



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code: 1117



2016 INTERIM REPORT





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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. ZHANG Ping

Independent Non-Executive Directors

Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. KANG Yan
Mr. ZOU Fei

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway (Chairman)
Mr. HUI Chi Kin, Max
Mr. ZOU Fei

REMUNERATION COMMITTEE

Mr. LI Shengli (Chairman)
Mr. WOLHARDT Julian Juul
Mr. ZOU Fei

NOMINATION COMMITTEE

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

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. LI Shengli (Chairman)
Ms. GAO Lina
Mr. WOLHARDT Julian Juul
Mr. ZOU Fei

AUTHORISED REPRESENTATIVES

Ms. GAO Lina
Mr. NG Kwok Choi

COMPANY SECRETARY

Mr. NG Kwok Choi

HEADQUARTERS

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

REGISTERED OFFICE

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HONG KONG OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Industry Overview

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

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

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





Business Review

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

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



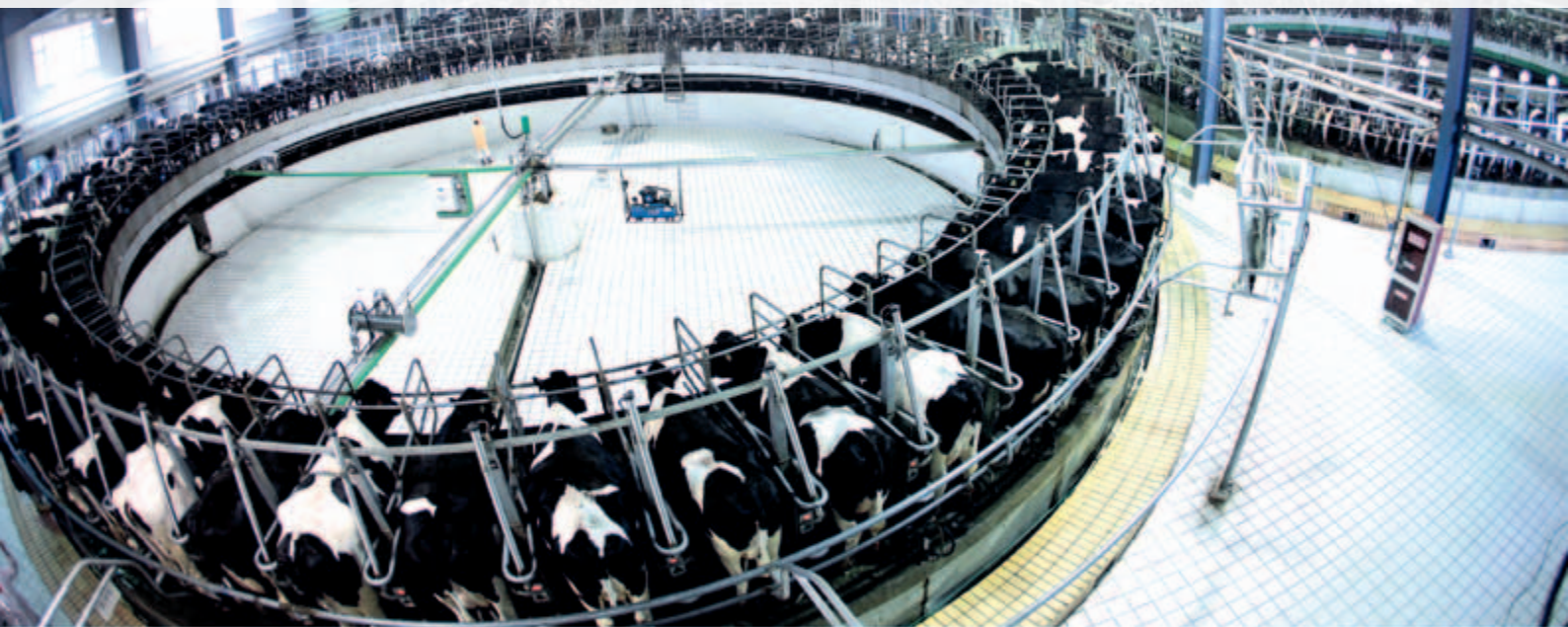
Management Discussion and Analysis

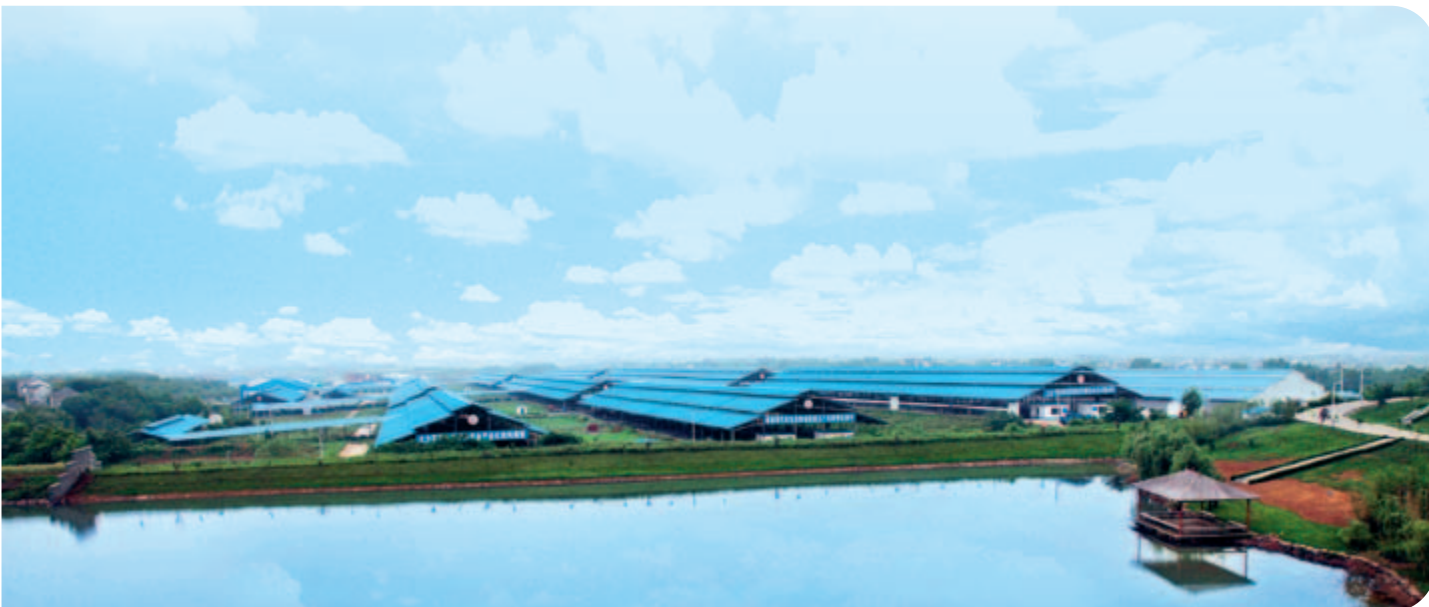
In terms of herd size, we are the largest dairy farming company and the largest raw milk producer in China. As at June 30, 2016, the Group had 27 farms in operation in China with an aggregate of 220,493 dairy cows. As a nationwide farm, we have unique excellent geographical advantages, our farms are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

Our financial results are directly affected by the milk yield per cow. In general, as milk yield per cow improves, the cash costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 9.4 tonnes per cow for the six months ended June 30, 2016.

