China Modern Dairy Holdings Ltd.

中 國 現 代 牧 業 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "Board") of directors (the "Directors") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the year ended 31 December 2016** *RMB'000*	**For the year ended 31 December 2015** *RMB'000*
Revenue	5	4,862,311	4,826,341
Cost of sales before raw milk fair value adjustments		(3,258,127)	(3,167,298)
Raw milk fair value adjustments included in cost of sales		(1,116,860)	(1,203,011)
Loss arising from changes in fair value less costs to sell of dairy cows		(1,058,928)	(474,910)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		1,116,860	1,203,011
Other income		69,860	32,094
Selling and distribution costs		(786,929)	(194,542)
Administrative expenses		(274,210)	(243,566)
Share of loss of an associate		(1,616)	(1,192)
Share of profit of joint ventures		—	5,782
Other gains and losses, net		125,554	(107,077)
Other expenses		(94,324)	(5,173)
(Loss) profit before finance costs and tax	5, 6	(416,409)	670,459
Finance costs	7	(368,582)	(315,078)
(Loss) profit before tax		(784,991)	355,381
Income tax expense	8	(504)	(11,663)
(Loss) profit and total comprehensive income for the year		(785,495)	343,718
(Loss) profit and total comprehensive income attributable to:			
Owners of the Company		(742,103)	321,296
Non-controlling interests		(43,392)	22,422
		(785,495)	343,718
(Loss) earnings per share (RMB)	10		
Basic		(13.99) cents	6.37 cents
Diluted		(13.99) cents	6.32 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31/12/2016**	**31/12/2015**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	11	5,075,030	5,376,897
Land use rights		126,679	120,622
Goodwill		1,424,539	1,441,494
Interest in an associate		1,887	25,076
Available-for-sale equity investment		24,955	—
Biological assets		7,602,959	7,590,878
		14,256,049	14,554,967
CURRENT ASSETS			
Inventories		980,515	834,099
Trade and other receivables	12	1,348,480	1,097,794
Land use rights		4,012	3,743
Pledged bank balances and non-pledged bank deposits		356,624	533,866
Cash and bank balances		851,788	483,367
Other financial assets		11,236	—
		3,552,655	2,952,869
CURRENT LIABILITIES			
Trade and other payables	13	2,781,727	2,012,976
Tax payable		57	281
Bank borrowings - due within one year		3,278,325	4,825,521
Short-term debentures		799,425	400,000
Other borrowing - due within one year		38,527	—
Other financial liabilities		927,058	—
		7,825,119	7,238,778
NET CURRENT LIABILITIES		(4,272,464)	(4,285,909)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,983,585	10,269,058

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	452,959	452,959
Share premium and reserves	6,568,554	7,328,938
Equity attributable to owners of the Company	7,021,513	7,781,897
Non-controlling interests	101,383	168,135
	7,122,896	7,950,032
NON-CURRENT LIABILITIES		
Bank borrowings - due after one year	607,500	821,730
Medium-term notes	1,796,605	200,000
Corporate bond	249,020	—
Other borrowing - due after one year	36,962	—
Deferred income	170,602	141,824
Other financial liability	—	1,155,472
	2,860,689	2,319,026
	9,983,585	10,269,058

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparation of the consolidated financial statements for the year ended 31 December 2016, the Directors have given careful consideration to the future liquidity of the Group in light of that the Group incurred a net loss of RMB785,495,000 for the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its total current assets by RMB4,272,464,000 (31 December 2015: RMB4,285,909,000). Having considered the available credit facilities of approximately RMB6,709,321,000 which remains unutilised as at 31 December 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 consolidated financial statements have been prepared on a going concern basis.

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

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

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

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

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

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

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

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual items that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments currently stated at cost less impairment will either be measured as fair value through profit or loss ("FVTPL") or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed assessment.

IFRS 15 Revenue from Contracts with Customers and the related Amendments

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

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

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

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

In 2016, the International Accounting Standards Board (the "IASB") issued clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, expect for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments for land use rights as investing cash flows while other operating lease payments are presented as operating cash flows. Upon application of the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset for prepaid lease payments for land use rights where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of -use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Upon application of IFRS 16, assessing whether the transfer of the assets in a sale for sale and leaseback transactions will be based on the requirements of IFRS 15 Revenue from Contracts with Customers.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB20,744,000 as disclosed in note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS16. In addition, the sale and leaseback transactions entered into by the Group as disclosed in note 30 do not satisfy the requirements of IFRS 15 as sales of assets and hence will be considered as collateralised borrowings under IFRS 16. The application of new requirements may result other changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under the historical cost basis except for: (i) biological assets, which are measured at fair value less costs to sell, and (ii) financial instruments at FVTPL, which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

5. SEGMENT INFORMATION

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

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

- Dairy farming - breeding dairy cows to produce and sell raw milk.
- Liquid milk products production - producing and selling processed liquid milk.

Segment revenue, results, assets and liabilities

For the year ended 31 December 2016

	Dairy farming	Liquid milk products	Subtotal	Inter-segment elimination*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	3,988,043	1,478,744	5,466,787	(604,476)	4,862,311
Segment cost of sales before raw milk fair value adjustments	2,763,230	1,099,127	3,862,357	(604,230)	3,258,127
Reportable segment profit (loss)	501,238	(355,719)	145,519	(246)	145,273
Loss arising from changes in fair value of less costs to sell of dairy cows					(1,058,928)
Share of loss of an associate					(1,616)
Unallocated other income					10,577
Unallocated other gains and losses					229,228
Unallocated expenses					(109,525)
Loss before tax					(784,991)

	Dairy farming	Liquid milk products	Subtotal	Inter-segment elimination*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016					
Segment assets	16,153,073	1,894,221	18,047,294	(942,720)	17,104,574
Unallocated assets					704,130
Consolidated assets					17,808,704
Segment liabilities	8,847,228	1,804,468	10,651,696	(934,350)	9,717,346
Unallocated liabilities					968,462
Consolidated liabilities					10,685,808

* 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 RMB 604,476,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

For the year ended 31 December 2015

	Dairy farming	Liquid milk products	Subtotal	Inter-segment elimination*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	4,055,913	1,501,875	5,557,788	(731,447)	4,826,341
Segment cost of sales before raw milk fair value adjustments	2,768,777	1,126,444	3,895,221	(727,923)	3,167,298
Reportable segment profit	712,851	220,530	933,381	(3,524)	929,857
Loss arising from changes in fair value of less costs to sell of dairy cows					(474,910)
Share of loss of an associate					(1,192)
Share of profit of joint ventures					5,782
Unallocated other income					12,583
Unallocated other gains and losses					(9,659)
Unallocated expenses					(107,080)
Profit before tax					355,381

