mr. Yu Xubo and Mr. Ding Sheng were appointed as non-executive directors, Mr. Liu Fuchun and Mr. Kang Yan were appointed as independent non-executive directors, and Mr. Sun Yugang was appointed as an executive director, all of which are with effect from 28 June 2013. The emoluments of Mr. Sun Yugang disclosed above include emoluments paid/payable to him for his services to the Group prior to his director appointment.

iv. Pursuant to the Company's announcement dated 2 July 2013, Mr. Guo Lianheng, an independent non-executive director, has resigned from his office with effect from 28 June 2013.

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, four (2012: three) are directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining one (2012: two) individual for the year are as follows:

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Salaries and allowances	607	1,043
Retirement benefits scheme contribution	12	34
	619	1,077

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2012: nil).

The emoluments of one (2012: two) individual is below HK$1,000,000 during this year.

15. DIVIDENDS

No dividends were paid, declared or proposed during both years. The directors of the Company do not recommend the payment of dividend for the year ended 30 June 2013.

16. EARNINGS PER SHARE

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

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	323,832	398,482
Number of Shares		
Weighted average of ordinary shares for the purpose of basic and diluted earnings per share	4,804,337,058	4,800,000,000
Effect of share options issued by the Company	52,101,067	48,960,380
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,856,438,125	4,848,960,380

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
Balance at 1 July 2011	1,649,507	24,825	397,571	343,750	2,415,653
Additions	—	3,684	60,165	865,192	929,041
Transfer	635,152	—	138,767	(773,919)	—
Disposals	(10)	(554)	(2,126)	—	(2,690)
Balance at 30 June 2012	2,284,649	27,955	594,377	435,023	3,342,004
Additions	—	4,390	91,397	978,101	1,073,888
Transfer	920,523	—	216,648	(1,137,171)	—
Disposals	(407)	(426)	(10,268)	—	(11,101)
Balance at 30 June 2013	3,204,765	31,919	892,154	275,953	4,404,791
ACCUMULATED DEPRECIATION					
Balance at 1 July 2011	(121,424)	(3,879)	(69,085)	—	(194,388)
Charge for the year	(120,196)	(3,088)	(61,192)	—	(184,476)
Eliminated on disposals	3	388	1,054	—	1,445
Balance at 30 June 2012	(241,617)	(6,579)	(129,223)	—	(377,419)
Charge for the year	(173,233)	(3,611)	(86,677)	—	(263,521)
Eliminated on disposals	77	402	7,940	—	8,419
Balance at 30 June 2013	(414,773)	(9,788)	(207,960)	—	(632,521)
CARRYING AMOUNT					
Balance at 30 June 2013	2,789,992	22,131	684,194	275,953	3,772,270
Balance at 30 June 2012	2,043,032	21,376	465,154	435,023	2,964,585

Certain of the Group's buildings and plant and equipment with an aggregate carrying amount of RMB61,482,000 (30 June 2012: RMB66,061,000) have been pledged as security for bank and other borrowings of the Group (Note 26).

As at 30 June 2013 the Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB2,727,130,000 (30 June 2012: RMB1,962,109,000).

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimated residual value, as follows:

Buildings	10 - 20 years
Motor vehicles	5 years
Plant and equipment	5 - 10 years

During the year ended 30 June 2013, depreciation charge amounting to RMB128,049,000 (2012: RMB89,678,000) have been capitalised in biological assets.

18. LAND USE RIGHTS

	RMB'000
Balance at 1 July 2011	64,303
Additions	6,524
Release to profit or loss	(1,554)
Balance at 30 June 2012	69,273
Additions	1,142
Release to profit or loss	(1,650)
Balance at 30 June 2013	68,765

	30/6/2013 RMB'000	30/6/2012 RMB'000
Analysed for reporting purpose as:		
– Current assets	1,667	1,696
– Non-current assets	67,098	67,577
	68,765	69,273

The amount represents the payment for land use rights situated in the PRC. The leasehold interests in land have lease terms ranging from 20 to 50 years.

As at 30 June 2013 land use rights with carrying amount of RMB10,287,000 (30 June 2012: RMB10,531,000) were pledged against certain bank for facilities granted to the Group (Note 26).

19. GOODWILL

	RMB'000
Cost	
Balance at 30 June 2012 and 30 June 2013	310,426

As explained in Note 5, the information reported to the Chairman for the purpose of resource allocation and assessment of performance is based on the overall operation of farms, which is the only operating segment reported internally. Accordingly, for the purposes of impairment testing, goodwill has been allocated to the single cash generating unit ("CGU").