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

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



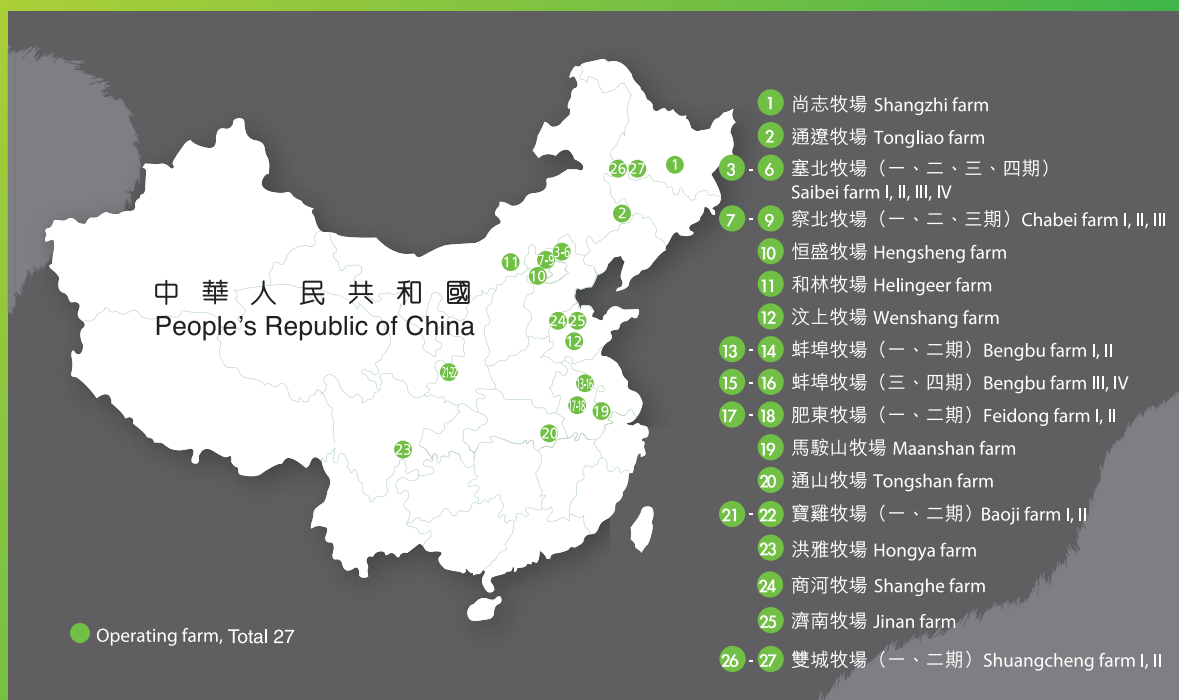


The International Institute for Quality Selections is an independent international organization jointly established by the European Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利时經濟部) in 1961, and is currently one of the oldest, the most representative and the most authoritative food quality testing organization in the world, its prizes are designed for the purpose of monitoring food quality and have been regarded as the “Nobel Prize” in food quality in the global arena. Monde Selection awards prizes after conducting strict reviews and inspections of the safety, taste, packaging and raw materials of food products. This proves that the Group’s own branded milk has won recognition for its high quality of “purity, genuineness, freshness and vitality” and its cutting-edge business model of “integration of forage grass planting, dairy farming and milk processing” from authorities around the world.



On July 6, 2016, the Group won the honor of “Most Respected Asian Enterprise” with professional investors as judges in the contest for the “Best Asian Corporate Management Team (ex Japan)” in 2016 organized by Institutional Investors. In the category of consumer products and necessities, Ms. Gao Lina, the Deputy Chairman and Chief Executive Officer of the Company, won the “First Prize of the Best CEO Award”; Mr. Sun Yugang, the Chief Financial Officer of the Company, won the “Second Prize of the Best CFO Award”; and Ms. Sun Jie, Head of Investor Relations, won the “First Prize of the Best Investor Relations Person”. In addition, the Company won the “Second Prize of the Best Analyst Day”. This expressly shows the level of reliability and responsibility of the Company to investors and the recognition of the Company by the investment sector.

Our farms



As of 30 June 2016, the Group had 27 farms self-operating in the People's Republic of China (the "PRC") with approximately 220,493 dairy cows.

Herd size

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

As at 30 June 2016, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. As at 30 June 2016, the current herd size is 220,493 compared to 225,542 as at 31 December 2015.



Milk Yield

Our results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 9.4 tons for the six months ended 30 June 2016, representing an increase of 3.30% from 9.1 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation.

Financial Overview

Revenue

The table sets out the breakdown of our consolidated revenue by our two operating segments for the six months ended 30 June 2016 and 30 June 2015:

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

Our revenue decreased by 8.87% from RMB2,820.7 million for the six months ended 30 June 2015 to RMB2,570.4 million for the six months ended 30 June 2016 primarily due to the lower selling price of raw milk.

- *Dairy farming business*

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

The following table sets out the sales amount, sales volume and average selling price (ASP) per tonne of our raw milk for the periods indicated:

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

Management Discussion and Analysis

- *Liquid milk products business*

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

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

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

Cost of sales before biological fair value adjustment

Our cost of sales before biological fair value adjustment primarily consisted of dairy farming cost and liquid milk products cost. Costs of sales before biological fair value adjustment of dairy farming business include feeds cost, labor cost, utilities, depreciation and other costs of farms. Costs of sales of liquid milk products business include raw materials, labor cost, depreciation, utilities and other processing costs. The following table sets forth a breakdown of our cost of sales for our products for the periods indicated:

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

	Six months ended 30 June			
	2016		2015	
	RMB'000	%	RMB'000	%
Costs of sales before biological fair value adjustment of dairy farming business:				
Feeds cost	980,486	75.99%	1,070,667	78.44%
Labor cost	76,485	5.93%	67,958	4.98%
Utilities	28,116	2.18%	29,347	2.15%
Depreciation	94,765	7.34%	89,170	6.53%
Other costs of farms	110,470	8.56%	107,821	7.90%
Subtotal of costs of sales before biological fair value adjustment of dairy farming business	1,290,322	100%	1,364,963	100%
Inter-segment cost	(232,388)		(265,257)	
Cost of external sales before biological fair value adjustment of dairy farming business	1,057,934		1,099,706	



With decrease in the number of milkable cows and in the price of feeds, total feed costs (before eliminating the internal relative costs of sales of the supply of raw milk) for the six months ended 30 June 2016 decreased to RMB980.5 million from RMB1,070.7 million for the same period last year, representing a decrease of 8.42%.

Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before offsetting the internal relative costs of sales of the supply of raw milk) decreased by 11.34% from RMB2,830 for the same period last year to RMB2,509 for the six months ended 30 June 2016, mainly due to the increase in the annual milk yield per cow and the decrease in the price of feeds.

Costs of sales of liquid milk product business

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

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

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



Management Discussion and Analysis

Gross profit and gross margin

The following table sets forth the breakdown of our gross profit by our two operating segments as well as their respective gross margin, for the periods indicated:

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

- *Dairy farming business*

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

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

- *Liquid milk products business*

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

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

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

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2016 while the value of the Group's dairy cows at 31 December 2015 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Loss arising from changes in the fair value of biological assets was RMB499.2 million for the six months ended 30 June 2016 (six months ended 30 June 2015: loss arising from changes in the fair value of biological assets was RMB199.3 million), mainly attributable to the decrease in selling price of raw milk.



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

Our gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 12.50% to RMB557.3 million for the six months end 30 June 2016 from RMB636.9 million for the six months ended 30 June 2015, mainly due to the decrease in the selling price of raw milk.

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

Other income

For the six months ended 30 June 2016, other income amounted to RMB40.2 million (six months ended 30 June 2015: RMB14.7 million). Other income mainly consisted of government grants and interest income, among others, interest income for the six months ended 30 June 2016 amounted to RMB5.0 million (six months ended 30 June 2015: RMB7.9 million), in which government grants for the six months ended 30 June 2016 amounted to RMB32.7 million (six months ended 30 June 2015: RMB6.8 million). Government grants mainly consisted of subsidies for agricultural projects and subsidies for the operations of the Group.

Operating expenses

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

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

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

Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, etc., among others, salaries (excluding equity-based share option expenses) of management was increased from RMB42.5 million for the six months ended 30 June 2015 to RMB50.2 million for the six months ended 30 June 2016.