As at 31 December 2015

	Dairy farming	Liquid milk products	Subtotal	Inter-segment elimination*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	15,833,395	1,353,217	17,186,612	(577,422)	16,609,190
Unallocated assets					898,646
Consolidated assets					17,507,836
Segment liabilities	7,571,794	1,381,373	8,953,167	(569,298)	8,383,869
Unallocated liabilities					1,173,935
Consolidated liabilities					9,557,804

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

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

Other segment information

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

For the year ended 31 December 2016

	Dairy farming	Liquid milk products	Subtotal	Unallocated items	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions to non-current assets (note i)	1,790,846	87,584	1,878,430	1,527	1,879,957
Depreciation and amortisation charged to profit or loss	253,960	65,261	319,221	4,173	323,394
Impairment loss of trade receivables recognised in profit or loss	1,589	—	1,589	—	1,589
Impairment loss of goodwill	16,955	—	16,955	—	16,955
Impairment loss of property, plant and equipment	69,061	—	69,061	—	69,061
Write-down of inventories to net realisable value	9,701	—	9,701	—	9,701
Marketing and promotion expenses included in selling and distribution costs (note ii)	—	507,731	507,731	—	507,731
Loss on disposal of property, plant and equipment	5,861	411	6,272	985	7,257
Interest income	4,786	337	5,123	10,199	15,322
Finance cost	339,943	28,639	368,582	—	368,582

For the year ended 31 December 2015

	Dairy farming	Liquid milk products	Subtotal	Unallocated items	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions to non-current assets	4,375,932	150,904	4,526,836	3,285	4,530,121
Depreciation and amortisation charged to profit or loss	216,416	51,992	268,408	6,760	275,168
Impairment loss of goodwill	94,392	—	94,392	—	94,392
(Gain) loss on disposal of property, plant and equipment	(738)	87	(651)	38	(613)
Marketing and promotion expenses included in selling and distribution costs	—	23,100	23,100	—	23,100
Interest income	1,184	54	1,238	11,590	12,828
Finance cost	284,702	30,376	315,078	—	315,078

Notes:

i. Additions to non-current assets comprise biological assets, property, plant and equipment, and land use rights.

ii. Marketing and promotion expenses are incurred for the purpose of promoting the Group's liquid milk products. The Group reformed and expanded its distribution networks to deal with the market competition during the year ended 31 December 2016.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit or loss represents the profit earned by or loss from each segment without including loss arising from changes in fair value less costs to sell of dairy cows, fair value gains/losses from financial liabilities at FVTPL, share of loss of an associate, share of profit of joint ventures, corporate bank interest income, and other head office and corporate income and expenses that are not directly attributable to operating segments. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

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

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

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

Revenue from major products

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

	For the year ended 31 December 2016	For the year ended 31 December 2015
	RMB'000	RMB'000
Raw milk	3,383,567	3,324,466
Processed liquid milk	1,478,744	1,501,875
	4,862,311	4,826,341

Geographic information

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

Information about major customers

Included in revenue arising from sales of raw milk to external customers of RMB3,383,567,000 (2015: RMB3,324,466,000) are revenue of approximately RMB2,349,781,000 (2015: RMB2,304,424,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the years ended 31 December 2016 and 2015.

6. (LOSS) PROFIT BEFORE FINANCE COSTS AND TAX

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
	RMB'000	*RMB'000*
Profit before finance costs and tax	(416,409)	670,459
Add: amortisation	4,658	2,192
Add: depreciation	318,736	272,976
Add: loss arising from changes in fair value less costs to sell of dairy cows	1,058,928	474,910
Add: fair value (gain) loss from financial liabilities at FVTPL	(228,540)	50,028
Add: loss (gain) from disposal of property, plant and equipment	7,257	(613)
Add: impairment loss of property, plant and equipment	69,061	—
Less: gains arising on deemed disposal/partial disposal of an associate	(1,462)	(7,336)
Add: impairment loss of goodwill	16,955	94,392
Less: gain arising on remeasurement of joint ventures	—	(121,340)
Less: fair value gain on the Forward	(11,236)	—
Add: net foreign exchange loss	11,424	92,048
Cash EBITDA[1] — unaudited	829,372	1,527,716

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

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

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
	RMB'000	*RMB'000*
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	2,339,029	2,252,096
Production costs for liquid milk products	919,098	915,202
	3,258,127	3,167,298
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	1,116,860	1,203,011
	4,374,987	4,370,309
Other gains and losses:		
Fair value gains from Put Option and Call Option	—	(147,099)
Fair value (gain) loss from contingent considerations	(228,540)	197,127
Gains arising on deemed disposal/partial disposal of an associate	(1,462)	(7,336)
Net foreign exchange loss	11,424	92,048
Loss (gain) from disposal of property, plant and equipment	7,257	(613)
Loss arising from closure of a dairy farm:		
Impairment loss of property, plant and equipment	69,061	—
Write-down of inventories to net realisable value	9,701	—
	78,762	—
Impairment loss of trade receivables	1,589	—
Impairment loss of goodwill	16,955	94,392
Gain arising on remeasurement of joint ventures	—	(121,340)
Fair value gain on the Forward	(11,236)	—
Others	(303)	(102)
	(125,554)	107,077
Depreciation of property, plant and equipment	552,306	473,342
Less: capitalised in biological assets	(233,570)	(200,366)
Depreciation charged to profit or loss	318,736	272,976

	For the year ended 31 December 2016 *RMB'000*	For the year ended 31 December 2015 *RMB'000*
Equity-settled share option expense	43,143	30,532
Other employee benefits costs	449,382	374,785
Less: capitalised in biological assets	(121,616)	(103,615)
Employee benefits charged to profit or loss	370,909	301,702
Auditors' remuneration	5,000	4,300
Release of land use rights	4,658	2,192

7. FINANCE COSTS

	For the year ended 31 December 2016 *RMB'000*	For the year ended 31 December 2015 *RMB'000*
Interest expenses on:		
Bank borrowings	230,012	269,352
Short-term debentures	43,529	32,788
Medium-term notes	71,624	10,796
Other borrowing	5,112	—
Corporate bond	5,263	—
Total borrowing cost	355,540	312,936
Less: amounts capitalised for construction of property, plant and equipment	(3,033)	(9,458)
Cost of discount of bills receivable	15,949	11,600
Fair value loss on the Swap	126	—
	368,582	315,078

For the year ended 31 December 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 5.46% per annum (2015: 5.52%).