As at the end of the reporting period, management of the Group determines that there is no impairment of its CGU containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of one year approved by management and discount rate of 12.02% (2012: 10.13%). Cash flows beyond the budgeted period are extrapolated using a 6.00% (2012: 6.00%) growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of its CGU.

20. INTEREST IN AN ASSOCIATE

	30/6/2013 RMB'000	30/6/2012 RMB'000
Cost of investment in an associate	21,240	13,500
Share of post-acquisition profits	5,354	1,983
	26,594	15,483

Details of the Group's interest in an associate are as follows.

Name of company	Place of establishment	Registered and paid-up capital		Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
		As at 30 June 2013	As at 30 June 2012	%	%	
Qiushi Grass Industry Co., Ltd. ("Qiushi")	The PRC	RMB118,000,000	RMB75,000,000	18	18	Planting and sale of forage grass

During the year ended 30 June 2012, the Group acquired 18% equity interest in Qiushi through a cash capital contribution of RMB13,500,000. Qiushi was established on 30 September 2011 as a limited liability company, and was formed by Ms. Deng Yuan and Mr. Qi Xiaohang who are family members of Mr. Deng Jiuqiang, an ex-executive director of the Company who has resigned from his office with effect from 26 February 2013 (Note 13), and Ms. Gao Lina, a director of the Company, and two independent third party individuals.

In November 2012, the Group increased its investment in Qiushi by RMB7,740,000 in proportion to other shareholders, and therefore, the equity interests in Qiushi held by the Group remained at 18%.

Although the Group holds less than 20% of the equity interest of Qiushi, and it has less than 20% of voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint one out of three directors to the board of directors of Qiushi.

20. INTEREST IN AN ASSOCIATE *(continued)*

The summarised financial information in respect of the associate:

	30/6/2013 RMB'000	30/6/2012 RMB'000
Total assets	347,489	173,195
Total liabilities	(199,744)	(87,176)
Net assets	147,745	86,019
Group's share of net assets of associate	26,594	15,483

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Revenue	152,512	27,892
Profit and other comprehensive income for the year	18,726	11,018
Group's share of profit and other comprehensive income of associate for the year	3,371	1,983

21. BIOLOGICAL ASSETS

A - Nature of Activities

The entities comprising the Group are mainly milk production companies that principally engaged in production and sales of milk. Dairy cows are primarily held to produce milk.

The quantity of dairy cows owned by the Group at end of the reporting period is shown below. The Group's dairy cows are primarily milkable cows held for milk production. Heifers and calves are those dairy cows that have not reached the age that can produce milk.

	30/6/2013 head	30/6/2012 head
Dairy cows		
Milkable cows	86,710	70,793
Heifers and calves	91,211	88,554
Total dairy cows	177,921	159,347

	Year ended 30 June 2013 KG	Year ended 30 June 2012 KG
Volume of sales of milk produced	567,021,016	431,394,195

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately nine month pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 340 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

21. BIOLOGICAL ASSETS *(continued)*

B - Value of Dairy Cows

The fair value less costs to sell of dairy cows at end of reporting period was:

	30/6/2013 RMB'000	30/6/2012 RMB'000
Dairy cows	5,465,008	4,185,600

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance at 1 July 2011	1,189,023	1,462,384	2,651,407
Increases due to purchase	600,097	44,072	644,169
Increase due to raising (feeding cost and others)	847,464	—	847,464
Transfer	(1,061,792)	1,061,792	—
Decrease due to sales	(15,150)	(73,771)	(88,921)
Gains/(loss) arising from changes in fair value less costs to sell	418,258	(286,777)	131,481
Balance at 30 June 2012	1,977,900	2,207,700	4,185,600
Increases due to purchase	233,096	7,947	241,043
Increase due to raising (feeding cost and others)	1,311,678	—	1,311,678
Transfer	(1,628,225)	1,628,225	—
Decrease due to sales	(26,903)	(207,811)	(234,714)
Gains/(loss) arising from changes in fair value less costs to sell	499,754	(538,353)	(38,599)
Balance at 30 June 2013	2,367,300	3,097,708	5,465,008

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal And Advisory Limited ("JLL"), a firm of independent qualified professional valuers, who has appropriate qualifications and recent experiences in valuation of biological assets. The fair value less costs to sell of the heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less cost to sell of these items.

21. BIOLOGICAL ASSETS *(continued)*

B - Value of Dairy Cows *(continued)*

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 10%, 15%, 25%, 35%, 60% and 100% (2012: 8%, 12%, 20%, 25%, 70%, 100%) for milkable cows in the first to the sixth lactation cycles. These rates are based on the current available breeding data of the Group and future operating plans.
- The quantities of cows will increase as calves are born.
- The expected average prices of milk during the projected period of six lactations are estimated after taking into account certain percentage growth, future demand and inflation in the PRC for each projected year;
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture;
- Costs are average costs based on historical cost information.
- The discount rate used is 12.02% at 30 June 2013 (30 June 2012: 10.13%).