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

Management Discussion and Analysis



Other Gains and Losses

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

Finance costs

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

Loss attributable to the owners of the Company

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

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

Liquidity and Financial Resources

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

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



Interest-bearing Borrowings

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

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

Bank Borrowings

The annual interest rate of the bank borrowings for the six months ended 30 June 2016 varied from 1.81% to 6.40% (six months ended 30 June 2015: 0.86% to 7.05%).

The table below sets forth our short-term and long-term bank borrowings:

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

Management Discussion and Analysis

Other borrowings

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

Carrying amount repayable:

Within one year

Between one to two years

Between two to five years

30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
39,066	—
40,667	—
16,517	—
96,250	—

GROUP STRUCTURE AND CAPITAL STRUCTURE

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

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

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





PLEDGE OF ASSETS

As at 30 June 2016, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.6 million (31 December 2015: RMB9.7 million), RMB179.0 million (31 December 2015: RMB50.0 million) and RMB2,827.6 million (31 December 2015: RMB2,769.7 million) and all of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the “Shares”) and all dividends, interest and other monies payable in respect of the Shares and all other rights, benefits and proceeds in respect of or derived from the Shares (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) of Advanced Dairy Company (Luxemburg) Limited^(note) respectively, were pledged as security for the Group’s borrowings.

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

CAPITAL COMMITMENTS AND CONTINGENCIES

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

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

Management Discussion and Analysis

FINANCIAL MANAGEMENT POLICIES

The Group continues to closely manage financial risks to safeguard the interests of the shareholders of the Company. The Group applies its cash flows generated from operation and bank loans to its operational and investment needs.

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

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

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





PROSPECTS

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

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

Leveraging on the stable supply of high quality raw milk supply from the Group's upstream business, we are capable to satisfy the demand from downstream market and consumers for higher quality dairy products, to research and develop new products, to produce higher value-added products with high gross profit, including pasteurized milk and pasteurized yogurt, and to upgrade downstream products structurally. As pasteurized milk keeps the high nutrient composition of milk and other features, it has received more and more market attention in recent years, with its growth exceeding the development progress of the whole dairy industry. However, restricted by short shelf life and strict requirement for cold chain transportation equipment, the raw milk for pasteurized milk must be sourced nearby. Currently, as the dairy farming industry in China is characterized by its fragmented nature, pasteurized milk are primarily sold under urban and local brands, but without any national well-known brands. The inherent advantages of nationwide coverage of the China Modern Dairy Group and its constant pursuit for higher quality enable the Group to become the only competent nationwide producer of pasteurized milk in China at present. In future, the Group will improve, innovate and develop new products to expand the market for pasteurized milk so as to lead the new trend of dairy products and bring new growth points for the Group's development.



OTHER INFORMATION

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

As at 30 June 2016, the interests and short positions of the Directors and the chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company or 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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	221,581,733	4.18%
	Beneficial owner	43,736,339 ⁽³⁾	0.82%
Mr. HAN Chunlin	Beneficial owner	28,554,583 ⁽²⁾	0.54%
Mr. SUN Yugang	Beneficial owner	16,064,990 ⁽²⁾	0.30%

(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 221,581,733 shares held by Jinmu under the SFO.

(2) These represent interests 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 sections "Management Options" and "Share Options" below.

(3) This represent 4,800,000 ordinary shares and 38,936,339 share options in underlying shares of the Management Options and share options granted by the Company.

Saved as disclosed above, as at 30 June 2016, 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.



SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2016, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company and their respective associates, in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), 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 Limited	Beneficial interest	1,347,903,000	25.41%
Xinmu Holdings Co Ltd.	Beneficial interest	671,021,025	12.65%
Yinmu Holdings Co Ltd.	Beneficial interest	446,465,419	8.42%
Success Dairy II Limited ⁽²⁾	Beneficial interest	477,429,132	9.00%
Success Dairy I Limited ^{(1), (2)}	Interest in controlled corporation	477,429,132	9.00%
New Dairy Investment Ltd. ^{(1), (2)}	Interest in controlled corporation	477,429,132	9.00%
KKR China Growth Fund L.P. ^{(1), (2)}	Interest in controlled corporation	477,429,132	9.00%
KKR Associates China Growth L.P. ^{(1), (2)}	Interest in controlled corporation	477,429,132	9.00%
KKR China Growth Limited ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
KKR Fund Holdings L.P. ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
KKR Fund Holdings GP Limited ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
KKR Group Holdings L.P. ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
KKR Group Limited ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
KKR & Co. L.P. ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
KKR Management LLC ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%
Mr. Henry Roberts Kravis and Mr. George R. Roberts ⁽¹⁾	Interest in controlled corporation	477,429,132	9.00%

(1) Each of these corporations and Mr. Henry Roberts Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) are deemed to be interested in the shares.

(2) Success Dairy II Limited is wholly owned by Success Dairy I Limited, which is owned as to 25% by Crown Dairy Holdings Limited and 75% by New Dairy Investment Ltd. ("New Dairy"). New Dairy is a subsidiary of KKR China Growth Fund L.P., the general partner of which is KKR Associates China Growth L.P..

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 2016.

Other Information

MANAGEMENT OPTIONS

The Company granted Management Options to Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang. The following Management Options were outstanding during the period:

Name of grantee	Date of grant	Number of underlying shares which may be issued pursuant to the Management Options				As at 30 June 2016
		As at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	
Ms. GAO Lina	31 October 2010	29,276,916	—	—	—	29,276,916
Mr. HAN Chunlin	31 October 2010	21,653,916	—	—	—	21,653,916
Mr. SUN Yugang	31 October 2010	9,142,924	—	—	—	9,142,924
		60,073,756	—	—	—	60,073,756

These options are exercisable at the exercise price HK\$ 0.86 per share during the period commencing from the Listing Date of the Company (26 November 2010) until 10 years from the date of offer.

As at 30 June 2016, the number of shares to be issued upon the exercise of the outstanding options is 60,073,756 shares, representing 1.13% of the issued share capital of the Company as at 30 June 2016.



SHARE OPTIONS

(I) Share Option Scheme adopted on 17 November 2011 (“Share Option Scheme I”)

The Company unconditionally adopted a share option scheme on 17 November 2011. The following share options were outstanding under the Share Option Scheme I during the period:

Name or category of participant	Number of shares which may be issued pursuant to the Share Options Scheme I					Option period
	As at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	As at 30 June 2016	
Directors						
Ms. GAO Lina	2,879,600	—	—	—	2,879,600	12.12.2012-30.6.2020
Mr. HAN Chunlin	1,900,667	—	—	—	1,900,667	12.12.2012-30.6.2020
Mr. SUN Yugang	1,922,066	—	—	—	1,922,066	12.12.2012-30.6.2020
Subtotal	6,702,333	—	—	—	6,702,333	
Other employees						
In aggregate	22,681,423	—	—	(1,250,000)	21,431,423	12.12.2012-30.6.2020
Total	29,383,756	—	—	(1,250,000)	28,133,756	

Notes:

- All the share options were granted on 12 December 2012 and the exercise price is HK\$2.89. The closing price of the shares on the date of grant is HK\$1.98.
- The share options granted (the “Scheme I Granted Options”) to each grantee under the Share Option Scheme I (the “Scheme I Grantee”) are deemed to be divided into three tranches, each of which consists of one third of the Scheme I Granted Options and will be associated with a performance target within a specific financial period (the “Scheme I Performance Target”). The Scheme I Performance Target has been determined by the board of directors of the Company (“Board”) and specified in the offer letter to each Scheme I Grantee. The financial period for the first tranche is the twelve months ended 30 June 2013; the financial period for the second tranche is the twelve months ended 30 June 2014; and the financial period for the third tranche is the twelve months ended 30 June 2015. The corresponding tranche will accrue if the Scheme I Performance Target set for the relevant financial period is met.
- The Scheme I 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 six months ended 30 June 2015. Any Scheme I Granted Options not accrued as a result of non-fulfillment of any Scheme I Performance Target shall automatically lapse.
- The share options represent personal interest held by the relevant Directors as beneficial owners.