8. INCOME TAX EXPENSE

	For the year ended 31 December 2016	For the year ended 31 December 2015
	RMB'000	*RMB'000*
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	504	11,663

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

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

Dividend income of Aquitair (defined in note 42) from Modern Farming (Group) Co., Ltd. ("Modern Farm") is subject to Irish Income Tax at 25%. As at 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,562,974,000 (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. The Group's subsidiaries engaged in agricultural business for the years ended 31 December 2016 and 2015 are listed as below:

	For the year ended 31 December 2016 *RMB'000*	For the year ended 31 December 2015 *RMB'000*
Modern Farm	Exempted	Exempted
Helingeer Modern Farm Co., Ltd.	Exempted	Exempted
Zhangjiakou Saibei Modern Farm Co., Ltd.	Exempted	Exempted
Wenshang Modern Farm Co., Ltd.	Exempted	Exempted
Shangzhi Modern Farm Co., Ltd.	Exempted	Exempted
Hongya Modern Farm Co., Ltd.	Exempted	Exempted
Modern Farming (Chabei) Co., Ltd.	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd.	Exempted	Exempted
Modern Farm (Feidong) Co., Ltd.	Exempted	Exempted
Modern Farm (Hefei) Co., Ltd.	Exempted	N/A
Modern Farming (Tongshan) Co., Ltd.	Exempted	Exempted
Modern Farming (Tongliao) Co., Ltd.	Exempted	Exempted
Modern Farm (Chabei) Hengsheng Co., Ltd.	Exempted	Exempted
Modern Farm (Bengbu) Co., Ltd.	Exempted	Exempted
Modern Farm (Shuangcheng) Co., Ltd.	Exempted	Exempted
Modern Farm (Jinan) Co., Ltd.	N/A	Exempted
Modern Farm (Shanghe) Co., Ltd.	Exempted	Exempted

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong.

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

	For the year ended 31 December 2016 *RMB'000*	For the year ended 31 December 2015 *RMB'000*
(Loss) profit before tax	(784,991)	355,381
Tax at applicable income tax rate at 25%	(196,248)	88,846
Effect of tax exemption granted to agricultural entities	(76,682)	(91,137)
Effect of losses incurred for agricultural business and other non-deductible expenses	121,008	11,685
Tax effect of tax losses not recognised	152,427	2,269
Income tax expense	504	11,663

As at 31 December 2016, the Group's PRC subsidiaries had unused tax losses of RMB629,685,000 (31 December 2015: RMB23,063,000) incurred by non-agricultural business in the PRC. These unused tax losses as at 31 December 2016 will expire in year 2017 to year 2021 if not utilised. No deferred tax asset has been recognised in relation to such tax losses as it is not probable that taxable profit will be available against which the temporary differences can be utilised.

9. DIVIDENDS

	2016	**2015**
	RMB'000	*RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2014 Final - 1.2481 HK cents per share	—	49,003

Note:

No dividend (2015: RMB49,003,000) was paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting 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:

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
	RMB'000	*RMB'000*
(Loss) Earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	(742,103)	321,296

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
	Shares	*Shares*
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earnings per share	5,302,909,436	5,041,854,854
Effect of share options issued by the Company	—	39,783,628
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	5,302,909,436	5,081,638,482

The calculation of diluted loss per share for the year ended 31 December 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.

The calculation of diluted loss per share for the year ended 31 December 2016 has not taken into account the effect of the Supplemental Consideration Shares to be issued since the Supplemental Consideration Shares are measured as a financial liability at FVTPL as at 31 December 2016.

11. PROPERTY, PLANT AND EQUIPMENT

During the year end 31 December 2016, depreciation charge amounting to RMB233,570,000 (for the year ended 31 December 2015: RMB200,366,000) has been capitalised in the Group's biological assets.

12. TRADE AND OTHER RECEIVABLES

	31/12/2016	**31/12/2015**
	RMB'000	*RMB'000*
Trade receivables	1,217,606	882,751
Bills receivable	1,500	23,153
Less: allowance for doubtful debts	(1,589)	—
	1,217,517	905,904
Advanced payments	82,787	105,082
Receivable in respect of sales of self-reproduced dairy cows	—	57,922
Input value added tax recoverable	31,261	7,905
Interest receivables	694	1,909
Receivables in respect of disposal of property, plant and equipment	9,842	10,868
Others	6,379	8,204
	1,348,480	1,097,794

The Group normally allows credit periods of 30 to 120 days to its customers. The Group may consider to extend credit periods to up to 360 days for certain customers that have long relationship with the Group on a case by case basis.

The following is an aging analysis of trade receivables net of allowance for doubtful debts 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:

	31/12/2016	**31/12/2015**
	RMB'000	*RMB'000*
Trade receivables		
- within 120 days	672,426	880,751
- beyond 120 days but within 360 days	461,328	2,000
- beyond 360 days	82,263	—
Bills receivable		
- within 120 days	—	23,153
- beyond 120 days but within 360 days	1,500	—
	1,217,517	905,904

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

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits. Credit quality and credit limits attributed to customers are reviewed once a year. As at 31 December 2016, 92% (2015: 99%) of the trade receivables that are neither past due nor impaired have the best credit scoring under the internal credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB98,407,000 (31 December 2015:RMB2,000,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 385 days (2015: 440 days).

Aging of trade receivables which are past due but not impaired

	31/12/2016	**31/12/2015**
	RMB'000	*RMB'000*
1-90 days past due	72,441	—
91-180 days past due	25,966	—
271-360 days past due	—	2,000
Total	98,407	2,000

Movement in the allowance for doubtful debts

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
1 January	—	—
Impairment loss recognised during the year	1,589	—
31 December	1,589	—

Included in the allowance of doubtful debts are individually impaired trade receivable with an aggregate balance of RMB1,589,000 (31 December 2015: nil).

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2016 that were transferred to suppliers by endorsing those receivables on a full recourse basis but not matured at the end of the reporting period (31 December 2015: RMB23,153,000). As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets are carried at amortised cost in the Group's consolidated financial statements.

Bills receivable endorsed to suppliers with full recourse

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Carrying amount of transferred assets	1,500	23,153
Carrying amount of associated liabilities	(1,500)	(23,153)
Net position	—	—

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

13. TRADE AND OTHER PAYABLES

The credit period granted by suppliers for trade purchases is generally 120 days. The following is an aged analysis of trade and bills payable at the end of the reporting period:

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Trade payables		
- Within 60 days	1,204,450	817,966
- beyond 60 days but within 120 days	213,399	68,243
- beyond 120 days	84,293	15,088
Bills payable (note)	377,055	310,268
	1,879,197	1,211,565
Payable for acquisition of property, plant and equipment	554,959	631,208
Accrued staff costs	70,965	61,084
Accrued interest expenses	102,009	28,680
Advance payments from customers	77,119	12,931
Others	97,478	67,508
	2,781,727	2,012,976

Note:

Bills payable are bank accepted and mature within twelve months from the respective issuance dates.

14. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments under operating leases recognised during the year is RMB23,020,000 (2015: RMB12,374,000).