As at 30 June 2013, the Group has pledged dairy cows with carrying amount of RMB4,014,172,000 (30 June 2012: RMB2,372,822,000) to banks to secure the general banking facilities granted to the Group (Note 26).

The aggregate gain or loss arising during the year ended 30 June 2013 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analysed as follows:

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Fair value of milk produced less costs to sell	2,444,610	1,650,486
(Loss)/gain arising from changes in fair value less costs to sell of dairy cows	(38,599)	131,481
	2,406,011	1,781,967

22. INVENTORIES

	30/6/2013 RMB'000	30/6/2012 RMB'000
Feeds	295,137	235,184
Others	47,003	28,698
	342,140	263,882

23. TRADE AND OTHER RECEIVABLES

The Group allows credit period of 60 to 120 days to its trade customers (30 June 2012: 60 days).

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

	30/6/2013 RMB'000	30/6/2012 RMB'000
Trade receivables		
– within 120 days based on invoice date	273,250	138,652
Advances to suppliers	76,952	35,844
Others	7,481	6,541
	357,683	181,037

Trade receivables at the end of the reporting period principally represent receivables from sales of milk and processed milk.

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables were RMB110,000,000 as at 30 June 2013 (30 June 2012: nil) pledged to a bank to secure the bank borrowings granted to the Group (Note 26).

24. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

Pledged bank balances

The pledged bank balances as at 30 June 2013 represent deposits pledged for short-term bank borrowings. The pledged bank balances carry interest at prevailing market saving rates ranging from 0.35% to 4.10% (30 June 2012: 3.10%) per annum.

Cash and bank balances

Cash and bank balances comprise cash and short-term deposits with an original maturity of three months or less which are held with banks and carry interest at prevailing market saving rates ranging from 0.35% to 3.25% (30 June 2012: 0.44% to 3.50%) per annum at 30 June 2013.

Cash and bank balances at 30 June 2013 were denominated in United States Dollar ("US$"), Euro ("EUR"), Hong Kong Dollar ("HK$") and RMB. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Certain pledged bank balances, cash and bank balances that are denominated in currencies other than the functional currency of the relevant entities are set out below:

	30/6/2013 RMB'000	30/6/2012 RMB'000
US$	78,774	5,482
EUR	350	372
HK$	11,191	574

25. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 60 days. The following is an aged analysis of trade and bills payables at the end of the reporting period:

	30/6/2013 RMB'000	30/6/2012 RMB'000
Trade and bills payables		
Within 60 days based on invoice date	493,106	345,278
Over 60 days based on invoice date	93,155	37,312
	586,261	382,590
Payable for acquisition of property, plant and equipment	429,330	267,738
Accrued staff costs	31,767	31,606
Advance payment from customers	94,246	103,770
Interest payable	14,311	1,978
Payable for transaction cost	—	6,139
Others	34,870	27,409
	604,524	438,640
	1,190,785	821,230

26. BORROWINGS

	30/6/2013 RMB'000	30/6/2012 RMB'000
Bank borrowings	3,528,349	2,589,982
Other borrowings (Note i)	50,692	807
	3,579,041	2,590,789
Unsecured borrowings	1,387,044	1,080,459
Secured borrowings (Note ii)	2,105,707	1,440,330
Guaranteed borrowings (Note iii)	86,290	70,000
	3,579,041	2,590,789
Carrying amount repayable:		
Within one year	1,330,959	664,217
Between one to two years	1,035,927	643,442
Between two to five years	1,212,155	1,180,200
Over five years	—	102,930
	3,579,041	2,590,789
Less: Amounts due within one year shown under current liabilities	(1,330,959)	(664,217)
	2,248,082	1,926,572

The bank and other borrowings comprise:

	30/6/2013 RMB'000	30/6/2012 RMB'000
Fixed-rate borrowings	809,939	297,378
Variable-rate borrowings	2,770,002	2,293,411
	3,579,041	2,590,789

26. BORROWINGS *(continued)*

The effective interest rates, which are also equal to contracted interest rates, per annum at the end of the reporting period, are as follows:

	Year ended 30 June 2013	Year ended 30 June 2012
Fixed-rate borrowings	**2.00%-6.90%**	2.47%-6.56%
Variable-rate borrowings	**2.15%-7.05%**	2.45%-7.05%

As at 30 June 2013, bank and other borrowings denominated in RMB, US$ and HK$ are approximately RMB3,198,942,000 (30 June 2012: RMB2,381,137,000), RMB380,099,000 (30 June 2012: 163,310,000) and nil (30 June 2012: 46,342,000) respectively. Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China and the London Interbank Offered Rate.