Other Information

(II) Share Option Scheme adopted on 5 June 2014 (“Share Option Scheme II”)

The Company unconditionally adopted a share option scheme on 5 June 2014. The following share options were outstanding under the Share Option Scheme II during the period:

Name or category of participant	Number of shares which may be issued pursuant to the Share Options Scheme II					Option period
	As at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	As at 30 June 2016	
Directors						
Ms. GAO Lina	6,779,823	—	—	—	6,779,823	6.6.2014-29.4.2022
Mr. HAN Chunlin	5,000,000	—	—	—	5,000,000	6.6.2014-29.4.2022
Mr. SUN Yugang	5,000,000	—	—	—	5,000,000	6.6.2014-29.4.2022
Subtotal	16,779,823	—	—	—	16,779,823	
Other employees						
In aggregate	60,845,700	—	—	(2,976,099)	57,869,601	6.6.2014-29.4.2022
Total	77,625,523	—	—	(2,976,099)	74,649,424	

Notes:

- 1) All the share options were granted on 6 June 2014 and 17 June 2015 and the exercise prices are HK\$3.38 per share and HK\$2.83 per share respectively. The closing prices of the shares on 6 June 2014 and 17 June 2015 are HK\$3.38 and HK\$2.72, respectively.
- 2) The share options granted (the “Scheme II Granted Options”) to each grantee under the Share Scheme II (the “Scheme II Grantees”) are deemed to be divided into three tranches, each of which consists of one third of the Scheme II Granted Options and will be associated with a performance target within a specific financial period (the “Scheme II Performance Target”). The Scheme II Performance Target has been determined by the Board and specified in the offer letter to each Scheme II Grantee. The financial period for the first tranche is the 2014 financial year; the financial period for the second tranche will be the 2015 financial year; and the financial period for the third tranche will be the 2016 financial year. The corresponding tranche will accrue if the Scheme II Performance Target set for the relevant financial period is met.
- 3) The Scheme II 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 2016 financial year. Any Scheme II Granted Options not accrued as a result of non-fulfillment of any Scheme II Performance Target shall automatically lapse.
- 4) The share options represent personal interest held by the relevant Directors as beneficial owners.

Other details of the share option granted pursuant to the Share Option Scheme I and the Share Option II are set out in Note 20 to the Condensed Consolidated Financial Statements.

The related accounting policy for the fair values of the share options are set out in the 2015 Annual Report of the Company.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the sections headed "Management Options" and "Share Options" above, during the period, the Company or any of its subsidiaries was not a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save for those disclosed above, during the six months ended June 30, 2016, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company has, throughout the six months ended 30 June 2016 complied with the code provisions set out in the CG Code, except for the deviations from code provision A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides, among other things, that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. One independent non-executive Director, one non-executive Director and one executive Director were not able to attend the annual general meeting of the Company held on 3 June 2016 due to other business engagements.

INTERIM DIVIDEND

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by the Directors. Following specific enquiring by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

THE BOARD'S DIVERSITY POLICY

The Board has adopted the Diversity Policy, which sets out the approach to diversity of Board members. In determining the Board composition, the Company considers a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board's diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

Other Information

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements of the Group for the six months ended 30 June 2016 have been reviewed by the Group's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and the audit committee of the Company (the "Audit Committee").

The Audit Committee comprises Mr. LEE Kong Wai, Conway, Mr. HUI Chi Kin, Max and Mr. ZOU Fei.

On behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO Lina

Deputy Chairman, Chief Executive Officer and Executive Director

Hong Kong, 22 August 2016



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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 62, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements for the six months ended 30 June 2016 are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016	2015
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	4	2,229,110	2,437,320
Cost of sales before biological fair value adjustment		(1,503,741)	(1,548,426)
Biological fair value adjustment included in cost of sales		(557,307)	(636,944)
Loss arising from changes in fair value less costs to sell of dairy cows		(499,245)	(199,269)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		557,307	636,944
Other income	5	40,177	14,708
Selling and distribution costs		(136,172)	(67,688)
Administrative expenses		(129,891)	(111,485)
Share of (loss) profit of an associate		(1,583)	1,432
Share of profit of joint ventures		—	2,569
Other gains and losses, net	6	(388,752)	148,733
Other expenses		(3,786)	(2,063)
(Loss) profit before finance costs and tax	6	(393,883)	675,831
Finance costs	7	(195,790)	(153,917)
(Loss) profit before tax		(589,673)	521,914
Income tax expense	8	(205)	(14,600)
(Loss) profit and total comprehensive income for the period		(589,878)	507,314
(Loss) profit and total comprehensive income attributable to:			
Owners of the Company		(565,668)	476,952
Non-controlling interests		(24,210)	30,362
		(589,878)	507,314
(Loss) earnings per share (RMB)	10		
Basic		(10.66) cents	9.88 cents
Diluted		(10.66) cents	9.80 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTES	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		5,310,139	5,376,897
Land use rights		125,345	120,622
Goodwill		1,441,494	1,441,494
Interest in an associate	11	—	25,076
Available-for-sale investment	11	24,955	—
Biological assets	12	7,576,003	7,590,878
		14,477,936	14,554,967
CURRENT ASSETS			
Inventories		793,211	834,099
Trade and other receivables	13	1,204,430	1,097,794
Land use rights		3,913	3,743
Pledged bank balances		178,765	183,664
Cash and bank balances		1,139,694	833,569
		3,320,013	2,952,869
CURRENT LIABILITIES			
Trade and other payables	14	1,986,910	2,012,976
Tax payable		149	281
Bank borrowings - due within one year	15	3,079,631	4,825,521
Short-term debenture	16	997,950	400,000
Other borrowing - due within one year	17	39,066	—
		6,103,706	7,238,778
NET CURRENT LIABILITIES		(2,783,693)	(4,285,909)
TOTAL ASSETS LESS CURRENT LIABILITIES		11,694,243	10,269,058

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	NOTES	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		452,959	452,959
Share premium and reserves		6,775,739	7,328,938
Equity attributable to owners of the Company		7,228,698	7,781,897
Non-controlling interests		119,325	168,135
		7,348,023	7,950,032
NON-CURRENT LIABILITIES			
Bank borrowings - due after one year	15	815,430	821,730
Medium-term notes	18	1,795,446	200,000
Deferred income		134,895	141,824
Other financial liabilities	19	1,543,265	1,155,472
Other borrowing - due after one year	17	57,184	—
		4,346,220	2,319,026
		11,694,243	10,269,058

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company							Total RMB'000
	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	
Balance at 1 January 2015 (audited)	415,261	2,409,936	1,585,752	44,546	2,054,744	6,510,239	145,713	6,655,952
Profit and total comprehensive income for the period	—	—	—	—	476,952	476,952	30,362	507,314
Recognition of equity-settled share-based payment (note 20(a) (b) (c))	—	—	—	17,065	—	17,065	—	17,065
Dividends	—	(49,003)	—	—	—	(49,003)	—	(49,003)
Balance at 30 June 2015 (unaudited)	415,261	2,360,933	1,585,752	61,611	2,531,696	6,955,253	176,075	7,131,328
Balance at 1 January 2016 (audited)	452,959	3,292,068	1,585,752	75,078	2,376,040	7,781,897	168,135	7,950,032
Loss and total comprehensive income for the period	—	—	—	—	(565,668)	(565,668)	(24,210)	(589,878)
Recognition of equity-settled share-based payment (note 20(a) (b) (c))	—	—	—	12,469	—	12,469	—	12,469
Transfer due to forfeiture of share options after vesting (note 20(a))	—	—	—	(616)	616	—	—	—
Dividend to non-controlling interests	—	—	—	—	—	—	(25,200)	(25,200)
Capital contribution from non-controlling interests	—	—	—	—	—	—	600	600
Balance at 30 June 2016 (unaudited)	452,959	3,292,068	1,585,752	86,931	1,810,988	7,228,698	119,325	7,348,023