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:

	31/12/2016	**31/12/2015**
	RMB'000	*RMB'000*
Within one year	11,078	10,868
In the second to fifth year inclusive	9,666	19,257
	20,744	30,125

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

INDUSTRY OVERVIEW

During the reporting period, the consumer market in China remained sluggish, together with the impact from imported liquid milk and large inflows of reconstituted milk, the rise in raw milk prices in China was suppressed, and the dairy farming industry in China was facing in-depth adjustments. According to industry data, total quantity of imported liquid milk and imported bulk milk powder in China reached 630,000 tons and 600,000 tons, respectively, representing an increase of 38% and 11%. A large number of small-scale farms exited from the market, while large-scale farms were also faced with reducing operating profit and resulted in a slowdown in investment pace and an increase in eliminations.

As the herd size of dairy cows in China decreased rapidly, the condition of oversupply in raw milk was improved, together with a general increase in the auction prices of international milk powder on several occasions recently, domestic raw milk prices showed recovery signs during the second half of 2016. Dairy industry is the landmark sector in the modern agriculture and food industry, as well as an industry which is highly concerned by the community, the quality and safety of dairy products even represent the achievement in and the gap for food safety enhancement. On 26 December 2016, the "National Dairy Industry Development Plan (2016-2020)" jointly promulgated by the Ministry of Agriculture, National Development and

Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce and China Food and Drug Administration was published formally as the outline plan of the dairy industry for a five-year development period and injected a strong momentum into the dairy industry of China. The Plan focused on "4 highlights" as development principles, including good grass plantation, good dairy cows, quality milk production and promotion of integrated operation, and set the development targets of the dairy industry at a self-sufficiency ratio of not less than 70% in milk supply sourced in China and a percentage of large-scale farms of not less than 70% by 2020. Policies, laws and regulations were promulgated successively by the relevant supervision authorities, a registration system to manage the formulae of dairy products was implemented, which fully reflected the determination of the State to encourage merger and acquisition of milk powder enterprises, maintain market stability and regulate the market of dairy products in China reasonably.

With steady and sustainable development of the economy, driven by the dual favourable supports of the Plan and the "Two-children Policy", the demand for high quality dairy products kept on increasing, there was enormous potential in the dairy product industry. To satisfy the market demand for quality, the dairy farming industry in China was in the process of structural transformation from scattering small farms to large modern farms with economies of scale and intensive development. As the market system for dairy products improves further, the use of reconstituted milk will be regulated. We believe that despite facing a number of challenges, the national premium quality dairy product industry will continue to maintain robust demand, raw milk prices will return to a rising trend, the whole industry will definitely enter into a new cycle of golden era.

BUSINESS REVIEW

The Group is primarily engaged in two business segments, including: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products; and (ii) liquid milk products business under its own brands, under which we mainly produce and sell liquid milk products. As market prices of raw milk slightly improved in the second half of 2016, the Group recorded total revenue of RMB4,862.3 million for the year ended 31 December 2016, representing an increase of 0.75% year-on-year. Of which, sales revenue from milk products of our own brands amounted to RMB1,478.7 million, decreased slightly by 1.54% on a year-on-year basis.

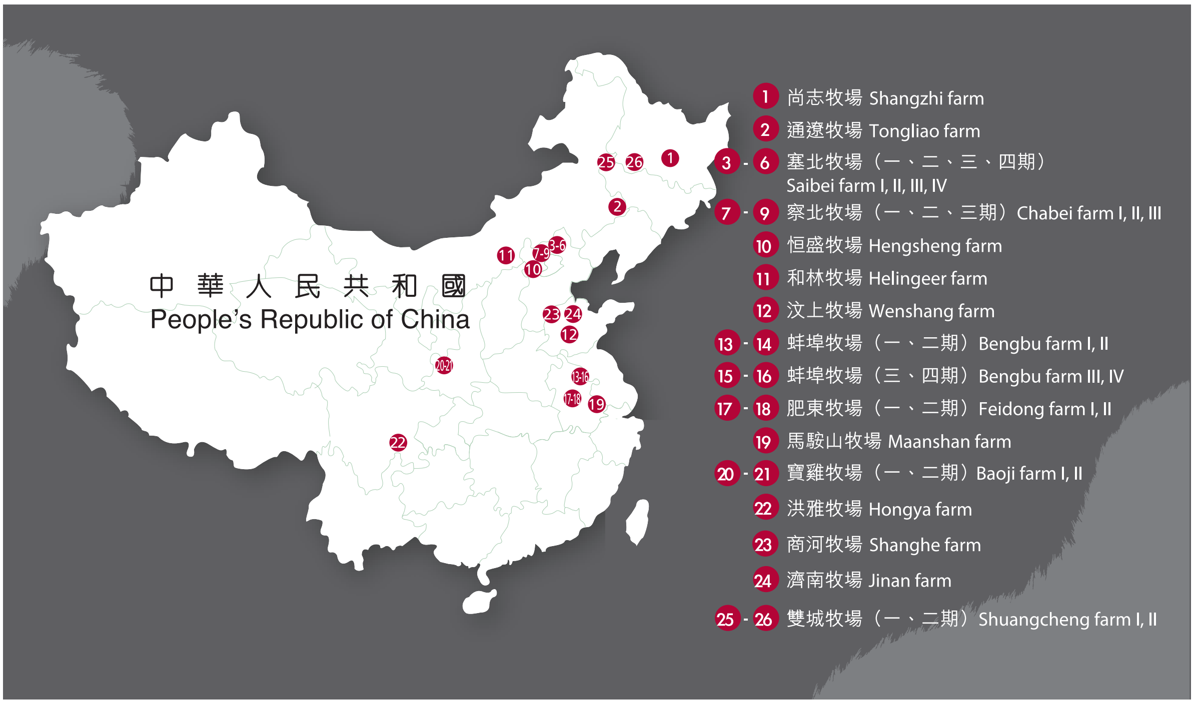
The Group will continue to maintain its high standard and strict requirement on the quality of raw milk, seeking to win trust and support from its consumers with high-end quality of "purity, genuineness, freshness and vitality" in its products, together with "integration", its cutting-edge innovative mode of operation. In January

2017, the Group completed the acquisition of the remaining 45% equity interest in Modern Farm (Anhui) Dairy Product Sales Co., Ltd. ("**Modern Farm (Anhui)**"). Modern Farm (Anhui) is currently a wholly-owned subsidiary of the Company. The acquisition will be helpful to streamline the downstream business structure of the Group and establish a key foundation for the effective management of sales channels and distribution network. On 14 February 2017, UBS AG and DBS Asia Capital made a conditional mandatory cash offers of HK$1.94 per share of the company ("**Share Offer**") for and on behalf of China Mengniu Dairy Company Limited ("**Mengniu**") to acquire all the issued shares in the Company (Other than those already owned or agreed to be acquired by Mengniu or parties acting in concert with it) and for cancellation of all the outstanding options of the Company ("**Option offer**" together with Share Offer referred as "**Offers**").The conditions to the Share offer has been satisfied on 7 March 2017, and Mengniu then declared that the Share Offer was unconditional. The Offers were declared unconditional in all respects on 7 March 2017 and closed on 21 March 2017. Mengniu and its concert parties hold an aggregate of 3,755,769,412 shares of the Company, representing 61.3% of the Company as at the date of this announcement. Mengniu was a leading enterprise in the dairy industry of China, by fostering closer connection with it, the Group was able to secure healthy and stable output channels for its high quality raw milk. The Group would also leverage on the strong and large sales network of Mengniu to deliver our high quality milk of "purity, genuineness, freshness and vitality" to the homes of more consumers.