(i) Included in the amount is a borrowing of RMB50,000,000 from AVIC Trust Co., Ltd, with maturity of one year. The loan bears a fixed effective interest rate of 6.00% per annum.

(ii) The loans were secured by

1) certain property, plant and equipment, land use rights, dairy cows, trade receivables and bank deposits owned by the Group as set out in Notes 17, 18, 21, 23 and 24, respectively; and

2) 100% equity interest in Zhangjiakou Saibei Modern Farm Co., Ltd. and Shangzhi Modern Farm Co., Ltd.

(iii) The balances were guaranteed by the Company's subsidiaries.

27. SHORT-TERM DEBENTURE

	30/6/2013 RMB'000	30/6/2012 RMB'000
Short term debenture – unsecured (Note)	**700,000**	—

Note: On 27 March 2013, the Company issued short-term debenture with a principal amount of RMB700,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of one year. The short term debenture bears a fixed interest rate of 4.99% per annum and its effective interest rate is 5.41% per annum after considering the effect of issue costs.

28. DEFERRED INCOME

	Arising from government grants RMB'000
Balance at 1 July 2011	78,480
Addition	26,102
Released to income	(5,391)
Balance at 30 June 2012	99,191
Addition	26,666
Released to income	(8,645)
Balance at 30 June 2013	117,212

	30/6/2013 RMB'000	30/6/2012 RMB'000
Analysed for reporting purpose as:		
– Current portion	9,750	7,764
– Non-current portion	107,462	91,427
	117,212	99,191

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment. Government grant is included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a systematic basis over the useful lives of the related assets.

29. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
At 1 July 2011 and 30 June 2012	4,800,000	480,000
Issue of ordinary shares by way of exercise of share options (Note 30(b))	18,536	1,854
At 30 June 2013	4,818,536	481,854

	30/6/2013 RMB'000	30/6/2012 RMB'000
Presented as	414,564	413,075

As set out in the Company's announcement dated 8 May 2013, the Company was informed by Advanced Dairy Company Limited ("Advanced Dairy") and Crystal Dairy Holdings (CDH) Limited ("CDH") that they have each entered into a sale and purchase agreement with China Mengniu Dairy Company Limited ("Mengniu Company") on 7 May 2013 pursuant to which Mengniu Company agreed to purchase, and each of Advanced Dairy and CDH agreed to sell, 984,000,000 and 312,000,000 ordinary shares of the Company (together, the "Sale Shares"), representing approximately 20.40% and 6.50% of the total issued shares of the Company on 8 May 2013, respectively. The consideration for each of the Sale Shares is HK$2.45.

The Company was informed by Advanced Dairy and CDH that simultaneous completion of the Sale Shares (the "Completion") took place on 22 May 2013. Upon the Completion, Mengniu Company held 1,347,903,000 ordinary shares, representing approximately 27.99% of the ordinary shares in issue of the Company on 22 May 2013.

30. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Company's Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 17 November 2011 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Rules Governing the Listing of Securities on the Stock Exchange, the board of directors of the Company (the "Board") shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

On 12 December 2012, the Company announced that a total of 40,000,000 share options (the "Share Options") to subscribe for shares of HK$0.10 each in the capital of the Company (the "Shares") were granted by the Company to two directors and 128 eligible employees of the Company (collectively, the "Grantees"), subject to acceptance of the Grantees, under the Company's share option scheme adopted by the Company on 17 November 2011.

The Share Options shall entitle the Grantees to subscribe for an aggregate of 40,000,000 new shares upon the exercise of the Share Options in full at an exercise price of HK$2.89 per share. Out of the aggregate of 40,000,000 Share Options, 3,000,000 and 2,000,000 Share Options were granted to Ms. Gao Lina and Mr. Han Chunlin, directors of the Company, respectively. 2,000,000 Share Options were granted to Mr. Sun Yugang, who was appointed as a director of the Company with effect on 28 June 2013.

Pursuant to the rules of the Share Option Scheme, the Share Options granted to each of the Grantees (the "Granted Options") are deemed to be divided into three tranches, each of which consists of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). The non-market based Performance Target has been determined by the Board and specified in the offer letter to each of the Grantees. The financial period for the first tranche is the financial year ended 30 June 2013; the financial period for the second tranche will be the financial year ending 30 June 2014; and the financial period for the third tranche will be the financial year ending 30 June 2015. Each tranche of the Granted Options after meeting the respective Target Performance shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 30 June 2015. Any of the Granted Options not vested as a result of non-fulfillment of the Performance Target at the end of the respective specific financial period shall automatically lapse.

30. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(a) The Company's Share Option Scheme *(continued)*

Other information of the Granted Options is set out below:

Exercise price of the Share Options:	HK$2.89
Closing price of the Shares immediately before the date of grant:	HK$1.98
Validity period of the Share Options:	Five (5) years on the date when the Options became vested

Out of the aggregate of 40,000,000 Share Options, 5,000,000 Share Options were granted to two directors of the Company ("Share Option A") and the remaining Share Options were granted to 128 eligible employees ("Share Option B"), respectively. Mr. Sun Yugang awarded under Share Option B was appointed as a director with effect on 28 June 2013. The following table discloses movements of the Share Options during the current year:

Category	Outstanding as at 1 July 2012	Granted during the year	Exercised during the year	Lapsed* during the year	Cancelled** during the year	Outstanding as at 30 June 2013
Share Option A	—	5,000,000	—	(219,733)	—	4,780,267
Share Option B	—	35,000,000	—	(503,615)	(3,166,667)	31,329,718
	—	40,000,000	—	(723,348)	(3,166,667)	36,109,985

* Share Options lapsed due to non-fulfillment of the Performance Target for the first tranche as at 30 June 2013.

** Share Options were cancelled due to the relevant Grantees' resignation from the Group.

The fair values of Share Option A and Share Option B determined at the dates of grant using the Binomial Model option pricing model were HK$3,322,000 (equivalent to RMB2,696,000) and HK$21,626,000 (equivalent to RMB17,547,000) respectively.

The following assumptions were used to calculate the fair values of share options:

	Share Options A	Share Options B
Grant date share price	HK$1.97	HK$1.97
Exercise price	HK$2.89	HK$2.89
Expected volatility	41.79%	41.79%
Option life	Five years	Five years
Dividend yield	—	—
Risk-free interest rate	0.4%	0.4%
Sub-optional factor	2.8	2.2

The Binomial Model option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the Share Options.

The Company recognised a share option expense of RMB3,650,000 during the year ended 30 June 2013 (2012: nil). None of the Share Options was exercisable as at 30 June 2013.

30. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(b) Modern Farm Option Scheme

The option scheme of Modern Farming Group Co., Ltd. ("Modern Farm") (the "Modern Farm Scheme") was adopted pursuant to agreement dated 9 June 2009 for the primary purpose of providing incentives to directors and eligible employees of Modern Farm and its subsidiaries, and will expire on 8 June 2019. Under the Modern Farm Scheme, Modern Farm 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") and 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 Modern Farm 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 the 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 (the "Management Options") to replace the MF Options which lapsed and ceased to have effect at the same time. The Company's management considers that the Management Options granted is a replacement of the MF Options granted and the incremental fair value caused by the replacement of the MF Options with the Management Options is insignificant. The following table discloses movements of the MF Options during the current year:

Category	Outstanding as at 1 July 2012	Granted during the year	Exercised* during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 30 June 2013
Management Options	87,412,507	–	(18,535,733)	–	–	68,876,774

* 18,535,733 share options of the Management Options were exercised during the year ended 30 June 2013 (2012: nil). Share options reserve of RMB1,924,000 in relation to the 18,535,733 share options was reclassified to share premium as a result of the exercise.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings as disclosed in Note 26, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, injection of capital and as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	30/6/2013 RMB'000	30/6/2012 RMB'000
Financial assets:		
Loans and receivables (including cash and bank balances)	1,101,508	797,632
Financial liabilities:		
Amortised cost	5,438,696	3,308,249

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due to an associate, borrowings, pledged bank balances, cash and bank balances. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged from prior year.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

The Group has concentration of credit risk as over 54.22% of total trade receivables as at 30 June 2013 (30 June 2012: 96.40%), was due from, the Mengniu Group (defined in Note 35), the Group's largest customer and a substantial shareholder of the Company, which is principally engaged in milk processing industry in the PRC and listed on the Main Board of the Stock Exchange.

32. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank balances and bank borrowings which carry interest at variable interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank, and other borrowings and short-term debenture. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of loan interest rate published by the People's Bank of China and the London Interbank Offered Rate.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to loan interest rates for non-derivative instruments at the end of the reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year ended 30 June 2013 would decrease/increase by RMB10,040,000 (30 June 2012: RMB4,955,000); and the Group's construction in progress would increase/decrease by RMB3,810,000 as at 30 June 2013 (30 June 2012: RMB6,512,000) for interest capitalisation.