Note: Other reserve balance as at 1 January 2015 represented the contribution from the owners of the Company for the operation of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Net cash generated from operating activities	404,420	769,637
Net cash used in investing activities		
Purchases of property, plant and equipment	(210,790)	(314,630)
Additions in biological assets	(588,838)	(590,103)
Additions in pledged bank balances	(123,884)	(50,586)
Release of pledged bank balances	128,783	534,732
Proceeds from disposal of dairy cows	300,399	223,437
Investment in joint ventures	—	(67,667)
Interest received	5,980	28,502
Government grants received	26,929	13,875
Purchases of land use rights	(6,784)	(6,500)
Proceeds from disposal of property, plant and equipment	6,290	3,245
	(461,915)	(225,695)
Net cash generated from (used in) financing activities		
Interest paid	(146,724)	(192,267)
New borrowings raised	1,815,091	1,332,077
Repayment of borrowings	(3,568,597)	(985,498)
Proceeds from short-term debenture	1,000,000	300,000
Repayment of short-term debenture	(400,000)	(1,100,000)
Proceeds from medium-term notes	1,600,000	200,000
Payment of transaction cost for borrowings, short-term debenture and medium-term notes	(7,800)	(1,000)
Proceeds from other borrowing	96,250	—
Dividends paid to owners of the Company	—	(49,003)
Dividends paid to non-controlling interests	(25,200)	—
Capital contribution from non-controlling interests	600	—
	363,620	(495,691)
Net increase in cash and cash equivalents	306,125	48,251
Cash and cash equivalents at 1 January	833,569	556,964
Cash and cash equivalents at 30 June, represented by cash and bank balances	1,139,694	605,215

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the "Company") is a limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People's Republic of China (the "PRC").

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

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

2. BASIS OF PREPARATION

In preparation the condensed consolidated financial statements for the six months ended 30 June 2016, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB2,783,693,000 as at 30 June 2016 (31 December 2015: RMB4,285,909,000). Having considered the secured credit facilities of approximately RMB5,953,836,000 available to finance the Group's operation which remains unutilised as at 30 June 2016, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 "Interim Financial Reporting".

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for: (i) the biological assets, which are measured at fair value less costs to sell; and (ii) other financial liabilities, which are measured at fair value through profit or loss (FVTPL).

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

4. SEGMENT INFORMATION

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

Segment revenue, results, assets and liabilities

Six months ended 30 June 2016 (unaudited)

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	1,914,987	655,395	2,570,382	(341,272)	2,229,110
Segment cost of sales before biological fair value adjustment	1,290,322	534,856	1,825,178	(321,437)	1,503,741
Reportable segment profit	362,118	165	362,283	(19,835)	342,448
Loss arising from changes in fair value less costs to sell of dairy cows					(499,245)
Share of loss of an associate					(1,583)
Unallocated other income					6,218
Unallocated other gains and losses					(387,817)
Unallocated expenses					(49,694)
Loss before tax					(589,673)
As at 30 June 2016 (unaudited)					
Segment assets	15,790,461	1,638,795	17,429,256	(786,183)	16,643,073
Unallocated assets					1,154,876
Consolidated assets					17,797,949
Segment liabilities	7,895,429	1,743,574	9,639,003	(758,225)	8,880,778
Unallocated liabilities					1,569,148
Consolidated liabilities					10,449,926

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB341,272,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.



4. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities

Six months ended 30 June 2015 (unaudited)

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	2,031,191	789,493	2,820,684	(383,364)	2,437,320
Segment cost of sales before biological fair value adjustment	1,364,963	564,266	1,929,229	(380,803)	1,548,426
Reportable segment profit	439,891	171,281	611,172	(2,561)	608,611
Loss arising from changes in fair value less costs to sell of dairy cows					(199,269)
Share of profit of an associate					1,432
Share of profit of joint ventures					2,569
Unallocated other income					7,644
Unallocated other gains and losses					150,491
Unallocated expenses					(49,564)
Profit before tax					521,914
As at 31 December 2015 (audited)					
Segment assets	15,833,395	1,353,217	17,186,612	(577,422)	16,609,190
Unallocated assets					898,646
Consolidated assets					17,507,836
Segment liabilities	7,571,794	1,381,373	8,953,167	(569,298)	8,383,869
Unallocated liabilities					1,173,935
Consolidated liabilities					9,557,804

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB383,364,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

4. SEGMENT INFORMATION *(continued)*

Geographic information

Since all of the revenue from external customers is derived from the customers located in mainland China and all of the non-current assets are located in mainland China and all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information by segment is presented.

Information about major customers

Included in revenue arising from sales of raw milk to external customers of RMB1,573,715,000 (for the six months ended 30 June 2015: RMB1,647,827,000) are revenue of approximately RMB1,123,999,000 (for the six months ended 30 June 2015: RMB1,217,819,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2016 and 2015.

5. OTHER INCOME

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Bank interest income	4,972	7,881
Government grants related to		
– Biological assets (note i)	20,000	—
– Other assets	6,929	5,895
– Income (note ii)	5,759	875
	32,688	6,770
Others	2,517	57
	40,177	14,708

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016



6. (LOSS) PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Cost of sales before biological fair value adjustment		
Breeding costs to produce raw milk	1,057,934	1,099,706
Production costs for liquid milk products	445,807	448,720
	1,503,741	1,548,426
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	557,307	636,944
	2,061,048	2,185,370
Other gains and losses:		
Fair value gain from Put Option and Call Option (as defined in note 19)	—	(147,099)
Fair value losses from Value Adjustment Undertakings (as defined in note 19)	387,793	—
Net foreign exchange loss (gain)	4,256	(2,850)
Loss on disposal of property, plant and equipment, net	1,595	1,276
Gains arising on deemed disposal of an associate	(1,462)	—
Others	(3,430)	(60)
	388,752	(148,733)
Depreciation of property, plant and equipment	274,293	229,489
Less: capitalised in biological assets and agricultural produce	(124,590)	(97,041)
Depreciation charged to profit or loss	149,703	132,448
Employee benefits expenses	213,906	198,108
Less: capitalised in biological assets and agricultural produce	(66,127)	(50,642)
Employee benefits charged to profit or loss	147,779	147,466
Auditors' remuneration	700	700
Release of land use rights	1,891	1,268

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

7. FINANCE COSTS

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

For the six months ended 30 June 2016, the borrowing cost was capitalised based on the terms of the general bank borrowings in respect of construction in progress. The weighted average capitalisation rate on general borrowings is 4.52% per annum (six months ended 30 June 2015: 5.86% per annum).

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	205	14,600

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

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

Dividend income of Aquitair Holdings Limited from Modern Farming (Group) Co., Ltd ("Modern Farm") is subject to Irish Income Tax at 25%. As at 30 June 2016, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,474,169,000 (31 December 2015: RMB1,512,302,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

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



9. DIVIDENDS

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

10. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
(Loss) Earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	(565,668)	476,952

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

11. INTEREST IN AN ASSOCIATE

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		Principal activities
		As at	As at	30/06/2016	31/12/2015	
		30 June 2016	31 December 2015	%	%	
Qiushi Grass Industry Co., Ltd. ("Qiushi")	PRC	RMB147,500,000	RMB147,500,000	—	14.4	Planting and sale of forage grass

Qiushi was established on 30 September 2011 as a limited liability company. In September 2015, the former owners of Inner Mongolia Dachen Agriculture Co., Ltd. (內蒙古達晨農業股份有限公司) ("Dachen Agriculture") injected all assets and liabilities of Dachen Agriculture to Qiushi in exchange of 20% equity interest in Qiushi. Upon the completion of the transaction, the Company's share in the equity interest of Qiushi was diluted from 18.0% to 14.4%.

On 24 June 2016, Qiushi restructured its board of directors which resulted in the Group reclassified the investment in Qiushi to available for sale equity investment at cost thereafter. A gain of RMB1,462,000, being the difference of the fair value and carrying amount of the Group's investment in Qiushi as at 24 June 2016, was recognised in other gains and losses.