As the main force focusing on the development of downstream business, with the competitive advantages of the "Two Hours" pasteurized milk, together with the synergy generated from the aforesaid completion of the acquisition of Modern Farm (Anhui) and the strong and large sales network of Mengniu, it will bring in more development opportunities for transformed modern dairy farming enterprises with comprehensive industrial chain.

We are the largest dairy farming company and the largest producer of raw milk in China in terms of herd size and quantity. As of 31 December 2016, the Group operated a total of 26 livestock farms in China with 229,200 dairy cows in total. As a nationwide farm, we are endowed with unique geographical advantages, our farms are close to various downstream processing plants for dairy products and supply sources of feed. For the year ended 31 December 2016, the dairy farming business of the Group recorded external sales revenue of RMB3,383.6 million, representing 69.59% of the total revenue of the Group. Total external sales volume of raw milk amounted to 855,353 tons. Raw milk with premium quality sold by the Group externally was used in the production of premium dairy products by downstream diary product enterprises. Sales of high-end milk in China continued to maintain significant growth in recent years.

Our Farms



Our financial results are directly affected by the milk yield per cow. In general, as milk yield per cow improves, the cash costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. For the year ended 31 December 2016, we recorded an average annual milk yield of 9.4 tons per cow, representing an increase of 3.30% from 9.1 tons for the corresponding period last year.

The Cash EBITDA[(1)] decreased by 45.7% from RMB1,527.7 million for the corresponding period last year to RMB829.4 million for the year ended 31 December 2016. Affected by factors, including the decrease in raw milk prices, sprayed powder and increased marketing and sales expenses, the Group's cash EBITDA margin decreased from 31.65% for the corresponding period last year to 17.06% for the year ended 31 December 2016.

As a pioneer in domestic large-scale farming and who initiated the cutting-edge innovative mode of operation by "integration of forage grass planting, dairy farming and milk processing", the Group has won widespread recognition from organizations and consumers both at home and abroad. At the Monde Selection 2016 held in Budapest, the capital city of Hungary, on 30 May 2016, the Company was awarded the gold prize in food category of Monde Selection for 3 consecutive years. In addition, it was also awarded another special prize — The International High Quality Trophy. This was a special prize of Monde Selection awarded only to products winning grand gold or gold awards for three consecutive years. Monde Selection is an independent international organization jointly established by the European

Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利時經貿部) in 1961, and is currently one of the oldest, the most representative and the most authoritative food quality evaluation organization in the world. Its prizes are designed for the purpose of monitoring food quality, and are regarded as "Nobel Prize in food quality". The prizes are awarded after conducting strict review and evaluation on the safety, taste, packaging and raw materials of the contesting food products. This has further proved that the Group's own branded milk won recognition for its high-end quality of "purity, genuineness, freshness and vitality" and its cutting-edge innovative mode of operation by "integration of forage grass planting, dairy farming and milk processing" from authorities across the world.

On 20 October 2016, test results and production technology of products of Modern Farm such as sterilized milk and pasteurized milk conformed to the standard requirements of the National Dairy Technology Innovation Alliance and passed the approval successfully. Modern Farm has become the first enterprise whose pasteurized milk and UHT sterilized milk passing acceptance of "quality milk project" (優質乳工程) simultaneously. The implementation of "quality milk project" could improve quality of milk supply sourced and level of processing fundamentally, realize energy saving and emission reduction, green and environmental protection and increase competitiveness of local dairy products.

On 16 December 2016, Calves Center of Modern Farm worked together with Innovation Team of Feed Research Institute of Chinese Academy of Agricultural Sciences to research and develop and promote a series of complete calves raising means, which made projects with an improving growth performance of calves of the Group obtained the National Agriculture and Fisheries Golden Harvest for 2014-2016.

PROSPECTS

With optimistic economic prospects in China, steady increase in per capita consumption of urban residents and increasing market demand, the dairy industry in China has gradually moved into a healthy and sustainable development track, and the landscape of a modern dairy industry has been initially established. The "National Dairy Industry Development Plan (2016-2020)" jointly promulgated by the Ministry of Agriculture, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce and China Food and Drug Administration was published formally as the outline plan of the dairy industry for a five-year development period and injected a strong momentum into the dairy industry of China. The Plan focused on "4 highlights" as development principles, including good grass plantation, good dairy cows, quality milk production and promotion of integrated operation, and set the development targets of the dairy industry at a self-sufficiency ratio of not less than 70% in milk supply sourced in China and a percentage of large-scale farms of not less than 70% by 2020. And the standards of zero distance and 2 hours established by China Modern Dairy for the first time, the green development and mode of recycle economy by integrating plantation, farming and processing, were highly consistent with the core guidance thought in the planning for the dairy industry under the "13th Five-year Plan".

With recovery in global milk prices and reduction in raw milk output caused by a decline in domestic dairy herd size, signs of gradual improvement in the oversupply of raw milk in China appear in 2017, domestic milk prices will show a moderately rising trend. The upstream farming industry is leaving the bottom of depression, and the overall dairy industry in China is facing a new industrial cycle of golden era. We believe, being the largest dairy farming enterprise in China, we are well-positioned to capture the opportunities, by following the trend and improving performance results, more benefits will be brought to shareholders.

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

FINANCIAL HIGHLIGHTS

Herd Size

	As at	
	31 December 2016	**31 December 2016**
	Head	*Head*
Dairy cows		
Milkable cows	119,286	114,751
Heifers and calves	109,914	110,791
Total number of dairy cows	229,200	225,542

As at 31 December 2016, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. The current herd size is 229,200 compared to 225,542 as at 31 December 2015.

Milk Yield

For the year ended 31 December 2016, we recorded an average annual milk yield of 9.4 tons per cow, representing an increase of 3.30% as compared to 9.1 tons for the corresponding period of last year. Such results are attributable to effective herd management, genetic quality improvement of our cows through generations and increase in the number of cows reaching the peak stage of lactation.