Liquidity risk

The Group had net current liabilities of approximately RMB1,777,128,000 as at 30 June 2013 (30 June 2012: RMB402,045,000). The directors of the Company closely monitor the cash flows of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, when necessary, to ensure the Group has sufficient operating cash flows and to enable the Group to meet its financial obligations. In addition, the secured credit facilities of the Group which remains unutilised amounted to approximately RMB2,216,902,000 which remains unutilised as at 30 June 2013. In view of the above, the directors of the Company consider the Group's liquidity risk is significantly reduced.

The Group finances their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The directors of the Company monitor the liquidity position of the Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilised facilities and renewal of facilities subsequent to the end of the reporting period, the directors of the Company consider the liquidity and source of capital for the daily operation are sufficient.

32. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rates %	Within 180 days RMB'000	181 days to 365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 30 June 2013							
Non-interest bearing		1,159,655	–	–	–	1,159,655	1,159,655
Fixed interest rate borrowings	4.88	404,634	839,309	309,080	–	1,553,023	1,509,039
Variable interest rate borrowings	6.45	587,820	391,334	867,169	1,368,467	3,214,790	2,770,002
		2,152,109	1,230,643	1,176,249	1,368,467	5,927,468	5,438,696
As at 30 June 2012							
Non-interest bearing		717,460	—	—	—	717,460	717,460
Fixed interest rate borrowings	6.28	48,571	207,919	14,525	39,395	310,410	297,378
Variable interest rate borrowings	6.28	284,849	267,988	747,649	1,404,853	2,705,339	2,293,411
		1,050,880	475,907	762,174	1,444,248	3,733,209	3,308,249

The amounts included above for variable interest rate borrowings are subject to change if changes in variable interest rates differ from these estimates of interest rates determined at the end of the reporting period.

32. FINANCIAL INSTRUMENTS *(continued)*

Foreign currency risk

The Group collects most of the sales of milk produced in RMB and incurs most of the expenditures as well as capital expenditures in RMB.

The major asset denominated in foreign currency is cash and bank balances disclosed in Note 24. The major liability denominated in foreign currency is borrowings disclosed in Note 26.

The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Foreign currency sensitivity analysis

2% (2012: 2%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

At the end of the reporting period, if the exchange rate had been strengthen/weaken in RMB against US$, EUR and HK$ by 2% (30 June 2012: 2%), and all other variables were held constant, the Group's profit for the year ended 30 June 2013 would increase/decrease by RMB5,796,000 (30 June 2012: RMB4,064,000).

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

33. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	30/6/2013 RMB'000	30/6/2012 RMB'000
Within one year	873	1,022
In the second to fifth year inclusive	365	368
Over five years	793	885
	2,031	2,275

Operating lease payments represent rentals payable by the Group for certain of its plant and vehicles which are negotiated for an average term of five years and rentals are fixed for an average of five years.

The minimum lease payments paid under operating lease during the year ended 30 June 2013 are approximately RMB8,953,000 (2012: RMB9,791,000).

34. CAPITAL COMMITMENTS

	30/6/2013 RMB'000	30/6/2012 RMB'000
Capital expenditure contracted but not provided for, in respect of acquisition of:		
– property, plant and equipment	190,488	653,287
– biological assets	–	191,961
	190,488	845,248

35. RELATED PARTY TRANSACTIONS

a. Name and relationship with a related party is as follows:

Name	Relationship
Qiushi	An associate of the Group
Mengniu Company *	A shareholder with significant influence over the Company
Inner Mongolia Mengniu Dairy (Group) Company Limited **	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy Taian Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Maanshan) Co., Ltd. **	A subsidiary of Mengniu Company
Hubei Frealth Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Shangzhi) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Chabei) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Baoji) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy Meishan Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Saibei Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Suqian) Co., Ltd. **	A subsidiary of Mengniu Company
Shijiazhuang Junlebao Dairy Co., Ltd. **	A subsidiary of Mengniu Company

* Mengniu Company became a substantial shareholder of the Company and was able to exercise significant influence over the Group from 22 May 2013 (see Note 29).

** These entities are subsidiaries of Mengniu Company (collectively referred to as the "Mengniu Group").

b. At the end of the reporting period, the Group had the following balances with a related party:

Amount due from the Mengniu Group

	30/6/2013 RMB'000	30/6/2012 RMB'000
Trade and other receivable		
Within 120 days based on invoice date	148,152	N/A

35. RELATED PARTY TRANSACTIONS *(continued)*

b. At the end of the reporting period, the Group had the following balances with a related party: (continued)

	30/6/2013 RMB'000	30/6/2012 RMB'000
Amount due to an associate		
Trade payable		
Within 60 days based on invoice date	40,783	7,888
Over 60 days based on invoice date	22,333	—
	63,116	7,888