12. BIOLOGICAL ASSETS

The fair value less costs to sell of dairy cows at end of the reporting period is set out below:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Milkable cows	4,829,003	4,813,178
Heifers and calves	2,747,000	2,777,700
Total dairy cows	7,576,003	7,590,878

The Group's dairy cows were fair valued by the Directors at 30 June 2016 while the fair value of the Group's dairy cows at 31 December 2015 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"). The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in note 24.



13. TRADE AND OTHER RECEIVABLES

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

14. TRADE AND OTHER PAYABLES

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

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

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



15. BANK BORROWINGS

During the current period, the Group obtained new bank borrowings amounting to RMB1,815,091,000 (six months ended 30 June 2015 RMB1,332,077,000) and repaid RMB3,568,597,000 (six months ended 30 June 2015: RMB985,498,000).

The annual interest rate of the bank borrowings during the current period ranged from 1.81% to 6.40% (six months ended 30 June 2015: 0.86% to 7.05%). As at 30 June 2015, the Group's interest-bearing bank borrowings were denominated in RMB and US\$.

16. SHORT-TERM DEBENTURE

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Short term debenture – unsecured	997,950	400,000

Notes:

- i. On 25 January 2016, Modern Farm issued short-term debenture with a principal amount of RMB500,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 3.98% per annum. Related transaction costs amounted to RMB1,500,000.
- ii. On 16 June 2016, Modern Farm issued short-term debenture with a principal amount of RMB500,000,000 through China Construction Bank Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 4.67% per annum. Related transaction costs amounted to RMB1,500,000.
- iii. On 24 September 2015, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through Industrial and Commercial Bank of China Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture born a fixed interest rate of 3.98% per annum. It was repaid on 19 June 2016.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

17. OTHER BORROWINGS

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

	30 June 2016 RMB'000 (unaudited)
Amount payable:	
Within one year	39,066
Within a period of more than one year but not more than two years	40,667
Within a period of more than two years but not more than five years	16,517
	96,250
Less: Amount due for settlement within 12 months (shown under current liabilities)	(39,066)
Amount due for settlement after 12 months	57,184



18. MEDIUM-TERM NOTES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Medium term notes	1,795,446	200,000

Note:

- i. On 23 March 2016, Modern Farm issued medium-term notes with an aggregate principal amount of RMB1,000,000,000 which will mature in two years. The medium-term notes bear a fixed interest rate of 4.60% per annum. Related transaction costs amounted to RMB3,000,000.
- ii. On 23 March 2016, Modern Farm issued medium-term notes with an aggregate principal amount of RMB600,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 4.75% per annum. Related transaction costs amounted to RMB1,800,000.
- iii. On 11 February 2015, Modern farm issued medium-term notes with an aggregate principal amount of RMB200,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 6.00% per annum.

19. OTHER FINANCIAL LIABILITIES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Financial liabilities carried at FVTPL Contingent consideration	1,543,265	1,155,472

It represents the fair value of the Value Adjustment Undertakings (as defined below) has been recognised as a financial liability at FVTPL.

On 23 September 2013, the Company entered into an agreement (the "JV Agreement I") with Success Dairy II Limited ("Success Dairy"). Pursuant to the JV Agreement I, the Company and Success Dairy established Asia Dairy Holdings Limited ("ADH I"), an investment holding company incorporated in the Cayman Islands which indirectly owns Modern Farm (Shanghe) Co., Ltd. (现代牧业(商河)有限公司), a entity established in the PRC. The principal activities of the ADH I and its subsidiaries are breeding dairy cows and production of raw milk in Shandong province, the PRC. According to the JV Agreement I, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of ADH I.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

19. OTHER FINANCIAL LIABILITIES *(continued)*

On 23 September 2013, the Company also entered into an agreement (the "JV Agreement II") (the JV Agreement I and the JV Agreement II are collectively referred to as the "JV Agreements") with Success Dairy. Pursuant to the JV Agreement II, the Company and Success Dairy established the Asia Dairy Holdings II Limited ("ADH II") (the ADH I and the ADH II are collectively referred to as the "ADH Companies"), an investment holding company incorporated in the Cayman Islands which indirectly owns Modern Farm (Jinan) Co., Ltd. (現代牧業(濟南)有限公司), a entity established in the PRC. The principal activities of the ADH II and its subsidiaries are dairy farming operation in Shandong province, the PRC. According to the JV Agreement II, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the ADH II.

Pursuant to the JV Agreements: (1) the Company granted to Success Dairy an option to require the Company to purchase from Success Dairy up to all loans or borrowings owed by ADH Companies to Success Dairy from time to time and the shares held by Success Dairy in the ADH Companies from time to time (the above are collectively referred to as the "Success Dairy Assets") (the "Put Option"); and (2) Success Dairy granted the Company an option to require Success Dairy to sell to the Company up to all the Success Dairy Assets (the "Call Option"). The Put and Call Options will be exercisable three years after the first day on which the farms owned by the ADH Companies produce milk for sale and will expire by the end of the seventh year after the date of the JV Agreements. The Put Option and Call Option are exercisable for JV Agreement I and JV Agreement II in 2017 and 2018, respectively.

On 6 July 2015, the Company and Success Dairy entered into an agreement (the "Share Purchase Agreement") pursuant to which the Company agreed to purchase and Success Dairy agreed to sell the 82% equity interests in the ADH Companies held by Success Dairy (the "Acquisition"). The sale and purchase price of the 82% equity interest is determined by reference to 12 times of the projected average LTM Cash EBITDA of the ADH Companies in year 2017 and 2018. Upon the completion of the Acquisition on 20 July 2015, the ADH Companies became 100% subsidiaries of the Company.

The total consideration payable by the Company for the Acquisition shall be the issuance of 477,429,132 ordinary shares of the Company (the "Consideration Shares"), representing approximately 9.0% of the enlarged issued share capital of the Company.

Pursuant to the Share Purchase Agreement, Success Dairy has undertaken to the Company that it shall not, and will procure that none of its affiliates will, at any time during a three-year period (the "Lock-up Period") from 20 July 2015 on which the sale and purchase of the Success Dairy Assets pursuant to the Share Purchase Agreement has been completed, transfer or dispose of any Consideration Shares.



19. OTHER FINANCIAL LIABILITIES (continued)

Upon the expiry of the Lock-up Period, in the event that:

- the value of the Consideration Shares calculated based on the weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is less than US\$308 million, the Company shall pay Success Dairy by further issuance of ordinary shares of the Company and/or in immediately available funds the difference between the value of the Consideration Shares and US\$308 million (the "Value Adjustment Undertaking I"); or
- the value of the Consideration Shares calculated based on the weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is more than US\$363 million, Success Dairy shall pay the Company in cash or shall return part of the Consideration Shares equivalent in value to 20.0% of the difference between the value of the Consideration Shares and US\$363 million to the Company (the "Value Adjustment Undertaking II") (the Value Adjustment Undertaking I and the Value Adjustment Undertaking II are collectively referred to as the "Value Adjustment Undertakings").

The fair values of the Value Adjustment Undertakings as at 30 June 2016 and 31 December 2015 were independently valued by JLL and have been determined by using a Binomial Option Pricing Model with the following assumptions:

	30 June 2016 US\$'000	31 December 2015 US\$'000
Spot price	68,921	123,811
Exercise price		
– Value Adjustment Undertaking I	308,000	308,000
– Value Adjustment Undertaking II	363,000	363,000
Expected volatility	42.000%	40.000%
Risk-free interest rate	1.29%	1.33%
Dividend yield	1.12%	0.64%

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

20. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Company's Share Option Scheme I

The Company's share option scheme I (the "Share Option Scheme I") 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 I 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 then in issue.

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

The Share Options I shall entitle the Scheme I Grantees to subscribe for an aggregate of 40,000,000 new shares upon the exercise of the Share Options I in full at an exercise price of HK\$2.89 per share.