FINANCIAL OVERVIEW

Revenue

The following table sets forth the breakdown of the consolidated revenue of our two operating segments for the years ended 31 December 2016 and 2015, respectively:

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	External Sales	**Internal Sales**	**Subtotal**	**External Sales**	**Internal Sales**	**Subtotal**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales of raw milk business	3,383,567	604,476	3,988,043	3,324,466	731,447	4,055,913
Sales of liquid milk products business	1,478,744	—	1,478,744	1,501,875	—	1,501,875
Consolidated revenue	4,862,311	604,476	5,466,787	4,826,341	731,447	5,557,788

Our revenue slightly increased by 0.75% from RMB4,826.3 million for the year ended 31 December 2015 to RMB4,862.3 million for the year ended 31 December 2016.

- ***Dairy farming business***

  Revenue from our dairy farming business decreased primarily due to a decrease selling price of raw milk in the PRC. The decrease in revenue generated from internal sales of raw milk was due to lower than expected growth of our liquid milk business.

  The following table sets forth the details of sales revenue, sales volume and average selling price (ASP) per ton of our raw milk for the periods indicated:

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Sales revenue	**Sales volume**	**ASP**	**Sales revenue**	**Sales volume**	**ASP**
	RMB'000	*tons*	*RMB/ton*	*RMB'000*	*tons*	*RMB/ton*
Raw milk						
External sales	3,383,567	855,353	3,956	3,324,466	752,314	4,419
Internal sales	604,476	154,501	3,912	731,447	171,778	4,258
Subtotal	3,988,043	1,009,854	3,949	4,055,913	924,092	4,389

- ***Liquid milk products business***

  Revenue from our liquid milk products business decreased by 1.54% from RMB1,501.9 million for the year ended 31 December 2015 to RMB1,478.7 million for the year ended 31 December 2016. For the years ended 31 December 2015 and 2016, the revenue from liquid milk products business accounted for 31.12% and 30.41% of the consolidated revenue for the respective year.

  Due to the impact and effect of imported bulk milk powder and reconstituted milk, total sales volume of our liquid milk decreased by 8.66% from 164,559 tons for the year ended 31 December 2015 to 150,313 tons for the year ended 31 December 2016.

Cost of sales before raw milk fair value adjustments

The Group's cost of sales before raw milk fair value adjustments primarily consisted of cost of dairy farming and cost of liquid milk products. Cost of sales before raw milk fair value adjustments of the dairy farming business included feed cost, labor cost, utilities, depreciation and other costs of farms. Cost of sales of the liquid milk products business included cost of raw materials, labor cost, depreciation, utilities and other processing costs. The following table sets forth the breakdown of the cost of sales of our products for the years indicated:

Cost of sales before raw milk fair value adjustments of the dairy farming business

	For the year ended 31 December 2016		**For the year ended 31 December 2015**	
	RMB'000	%	*RMB'000*	%
Feed cost	2,083,737	75.4%	2,133,566	77.06%
Labor cost	180,377	6.5%	151,709	5.48%
Utilities	60,357	2.2%	63,862	2.31%
Depreciation	203,325	7.4%	177,839	6.42%
Other costs of farms	235,434	8.5%	241,801	8.73%
Subtotal of cost of sales before raw milk fair value adjustments of the dairy farming business	2,763,230	100%	2,768,777	100%
Inter-segment cost	(424,201)		(516,681)	
Cost of external sales before raw milk fair value adjustments of the dairy farming business	2,339,029		2,252,096	

With the decrease in the prices of feed, total feed cost (before eliminating cost of sales in relation to internal supply of raw milk) for the year ended 31 December 2016 decreased by 2.3% to RMB2,083.7 million from RMB2,133.6 million of last year.

Meanwhile, the cost (excluding depreciation) per ton of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 9.59% from RMB2,804 of last year to RMB2,535 for the year ended 31 December 2016, mainly due to an increase in annual milk yield per cow and a decrease in feed prices.

Cost of sales before raw milk fair value adjustment of the liquid milk products business

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	RMB'000	%	*RMB'000*	%
Raw materials	908,193	82.6%	985,966	87.53%
Labor cost	52,613	4.8%	33,375	2.96%
Depreciation	55,743	5.1%	45,797	4.07%
Utilities	32,544	3.0%	23,796	2.11%
Other processing costs	50,034	4.6%	37,510	3.33%
Subtotal of cost of sales before raw milk fair value adjustments of the liquid milk products business	1,099,127	100%	1,126,444	100%
Inter-segment cost	(180,029)		(211,242)	
Cost of external sales before raw milk fair value adjustments of the liquid milk products business	919,098		915,202	

In respect of the sales volume of liquid milk, the raw material cost for the year ended 31 December 2016 (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 7.89% from RMB986.0 million of last year to RMB908.2 million. Sales amount of our liquid milk decreased by 1.54% from RMB1,501.9 million of last year to RMB1,478.7 million for the year ended 31 December 2016.

Cash cost (excluding depreciation) per ton of liquid milk sold (before eliminating cost of sales in relation to internal supply of raw milk) increased from RMB6,567 for the same period last year to RMB6,941 for the year ended 31 December 2016, representing an increase of 5.70% on a year-on-year basis.

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin before raw milk fair value adjustments of our two operating segments for the years indicated:

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	Gross profit	Gross Profit margin	Gross profit	Gross Profit margin
	RMB'000		*RMB'000*	
Dairy farming business				
Before elimination	1,224,813	30.71%	1,287,136	31.73%
After elimination	1,044,538	30.87%	1,072,370	32.26%
Liquid milk products business				
Before elimination	379,617	25.67%	375,431	25.00%
After elimination	559,646	37.85%	586,673	39.06%

- ***Dairy farming business***

  Gross profit of our dairy farming business before raw milk fair value adjustments (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 4.84% from RMB1,287.1 million for the year ended 31 December 2015 to RMB1,224.8 million for the year ended 31 December 2016. The decrease above was primarily due to the decrease in average selling price of raw milk.

  Gross profit margin of our dairy farming business before raw milk fair value adjustments (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 1.02% from 31.73% for the year ended 31 December 2015 to 30.71% for the year ended 31 December 2016, primarily due to the decrease in average selling price of raw milk.

- ***Liquid milk products business***

  Gross profit of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased by 1.12% from RMB375.4 million for the year ended 31 December 2015 to RMB379.6 million for the year ended 31 December 2016. The increase above was primarily due to the increase in unit selling price of our branded milk products.

Gross profit margin of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased from 25.00% for the year ended 31 December 2015 to 25.67% for the year ended 31 December 2016, mainly due to the decrease in selling price of raw milk and the increase in unit selling price of branded milk products.

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

As at 31 December 2016, the biological assets of the Group were valued at RMB7,603.0 million (31 December 2015: RMB7,590.9 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the fair value of dairy cows less costs to sell dairy cows were RMB1,058.9 million for the year ended 31 December 2016 (For the year ended 31 December 2015: RMB474.9 million). This was mainly attributable to the fact that after milk production by milkable cows, along with an extended lactation period, impairment will occur as less cash flow will be generated in future, and a decrease in the market selling price of raw milk.