During the year, the Group entered into the following transactions with a related party:

	Year ended 30 June 2013 RMB'000	Year ended 30 June 2012 RMB'000
Sales of raw milk to the Mengniu Group *	237,479	N/A
Processing liquid milk products for the Mengniu Group *	1,169	N/A
	238,648	N/A
Purchase of forage grass from Qiushi	150,580	27,888

* The amount of transactions with the Mengniu Group is for the period from the date of the Completion of the Sale Shares on 22 May 2013 (see Note 29) to 30 June 2013.

c. Compensation of key management personnel

The emoluments of key management during the reporting period were as follows:

	30/6/2013 RMB'000	30/6/2012 RMB'000
Short-term employees benefits	5,389	5,053
Recognition of equity-settled share-based payment	902	—
Post-employment benefits	201	162
	6,492	5,215

36. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 30 June 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Place of operation	Principal activities
			30 June 2013		30 June 2012			
			Directly %	Indirectly %	Directly %	Indirectly %		
Advanced Dairy Company (Luxemburg) Limited ("Lux")	Luxemburg	US$138,500,000	100	–	100	—	Luxemburg	Investment holding
Aquitair Holdings Limited ("Aquitair")	Republic of Ireland	US$472,307,046	–	100	—	100	Republic of Ireland	Investment holding
Modern Farm*	PRC	RMB563,301,046	–	97.87	—	97.87	PRC	Production of milk
Shandong Mengniu International Trading Co., Ltd.#	PRC	RMB20,000,000	–	97.87	—	97.87	PRC	Import and export agency services
Helingeer Modern Farming Co., Ltd.#	PRC	RMB96,100,000	–	97.87	—	97.87	PRC	Production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd.#	PRC	RMB90,000,000	–	97.87	—	97.87	PRC	Production of milk
Wenshang Modern Farm Co., Ltd.#	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Production of milk
Shangzhi Modern Farm Co., Ltd.#	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Production of milk
Hongya Modern Farm Co., Ltd.#	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Chabei) Co., Ltd.#	PRC	RMB8,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming (Baoji) Co., Ltd.#	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of milk
Maanshan Modern Farming Feedstock Co., Ltd.#	PRC	RMB18,000,000	–	97.87	—	97.87	PRC	Sales of feeds
Modern Farm (Feidong) Co., Ltd.#	PRC	RMB50,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd.^	PRC	RMB3,000,000	–	54.81	—	54.81	PRC	Sales of milk
Feidong Sijibao Organic Fertiliser Co., Ltd. *(Note i)* #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Baoji Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Hongya Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Shangzhi Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Wenshang Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers

36. SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Place of operation	Principal activities
			30 June 2013		30 June 2012			
			Directly %	Indirectly %	Directly %	Indirectly %		
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Tongshan) Co., Ltd.#	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming (Tongliao) Co., Ltd.#	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd.#	PRC	RMB5,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Bengbu) Co., Ltd.#	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Anhui) Dairy Product Sales Co., Ltd.#	PRC	RMB45,000,000	–	53.83	—	53.83	PRC	Sales of milk
Tongshan Sijibao Organic Fertiliser Co., Ltd. *(Note ii)* #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Tongliao Sijibao Organic Fertiliser Co., Ltd. *(Note ii)* #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers

These entities were established in PRC as domestic company and wholly owned by Modern Farm.

* The entity was established in PRC and became a sino-foreign enterprise from November 2009.

Notes:

i. Feidong Sijibao Organic Fertiliser Co., Ltd was liquidated at 15 March 2013.

ii. Tongshan Sijibao Organic Fertiliser Co., Ltd and Tongliao Sijibao Organic Fertiliser Co., Ltd were incorporated on 8 August 2012 and 28 July 2012, respectively.

None of the subsidiaries have issued any debt securities at 30 June 2013 and 30 June 2012 or at any time during the year.

37. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY

Information about the financial position of the Company at the end of the reporting period includes

	30/6/2013 RMB'000	30/6/2012 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	3,185,082	3,185,082
Amount due from a subsidiary	929,513	906,080
Property, plant and equipment	—	10
	4,114,595	4,091,172
CURRENT ASSETS		
Other receivables	236	334
Cash and bank balances	17,808	52,775
	18,044	53,109
CURRENT LIABILITIES		
Other payable	6,136	11,218
	6,136	11,218
NET CURRENT ASSETS	11,908	41,891
TOTAL ASSETS LESS CURRENT LIABILITIES	4,126,503	4,133,063
CAPITAL AND RESERVES		
Share capital	414,564	413,075
Reserves	3,711,939	3,719,988
	4,126,503	4,133,063

37. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY *(continued)*

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Accumulated loss RMB'000	Outstanding Total RMB'000
Balance at 1 July 2011	413,075	2,390,483	1,382,199	9,072	(54,861)	4,139,968
Loss and total comprehensive expense for the year	—	—	—	—	(6,905)	(6,905)
Balance at 30 June 2012	413,075	2,390,483	1,382,199	9,072	(61,766)	4,133,063
Loss and total comprehensive expense for the year	—	—	—	—	(23,022)	(23,022)
Recognition of equity-settled share-based payment (Note 30(a))	—	—	—	3,650	—	3,650
Exercise of share options (Note 30(b))	1,489	13,247	—	(1,924)	—	12,812
Balance at 30 June 2013	414,564	2,403,730	1,382,199	10,798	(84,788)	4,126,503

Notes: Other reserve represented the contribution from the owners of the Company for the operation of the Group.

Five-year Summary

	Year ended 30 June				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Results					
Sales of milk produced	2,480,561	1,677,615	1,113,354	589,775	334,015
(Loss)/gain arising from changes in fair value less costs to sell of dairy cows	(38,599)	131,481	55,538	60,620	70,573
Other income	106,343	116,551	101,850	65,371	25,036
Farm operating expenses	(1,655,803)	(1,148,697)	(730,307)	(437,616)	(263,746)
Employee benefits expenses	(170,847)	(127,989)	(89,649)	(66,695)	(47,152)
Depreciation	(135,472)	(94,798)	(67,304)	(44,174)	(22,068)
Share of profit of an associate	3,371	1,983	—	—	—
Net foreign exchange gain/(loss)	9,127	(4,335)	(17,367)	(1,174)	
Other gains and losses	(2,400)	(1,052)	(1,197)	561	(1,490)
Other expenses	(92,555)	(71,985)	(61,871)	(29,474)	(32,145)
Bargain purchase gain	—	—	—	—	3,257
Profit before finance costs and tax	503,726	478,774	303,047	137,194	66,280
Finance costs	(153,679)	(71,323)	(59,141)	(29,765)	(23,606)
Profit before tax	350,047	407,451	243,906	107,429	42,674
Income tax charge	(8,051)	(143)	(8)	(73)	—
Profit and total comprehensive income for the year	341,996	407,308	243,898	107,356	42,674
Attributable to:					
Equity shareholders of the Company	323,832	398,482	224,605	53,132	42,674
Minority interests	18,164	8,826	19,293	54,224	—
Profit and total comprehensive income for the year	341,996	407,308	243,898	107,356	42,674

	Year ended 30 June				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Assets and liabilities					
Property, plant and equipment	3,772,270	2,964,585	2,221,265	1,578,395	947,508
Land use rights	67,098	67,577	62,863	63,616	41,185
Goodwill	310,426	310,426	310,426	301,354	—
Interest in an associate	26,594	15,483	—	—	—
Long-term prepaid rentals	—	65	130	194	259
Deposit for acquisition of biological assets	—	9,024	1,094	13,028	37,381
Biological assets	5,465,008	4,185,600	2,651,407	1,742,891	936,816
Net current (liabilities) assets	(1,777,128)	(402,045)	868,197	(237,389)	494,473
Total assets less current liabilities	7,864,268	7,150,715	6,115,382	3,462,089	2,457,622
Non-current liabilities	(2,355,544)	(2,017,999)	(1,392,674)	(892,350)	(304,010)
NET ASSETS	5,508,724	5,132,716	4,722,708	2,569,739	2,153,612
Capital and reserves					
Share capital	414,564	413,075	413,075	272	517,754
Reserves	4,992,220	4,653,415	4,254,933	1,436,462	1,635,858
Total equity attributable to equity shareholders of the Company	5,406,784	5,066,490	4,668,008	1,436,734	2,153,612
Minority interests	101,940	66,226	54,700	1,133,005	—
	5,508,724	5,132,716	4,722,708	2,569,739	2,153,612
Earnings per share (RMB)					
Basic (cents)	6.74	8.30	5.20	2.59	N/A
Diluted (cents)	6.67	8.22	5.15	2.54	N/A

Notes to the five year summary:

The Group's financial information alone for the financial years ended 30 June 2009 does not reflect the results and financial condition of our operating business as a result of a series of reorganization transactions taken place before the listing of the Company's shares on the Stock Exchange. Accordingly, the summary financial data for the years ended 30 June 2009 is based on the financial statements of our predecessor holding company. We believe this can facilitate a better understanding of our operating business for the previous four financial years.

For details of the transactions in connection with the group reorganization, please refer to section headed "Our History and Structure" in our Prospectus dated 15 November 2010.