Pursuant to the rules of the Share Option Scheme I, the Share Options I granted to each of the Scheme I Grantees are deemed to be divided into three tranches, each of which consists of one third of the granted options and are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme I Grantees. The financial period for the first tranche is the 12 months ended 30 June 2013; the financial period for the second tranche is the 12 months ended 30 June 2014; and the financial period for the third tranche is the 12 months ended 30 June 2015. Each tranche of the Share Options I after meeting the respective performance target and on fulfilment of the service condition are vested on a one-off basis after the end of the third financial period. Any of the Share Options I not vested as a result of non-fulfillment of the performance target at the end of the respective specific financial periods has automatically lapsed.

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



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

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

Other information of the Share Options I is set out below:

Exercise price of the Share Options I:	HK\$2.89
Closing price of the shares on the date of grant:	HK\$1.98
Validity period of the Share Options I:	Five (5) years on the date when the Options become vested

The following table discloses movements of the Share Options I during the reporting period:

Category	Outstanding as at 1 January 2016	Forfeited* during the period	Outstanding as at 31 June 2016
Share Option A	4,780,267	—	4,780,267
Share Option B	24,603,489	(1,250,000)	23,353,489
	29,383,756	(1,250,000)	28,133,756

Category	Outstanding as at 1 January 2015	Forfeited during the period	Outstanding as at 30 June 2015
Share Option A	4,780,267	—	4,780,267
Share Option B	27,325,916	(1,476,307)	25,849,609
	32,106,183	(1,476,307)	30,629,876

* Pursuant to the rules of Share Options I, the Share Options I were forfeited after vesting due to the fact that the relevant Scheme I Grantees had not exercised within one month after resignation from the Group. Accordingly, the amount of RMB616,000 previously recognised in share options reserve in relation to these forfeited options was transferred to related earnings.

The fair values of Share Option A and Share Option B determined at the date 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.

No share option expense in respect of the Share Options I was recognised during the current period (six months ended 30 June 2015: RMB1,750,000). All of the Share Options I are exercisable as at 30 June 2016.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

20. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) The Share Option Scheme II

The Company's share option scheme II (the "Share Option Scheme II") was adopted pursuant to a resolution passed on 5 June 2014 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 II and other share option schemes shall not exceed 30% of the number of issued shares of the Company as at the date of 5 June 2014. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, 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 then in issue.

(i) The Share Options II-i

On 6 June 2014, the Company announced that a total of 80,000,000 share options (the "Share Options II-i") to subscribe for the shares were granted to three directors and 148 eligible employees (collectively referred to as the "Scheme II-i Grantees"), subject to acceptance of the Scheme II-i Grantees, under the Share Option Scheme II adopted by the Company on 5 June 2014.

The Share Options II-i shall entitle the Scheme II-i Grantees to subscribe for an aggregate of 80,000,000 new shares upon the exercise of the Share Options II-i in full at an exercise price of HK\$3.38 per share.

Pursuant to the rules of the Share Option Scheme II, the Share Options II-i granted to each of the Scheme II-i Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options II-i and are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme II-i Grantees. The financial period for the first tranche is the financial year ended 31 December 2014; the financial period for the second tranche is the financial year ended 31 December 2015; and the financial period for the third tranche is the financial year ending 31 December 2016. Each tranche of the Share Options II-i after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis after the end of the third financial period. Any of the Share Options II-i not vested as a result of non-fulfilment of the performance target at the end of the respective specific financial period shall automatically lapse.

Out of the aggregate of 80,000,000 Share Options II-i, 17,000,000 Share Options II-i were granted to three directors of the Company (the "Share Option C") and the remaining Share Options II-i were granted to 148 eligible employees (the "Share Option D"), respectively.

Other information of the Share Options II-i is set out below:

Exercise price of the Share Options II-i:	HK\$3.38
Closing price of the shares on the date of grant:	HK\$3.38
Validity period of the Share Options II-i:	Five (5) years on the date when the Share Options II-i became vested



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

(b) The Share Option Scheme II *(continued)*

(i) The Share Options II-i *(continued)*

The following table discloses movements of the Share Options II-i during the reporting period:

Category	Outstanding	Granted	Exercised	Forfeited	Outstanding
	as at				as at
	1 January	during	during	during	30 June
	2016	the period	the period	the period	2016
Share Option C	16,779,823	—	—	—	16,779,823
Share Option D	52,542,911	—	—	(2,433,332)	50,109,579
	69,322,734	—	—	(2,433,332)	66,889,402

Category	Outstanding	Granted	Exercised	Forfeited	Outstanding
	as at				as at
	1 January	during	during	during	30 June
	2015	the period	the period	the period	2015
Share Option C	17,000,000	—	—	—	17,000,000
Share Option D	60,848,683	—	—	—	60,848,683
	77,848,683	—	—	—	77,848,683

The fair values of the Share Option C and the Share Option D determined at the date of grant using the Binomial Option Pricing Model were HK\$25,827,000 (equivalent to RMB20,530,000) and HK\$83,969,000 (equivalent to RMB66,747,000), respectively.

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the Directors. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-i.

The Company recognised a share option expense of RMB11,572,000 in respect of the Share Option Scheme II-i during the current period (the six months ended 30 June 2015: RMB11,203,000), taking into consideration of forfeiture before vesting. None of the Share Options II-i was exercisable as at 30 June 2015 and 2016.

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

(b) The Share Option Scheme II *(continued)*

(ii) The Share Options II-ii

On 17 June 2015, the Company announced that a total of 10,966,673 share options (the "Share Options II-ii") to subscribe for the shares were granted to one executive and 31 eligible employees (collectively referred to as the "Scheme II-ii Grantees"), under the Share Option Scheme II adopted by the Company on 5 June 2014.

The Share Options II-ii shall entitle the Scheme II-ii Grantees to subscribe for an aggregate of 10,966,673 new shares upon the exercise of the Share Options II-ii in full at an exercise price of HK\$2.83 per share.

Pursuant to the rules of the Share Option Scheme II, the Share Options II-ii granted to each of the Scheme II-ii Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options II-ii and are associated with a performance target within a specific financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme II-ii Grantees. The financial period for the first tranche is the financial year ended 31 December 2014 and there is no performance condition but only service condition attached to the first tranche; the financial period for the second tranche is the financial year ended 31 December 2015; and the financial period for the third tranche is the financial year ending 31 December 2016. Each tranche of the Share Options II-ii after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis after the end of the third financial period. Any of the Share Options II-ii not vested as a result of non-fulfilment of the performance target at the end of the respective specific financial period shall automatically lapse.

Out of the aggregate of 10,966,673 Share Options II-ii, 3,333,333 Share Options II-ii were granted to an executive of the Company (the "Share Option E") and the remaining Share Options II-ii were granted to 31 eligible employees (the "Share Option F"), respectively.

Other information of the Share Options II-ii is set out below:

Exercise price of the Share Options II-ii:	HK\$2.83
Closing price of the shares on the date of grant:	HK\$2.72
Validity period of the Share Options II-ii:	Five (5) years on the date when the Share Options II-ii became vested



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

(b) The Share Option Scheme II *(continued)*

(ii) The Share Options II-ii *(continued)*

The following table discloses movements of the Share Options II-ii during the reporting period:

Category	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2016
Share Option E	3,333,333	—	—	—	3,333,333
Share Option F	4,969,456	—	—	(542,767)	4,426,689
	8,302,789	—	—	(542,767)	7,760,022

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2015
Share Option E	—	3,333,333	—	—	3,333,333
Share Option F	—	7,633,340	—	—	7,633,340
	—	10,966,673	—	—	10,966,673

The fair values of the Share Option E and the Share Option F determined at the date of grant using the Binomial Option Pricing Model were HK\$3,772,000 (equivalent to RMB2,975,000) and HK\$7,389,000 (equivalent to RMB5,827,000) respectively.

The following assumptions were used to calculate the fair values of the Share Options II-ii:

	Share Options E	Share Options F
Grant date share price	HK\$2.72	HK\$2.72
Exercise price	HK\$2.83	HK\$2.83
Expected volatility	45.97%	45.97%
Option life	Five years	Five years
Dividend yield	0.45%	0.45%
Risk-free interest rate	1.44%	1.44%
Sub-optional factor	2.2	1.6

Expected volatility was determined by using the historical volatility of the Company's share price over the years since being listed.

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the Directors. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-ii.

The Company recognised a share option expense of RMB897,000 in respect of the Share Options II-ii during the current period (the six months ended 30 June 2015: RMB4,112,000), taking into consideration of forfeiture before vesting. None of the Share Options II-ii was exercisable as at 30 June 2015 and 2016.

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

(c) 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, which were vested immediately.

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 (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 Management Options during the current period:

Category	Outstanding	Granted	Exercised	Forfeited	Outstanding
	as at				and
	1 January	during	during	during	as at
	2016	the period	the period	the period	30 June
Management Options	60,073,756	—	—	—	60,073,756

Category	Outstanding	Granted	Exercised	Forfeited	Outstanding
	as at				and
	1 January	during	during	during	as at
	2015	the period	the period	the period	31 June
Management Options	60,073,756	—	—	—	60,073,756

None of share options was exercised during the period ended 30 June 2016 (six months ended 30 June 2015: None).



21. 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 property, plant and equipment and leased land rented under non-cancellable operating leases which fall due as follows:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Within one year	11,979	10,868
In the second to fifth year inclusive	15,099	19,257
	27,078	30,125

22. CAPITAL COMMITMENTS

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	135,539	151,498

Notes to the Condensed Consolidated Financial Statements

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23. RELATED PARTY TRANSACTIONS

(a) Names and relationship with related parties are as follows:

Name	Relationship
Qiushi*	An associate of the Group
China Mengniu Dairy Co., Ltd. ("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 Dairy (Wuhan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Tongliao) Co., Ltd. ***	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Hi-tech Dairy Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu HiTech Dairy (Maanshan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Jiaozuo) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Tai Yuan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Qingyuan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Beijing) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Baoding) Co., Ltd. ***	A subsidiary of Mengniu Company
Baoding Mengniu Beverage Co., Ltd.***	A subsidiary of Mengniu Company
Mengniu Dairy (Hengshui) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Tangshan) Co., Ltd. ***	A subsidiary of Mengniu Company
Modern Farm (Shanghe) Co., Ltd. ****	A subsidiary of ADH I
Modern Farm (Jinan) Co., Ltd. ****	A subsidiary of ADH II

* Qiushi is no longer related to the Group since 24 June 2016 (as disclosed in note 11). The related party transaction disclosed in this note include the transaction between the Group and Qiushi from 1 January 2016 to 24 June 2016.

** Mengniu Company has become a substantial shareholder of the Company and was able to exercise significant influence over the Group since 22 May 2013. Mengniu Company is principally engaged in milk processing industry in the PRC and listed on the Main Board of the Stock Exchange.

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

**** These two entities became subsidiaries of the Group since the Acquisition on 20 July 2015. On 22 February 2016, the Group merged these two entities into Modern Farm (Shanghe) Co., Ltd. and Modern Farm (Jinan) Co., Ltd. was liquidated during the current period. The related party transaction disclosed in this note include the transaction between the Group and these two entities before the Acquisition.



23. RELATED PARTY TRANSACTIONS *(continued)*

(a) Names and relationship with related parties are as follows: *(continued)*

1. At the end of the reporting period, the Group had the following balances with related parties:

Amount due from

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Mengniu Group		
Trade receivable		
Within 120 days based on invoice date	181,184	162,520

Amount due to

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Mengniu Group		
Advance from customers	—	8,333
Qiushi		
Trade payable		
Within 60 days based on invoice date	N/A	6,086

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For the six months ended 30 June 2016

23. RELATED PARTY TRANSACTIONS *(continued)*

(a) Names and relationship with related parties are as follows: *(continued)*

2. During the current period, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Sales of raw milk to Mengniu Group	1,123,999	1,217,819
Disposal of dairy cows to Modern Farm Shanghe	N/A	15,807

	For the period from	For
	1 January 2016 to 24 June 2016 RMB'000	the six months ended 31 June 2015 RMB'000
Purchase of raw material from Qiushi	27,266	70,931

The sales and purchase prices were based on mutually agreed terms.

3. Compensation of key management personnel

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Salaries and other benefits	3,631	3,658
Recognition of equity-settled share-based payment	4,776	5,359
Retirement benefits scheme contributions	90	101
	8,497	9,118



24. FAIR VALUE MEASUREMENTS

Fair value of the Group's biological assets and other financial liabilities that are measured on a recurring basis

The Group's biological assets and other financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these assets and liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Fair value hierarchy

Assets/(liabilities)	Fair value as at 30 June 2016 RMB'000	Fair value as at 31 December 2015 RMB'000	Fair value hierarchy
Biological assets	7,576,003	7,590,878	level 3
Other financial liabilities	(1,543,265)	(1,155,472)	level 3

Valuation techniques used in fair value measurements

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used in the valuation models:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
The Value Adjustment Undertakings	Binomial Option Pricing Model	Expected volatility and risk-free interest of the undertakings as disclosed in note 19.	<p>An increase in expected volatility of the Value Adjustment Undertakings would result in a smaller percentage increase in the fair value measurement of Value Adjustment Undertakings, and vice versa.</p> <p>An increase in risk-free interest rate of the Value Adjustment Undertakings would result in a smaller percentage decrease in the fair value measurement of Value Adjustment Undertakings, and vice versa.</p>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

24. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements *(continued)*

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB23,700 per head at 30 June 2016 (31 December 2015: RMB 24,500).	An increase in the estimated local market selling price used would result in a smaller percentage increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old are RMB 16,003 at 30 June 2016 (31 December 2015: RMB16,248); average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB 15,761 at 30 June 2016 (31 December 2015: RMB 15,982).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in a much smaller percentage increase/decrease in the fair value measurement of the heifers and calves older/younger than 14 months old, and vice versa.



24. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements *(continued)*

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	The estimated feed costs per kg of raw milk used in the valuation process are RMB 1.97 for the six months ended 30 June 2016 (for the year ended 2015: RMB 2.21), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation.	An increase in the estimated feed costs per kg of raw milk used would result in a smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 24.0 kg to 26.0 kg for the six months ended 30 June 2016 (for the year ended 2015: 24.0 kg to 26.0 kg), depending on the number of the lactation cycles and the individual physical condition.	An increase in the estimated daily milk yield per head used would result in a smaller percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Estimated local future market price for raw milk is RMB 4.02 per kg at 30 June 2016 (31 December 2015: RMB 4.39 per kg).	An increase in the estimated average selling price of raw milk used would result in a much higher percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Discount rate for estimated future cash flow used is 11.91% at 30 June 2016 (31 December 2015: 11.70%).	An increase in the estimated discount rate used would result in a slightly smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.

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24. FAIR VALUE MEASUREMENTS *(continued)*

Reconciliation of Level 3 fair value measurements of other financial liabilities

The Value Adjustment Undertakings

	Value Adjustment Undertakings RMB'000 (unaudited)
At 1 January 2016	(1,155,472)
Loss in profit or loss	(387,793)
At 30 June 2016	(1,543,265)

Fair value losses on the Group's other financial liabilities held at the period end are included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

Reconciliation of Level 3 fair value measurements of biological assets

	Heifers, calves and milkable cows RMB'000 (unaudited)
Balance at 1 January 2016	7,590,878
Feeding cost	726,848
Decrease due to disposal	(242,478)
Loss arising from changes in fair value less costs of dairy cows	(499,245)
At 30 June 2016	7,576,003

25. EVENTS AFTER THE REPORTING PERIOD

There is no significant events after the reporting period.