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

Our gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 7.16% from RMB1,203.0 million for the year ended 31 December 2015 to RMB1,116.9 million for the year ended 31 December 2016, mainly due to the decrease in average selling price of our raw milk.

International Financial Reporting Standards (IFRS) required that raw milk harvested was initially measured at fair value less costs to sell, and the difference between the fair value less costs to sell and the actual costs incurred was charged to profit or loss.

Other income

For the year ended 31 December 2016, other income amounted to RMB69.9 million (For the year ended 31 December 2015: RMB32.1 million). Other income mainly consisted of government grants and interest income, of which interest income for the year ended 31 December 2016 amounted to RMB15.3 million (For the year ended 31 December 2015: RMB12.8 million), and government grants for the year ended 31 December 2016 amounted to RMB52.0 million (For the year ended 31 December 2015: RMB19.0 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the year ended 31 December 2016 *RMB'000*	For the year ended 31 December 2015 *RMB'000*
Selling and distribution costs	786,929	194,542
Administrative expenses	274,210	243,566
Total operating expenses	1,061,139	438,108

Our operating expenses increased from RMB438.1 million for the year ended 31 December 2015 to RMB1,061.1 million for the year ended 31 December 2016. Of which:

Selling and distribution costs mainly consisted of, among other things, transportation costs for sales of raw milk, transportation costs for sales of liquid milk products, salaries of sales personnel and daily expenses.

The amount of raw milk transportation costs included in selling and distribution costs increased to RMB114.3 million for the year ended 31 December 2016 from RMB83.0 million for the corresponding period of last year, mainly attributable to an increase in the sales volume of raw milk and the expanded transportation distance for sales of raw milk.

The amount of liquid milk marketing and promotion expenses included in selling and distribution costs increased to RMB507.7 million for the year ended 31 December 2016 from RMB23.1 million for the corresponding period of last year, mainly attributable to an increase in our allocation of market publicity expenses to tackle with intensive market competition from branded products and to increase the market share of our branded products.

The breakdown of selling expenses is set forth below:

Selling and distribution costs

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
	RMB'000	*RMB'000*
Farm segment		
Transportation costs	114,299	82,974
Liquid milk segment		
Transportation, loading and unloading costs	108,841	60,186
Staff remuneration	22,340	9,390
Publicity expenses	507,731	23,100
Others	32,317	18,810
Business tax and surcharge	1,401	82
Total selling and distribution costs	786,929	194,542

Administrative expenses mainly included, among other things, remuneration of management staff (including equity-based share option expenses) and depreciation charges of office building, staff quarters and facilities.

The amount of equity-based share option expenses included in the administrative expenses for the year increased to RMB43.1 million for the year ended 31 December 2016 from RMB30.5 million for the corresponding period of last year.

Other gains and losses

For the year ended 31 December 2016, gains arising from other gains and losses amounted to RMB125.6 million (For the year ended 31 December 2015: RMB107.1 million), mainly consisted of, among other things, net loss (gain) of fair value arising from financial liabilities measured at fair value through profit or loss (FVTPL), net amount of foreign exchange losses, impairment provision for fixed assets and impairment loss on goodwill.

For the year ended 31 December 2016, net gain of fair value arising from financial liabilities measured at FVTPL was RMB 228.5 million (For the year ended 31 December 2015: net loss of fair value arising from financial liabilities measured at FVTPL was RMB50.0 million). The financial liabilities measured at FVTPL arose as a result of the put options granted to Success Dairy by the Company and the call options granted to the Company by Success Dairy pursuant to the agreement entered into by the Company and Success Dairy for the establishment of two joint ventures on 23 September 2013, and upon acquisition (the "Acquisition") of the two joint ventures by the Company on 20 July 2015, the two options were de-recognized, and upon acquisition of the two joint ventures by the Company, financial derivatives were re-established. On 31 December 2015, net loss of fair value arising from financial liabilities measured at fair value through profit or loss of the above financial derivatives was RMB50.0 million. On 28 December 2016, Success Dairy issued a conditional exercise notice (the "Exercise Notice") to the Group, pursuant to which Success Dairy conditionally exercised its option to early settle the Value Adjustment Undertakings at total considerations of US$254.8 million including values of the Consideration Shares previously issued to Success Dairy. On 7 February 2017, the Modified Considerations were settled by the Company. As at 31 December 2016, the fair value of the Modified Considerations is estimated by reference to the Cash Considerations payable and the fair value of the Supplemental Consideration Shares. A gain of RMB228.5 million resulting from the remeasurement is recognised in other gains and losses.

Net amount of foreign exchange losses decreased to RMB11.4 million for the year ended 31 December 2016 from RMB92.0 million for the corresponding period of last year, mainly attributable to the decrease in losses from exchange rate changes after repayment of foreign loans denominated in USD.

For the year ended 31 December 2016, impairment loss of goodwill amounted to RMB17.0 million, compared with RMB94.4 million for the corresponding period of last year, primarily due to the carrying amount of goodwill was in excess of the recoverable amount of the relevant cash-generating unit resulting from a decrease in raw milk prices.

Since November 2014, the Group's operation of Modern Farming (Tongshan) Co., Ltd.("Tongshan Farm") was suspended. In 2016, management of the Company determined that the operation of Tongshan Farm would not be resumed in the foreseeable future. Management of the Group carried out an impairment review of the recoverable amount of property, plant and equipment and inventory in Tongshan Farm and recognised full impairment for property, plant and equipment and inventory of Tongshan Farm and recorded impairment loss of RMB69.1 million and RMB 9.7 million respectively for the current financial year.

In addition, the Group recorded re-measured gains of RMB 121.3 million from the joint venture companies during the corresponding period of last year as a result of the Acquisition.

Other expenses

For the year ended 31 December 2016, losses arising from other expenses amounted to RMB94.3 million (For the year ended 31 December 2015: RMB5.2 million), mainly consisting of, among other things, losses from sales of milk powder and expenditure of donations.

For the year ended 31 December 2016, losses from sales of milk powder amounted to RMB72.0 million, mainly due to the impact and effect of imported bulk milk powder and reconstituted milk. During the first half of 2016, the raw milk market condition was challenging with difficulties in sales, some raw milk was sprayed into dried milk powder which were intended for feeding calves, all milk powder inventories were sold to third parties, resulting in a loss, being the excess of the carry value of the milk powder over the proceeds received.

For the year ended 31 December 2016, expenditure of donations amounted to RMB8.5 million, mainly due to we actively communicate with stakeholders around our farms and integrate their expectations and demands into our operation strategy. While devoting to the pursuit of our own development, we managed to win the trust, understanding and support of community residents. Besides, we proactively give back the local communities and devote to public charity and volunteer activities to contribute to society.

Finance costs

Finance costs increased from RMB315.1 million of last year to RMB368.6 million for the year ended 31 December 2016. The increase in finance costs was mainly attributable to the increase in loans.

Profit attributable to owners of the Company

Taking into account of all the above factors, loss attributable to owners of the Company amounted to RMB742.1 million or the year ended 31 December 2016, compared with gain of RMB321.3 million for the corresponding period of last year.

Basic loss per share was RMB13.99 cents (For the year ended 31 December 2015: basic gain per share of RMB6.37 cents).

Liquidity and Financial Resources

For the year ended 31 December 2016, the amount of net cash generated from operating activities of the Group was RMB1,137.3 million, compared with RMB1,441.8 million for the corresponding period of last year.

As at 31 December 2016, the Group's available and unutilized bank financing facilities were approximately RMB6,709.3 million. In the opinion of the Group's management, the working capital available to the Group was sufficient to meet its present needs.

Interest-bearing borrowings

As at 31 December 2016, the interest-bearing debt ratio, being the ratio of total interest-bearing borrowings to total assets, was 38.22% (31 December 2015: 35.68%).

	As at	
	31 December 2016	**31 December 2015**
	RMB'000	*RMB'000*
Bank borrowings	3,885,825	5,647,251
Short-term debentures	799,425	400,000
Medium-term notes	1,796,605	200,000
Corporate bonds	249,020	—
Other borrowing	75,489	—
	6,806,364	6,247,251
Carrying value repayable:		
Within one year	4,116,277	5,225,521
Between one and two years	1,367,902	749,230
Between two and five years	1,322,185	272,500
	6,806,364	6,247,251

Bank borrowings

For the year ended 31 December 2016, the effective annual interest rate of bank borrowings varied from 1.90% to 6.4% (For the year ended 31 December 2015: from 0.86% to 7.05%).

The table below sets forth the short-term and long-term bank borrowings as at 31 December 2016:

	As at	
	31 December 2016	**31 December 2015**
	RMB'000	*RMB'000*
Bank borrowings	3,885,825	5,647,251
Unsecured borrowings	2,000,736	1,796,381
Secured borrowings	404,589	3,165,870
Guaranteed borrowings	1,480,500	685,000
	3,885,825	5,647,251
Carrying amount repayable:		
Within one year	3,278,325	4,825,521
Between one and two years	133,000	749,230
Between two and five years	474,500	72,500
	3,885,825	5,647,251

Other borrowing

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

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Principal amount payable:		
Within one year	38,527	—
Within a period of more than one year but not more than two years	36,962	—
	75,489	—
Less: Amount due for settlement within 12 months (shown under current liabilities)	(38,527)	—
Amount due for settlement after 12 months	36,962	—

BUSINESS STRATEGIES

Continue to expand sales of branded milk

We will continue to expand the sales channels and enrich the categories of our branded milk, which will, in turn, enhance the Group's overall profitability. In January 2017, we have completed the acquisition of 45% equity interest in Modern Farm (Anhui) and have successfully streamlined the downstream sales business structure of the Company to lay the significant foundation for effective management of sales channels.

Following the increase in shareholding by Mengniu, the sole largest shareholder of the Company, in early 2017, the possibility to further expand the coverage of our sales channels in third-tier and fourth-tier cities in China was opened up. The Company has been a key force in the industry dedicated to develop downstream business, with the competitive advantage of "2 hours" pasteurized milk, and the synergy arising from the completion of the aforesaid acquisition of Modern Farm (Anhui), together with the strong sales network of Mengniu, more development opportunities will be available for the Company to transform into a modern dairy farming enterprise with a complete industrial chain to provide consumers with high quality and reliable dairy products.

Improve pure-bred yield and raw milk quality by continuous adoption of modern and scientific breeding and feeding techniques

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

Continue to enhance feed nutrients and optimize the feed mix by persistent research on feed composition

We will continue to collaborate with local farmers and agricultural research institutions in pursuing research and planting high quality feed suitable for our milkable cows. Moreover, according to the locations of our farms, we will collaborate with local farmers of particular regions to jointly build a customized and efficient feed supply chain with the objective to reduce transportation cost of feed and to ensure the quality, nutrition content and stable supply of feed.

Refining herd mix

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

GROUP STRUCTURE

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

CAPITAL STRUCTURE

As at 31 December 2016, the number of issued shares of the Company was 5,304,767,883 shares.

PLEDGE OF ASSETS

As at 31 December 2016, land use rights, buildings and equipment and biological assets with carrying value of RMB9.4 million (31 December 2015: RMB9.7 million), RMB241.5 million (31 December 2015: RMB50.0 million) and RMB2,729.9 million (31 December 2015: RMB2,769.7 million) were pledged as security for the Group's borrowings.

CAPITAL COMMITMENTS, OPERATING LEASE COMMITMENTS AND CONTINGENCIES

As at 31 December 2016, the Group's capital commitments amounted to RMB134.3 million and related to the acquisition of property, plant and equipment.

As at 31 December 2016, the Group has operating lease commitments of RMB20.7 million related to the operating leased property, plant and equipment and leased land.

The Group did not have any significant contingent liabilities as at 31 December 2016.

FINANCIAL MANAGEMENT POLICIES

The Group continued to closely manage financial risks to safeguard the interest of the shareholders of the Company. The Group applied its cash flows generated from operations and bank loans to satisfy its operational and investment needs.

The Group's management considered that the Group had limited foreign currency exposure in respect of its operations since our business was mainly conducted in the PRC. Sales and purchases were mainly denominated in Renminbi and the foreign currency risk associated with concentrated feed and livestock farming facilities was not material. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure. During the year, a currency forward contract had been entered by the Group to mitigate the foreign currency risk of the Group's bank loan denominated in US$.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2016, the Group had approximately 6,051 employees (31 December 2015: 5,277) in China and Hong Kong. Total staff costs for the year ended 31 December 2016 (including staff compensation capitalized to biological assets) were approximately RMB449.4 million (For the year ended 31 December 2015: RMB374.8 million).

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

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (For the year ended 31 December 2015: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 to the Listing Rules. For the year ended 31 December 2016, the Company has complied with the code provisions set out in the CG Code except for the deviations from code provision A.6.7.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2016.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The Group's auditors, Messrs. Deloitte Touche Tohmatsu, have agreed that the figures contained in the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the same year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements as issued by the Hong Kong Institute of Certified Public Accountants. Consequently, no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company (the "Audit Committee") comprises two independent non-executive directors, Mr. LEE Kong Way Conway and Mr. ZOU Fei, as well as a non-executive director, Mr. HUI Chi Kin Max. The Audit Committee met with the management on 28 March 2017 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting, including the review of the Group's annual results for the year ended 31 December 2016 before submission to the Board for approval.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2016 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

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

Hong Kong, 28 March 2017

As of the date of this announcement, the executive Directors are Ms. GAO Lina and Mr. HAN Chunlin, the non-executive Directors are Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max, Mr. ZHANG Ping and Mr. SUN Yugang, the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei.