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MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

The board (the “Board”) of directors (the “Directors”) of China Modern Dairy Holdings Ltd. (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2017, together with comparative figures. The interim results have been reviewed by the audit committee of the Company (the “Audit Committee”).

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	2,344,380	2,229,110
Cost of sales before raw milk fair value adjustments		(1,725,396)	(1,503,741)
Raw milk fair value adjustments included in cost of sales		(501,413)	(557,307)
Loss arising from changes in fair value less costs to sell of dairy cows		(497,080)	(499,245)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		501,413	557,307
Other income	5	27,826	40,177
Selling and distribution costs		(244,351)	(136,172)
Administrative expenses		(209,691)	(129,891)
Share of loss of an associate		(85)	(1,583)
Other gains and losses, net	6	(183,217)	(388,752)
Other expenses		(16,781)	(3,786)
Loss before finance costs and tax	6	(504,395)	(393,883)
Finance costs	7	(182,981)	(195,790)
Loss before tax		(687,376)	(589,673)
Income tax expense	8	(137)	(205)
Loss and total comprehensive expense for the period		(687,513)	(589,878)
Loss and total comprehensive expense attributable to:			
Owners of the Company		(666,255)	(565,668)
Non-controlling interests		(21,258)	(24,210)
		(687,513)	(589,878)
Loss per share (RMB)	10		
Basic		(11.20) cents	(10.66) cents
Diluted		(11.20) cents	(10.66) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017	31 December 2016
	<i>Notes</i>	RMB'000 (unaudited)	RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		4,865,900	5,075,030
Land use rights		127,617	126,679
Goodwill		1,424,539	1,424,539
Interest in an associate		1,802	1,887
Available-for-sale investment		24,955	24,955
Biological assets		7,606,009	7,602,959
		14,050,822	14,256,049
CURRENT ASSETS			
Inventories		672,904	980,515
Trade and other receivables	11	1,504,731	1,348,480
Land use rights		4,315	4,012
Pledged bank balances and non-pledged bank deposits		186,477	356,624
Cash and bank balances		492,905	851,788
Other financial asset		–	11,236
		2,861,332	3,552,655
CURRENT LIABILITIES			
Trade and other payables	12	2,159,642	2,781,727
Tax payable		136	57
Bank borrowings – due within one year		2,638,945	3,278,325
Short-term debenture		499,394	799,425
Other borrowings – due within one year		418,489	38,527
Medium-term notes – due within one year		1,197,650	–
Other financial liabilities		–	927,058
		6,914,256	7,825,119
NET CURRENT LIABILITIES		(4,052,924)	(4,272,464)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,997,898	9,983,585

	30 June 2017	31 December 2016
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
CAPITAL AND RESERVES		
Share capital	526,058	452,959
Share premium and reserves	6,792,445	6,568,554
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Equity attributable to owners of the Company	7,318,503	7,021,513
Non-controlling interests	67,278	101,383
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	7,385,781	7,122,896
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	776,500	607,500
Other borrowings – due after one year	16,640	36,962
Medium-term notes – due after one year	598,800	1,796,605
Corporate bonds	1,045,820	249,020
Deferred income	174,357	170,602
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	2,612,117	2,860,689
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	9,997,898	9,983,585
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NOTES

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, 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”). As at 30 June 2017, China Mengniu Dairy Co., Ltd. (“Mengniu Company”) together with its subsidiaries (collectively referred to as the “Mengniu Group”) owned 61.25% of the issued share capital of the Company.

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 2017, the Directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB4,052,924,000 as at 30 June 2017 (31 December 2016: RMB4,272,464,000). Having considered the available credit facilities of approximately RMB5,155,140,000 available to finance the Group’s operation which remains unutilised as at 30 June 2017, 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 International Accounting Standard 34 (IAS 34) Interim Financial Reporting issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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) financial instruments at fair value through profit or loss (“FVTPL”), which are measured at fair value at the end of each reporting period.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are mandatorily effective for the current interim period. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

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 these condensed consolidated financial statements.

4. SEGMENT INFORMATION

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

Segment revenue, results, assets and liabilities

Six months ended 30 June 2017 (unaudited)

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter- segment elimination* RMB'000	Total RMB'000
Segment revenue	<u>2,078,320</u>	<u>405,092</u>	<u>2,483,412</u>	<u>(139,032)</u>	<u>2,344,380</u>
Segment cost of sales before raw milk fair value adjustments	<u>1,515,032</u>	<u>357,472</u>	<u>1,872,504</u>	<u>(147,108)</u>	<u>1,725,396</u>
Reportable segment profit (loss)	<u>249,854</u>	<u>(306,200)</u>	<u>(56,346)</u>	<u>8,076</u>	<u>(48,270)</u>
Loss arising from changes in fair value less costs to sell of dairy cows					<u>(497,080)</u>
Share of loss of an associate					<u>(85)</u>
Unallocated other income					<u>12,369</u>
Unallocated other gains and losses					<u>(26,558)</u>
Unallocated expenses					<u>(127,752)</u>
Loss before tax					<u>(687,376)</u>
As at 30 June 2017 (unaudited)					
Segment assets	<u>15,803,083</u>	<u>1,801,036</u>	<u>17,604,119</u>	<u>(1,135,563)</u>	<u>16,468,556</u>
Unallocated assets					<u>443,598</u>
Consolidated assets					<u>16,912,154</u>
Segment liabilities	<u>7,204,040</u>	<u>1,826,238</u>	<u>9,030,278</u>	<u>(1,135,268)</u>	<u>7,895,010</u>
Unallocated liabilities					<u>1,631,363</u>
Consolidated liabilities					<u>9,526,373</u>

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB139,032,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

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	<u>1,914,987</u>	<u>655,395</u>	<u>2,570,382</u>	<u>(341,272)</u>	<u>2,229,110</u>
Segment cost of sales before Raw milk fair value adjustments	<u>1,290,322</u>	<u>534,856</u>	<u>1,825,178</u>	<u>(321,437)</u>	<u>1,503,741</u>
Reportable segment profit (loss)	<u>362,118</u>	<u>165</u>	<u>362,283</u>	<u>(19,835)</u>	342,448
Loss arising from changes in fair value less costs to sell of dairy cows					(499,245)
Share of loss of an associate					(1,583)
Unallocated other income					6,218
Unallocated other gains and losses					(387,817)
Unallocated expenses					<u>(49,694)</u>
Loss before tax					<u>(589,673)</u>
As at 31 December 2016					
Segment assets	<u>16,153,073</u>	<u>1,894,221</u>	<u>18,047,294</u>	<u>(942,720)</u>	17,104,574
Unallocated assets					<u>704,130</u>
Consolidated assets					<u>17,808,704</u>
Segment liabilities	<u>8,847,228</u>	<u>1,804,468</u>	<u>10,651,696</u>	<u>(934,350)</u>	9,717,346
Unallocated liabilities					<u>968,462</u>
Consolidated liabilities					<u>10,685,808</u>

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

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

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 RMB1,939,288,000 (for the six months ended 30 June 2016: RMB1,573,715,000) are revenue of approximately RMB1,534,675,000 (for the six months ended 30 June 2016: RMB1,123,999,000) which arose from sales to a single external customer. During the current period, the Group also sold liquid milk products of RMB22,602,000 to this customer. No other single customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2017 and 2016.

5. OTHER INCOME

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Bank interest income	5,286	4,972
Government grants related to		
– Biological assets (<i>note i</i>)	–	20,000
– Other assets	7,252	6,929
– Income (<i>note ii</i>)	6,498	5,759
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	13,750	32,688
Others	8,790	2,517
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	27,826	40,177
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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.

6. LOSS BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	1,413,920	1,057,934
Production costs for liquid milk products	311,476	445,807
	1,725,396	1,503,741
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	501,413	557,307
	2,226,809	2,061,048
Other gains and losses:		
Fair value loss from original contingent consideration	–	387,793
Loss from settlement of modified considerations	15,361	–
Net foreign exchange loss	4,546	4,256
Loss on disposal of property, plant and equipment, net	1,681	1,595
Gains arising on deemed disposal of an associate	–	(1,462)
Impairment loss on trade receivables	156,400	–
Loss on foreign currency forward	1,949	–
Others	3,280	(3,430)
	183,217	388,752
Depreciation of property, plant and equipment	292,517	274,293
Less: capitalised in biological assets and agricultural produce	(126,262)	(124,590)
Depreciation charged to profit or loss	166,255	149,703
Employee benefits expenses	250,017	213,906
Less: capitalised in biological assets and agricultural produce	(60,607)	(66,127)
Employee benefits charged to profit or loss	189,410	147,779
Auditors' remuneration	500	700
Release of land use rights	2,016	1,891

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	85,472	144,052
Short-term debenture	24,401	18,663
Medium-term notes	45,340	27,223
Other borrowings	6,771	427
Corporate bonds	18,493	–
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Total borrowing cost	180,477	190,365
Less: amounts capitalised for construction of property, plant and equipment	(412)	(1,603)
Cost of discount of bills receivable	2,965	7,028
Gain on an interest swap	(49)	–
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	182,981	195,790
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For the six months ended 30 June 2017, 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 5.11% per annum (six months ended 30 June 2016: 4.52% per annum) for current reporting period.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	137	205
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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 2017, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,222,514,000 (31 December 2016: RMB1,562,974,000). 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 2016: nil) were paid, declared or proposed for current period.

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	<u>(666,255)</u>	<u>(565,668)</u>
	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	5,949,128,811	5,304,767,883
Effect of share options issued by the Company	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>5,949,128,811</u>	<u>5,304,767,883</u>

The calculation of diluted loss per share for the six months ended 30 June 2017 and 2016 has not taken into account the effect of the share options and share awards of the Company, as appropriate, since the assumed exercise and vesting would result in decrease in loss per share.

11. TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables	1,442,449	1,217,606
Bills receivable	27,950	1,500
Less: allowance for doubtful debts (<i>note</i>)	(156,400)	(1,589)
	1,313,999	1,217,517
Advanced payments for feeds and materials	138,605	82,787
Input value added tax recoverable	45,976	31,261
Interest receivables	979	694
Receivable in respect of disposal of property, plant and equipment	–	9,842
Others	5,172	6,379
	1,504,731	1,348,480

Note: In June 2017, the Group entered into a framework supply and processing agreement with Mengniu Group, pursuant to which the Group agreed to sell its milk products to Mengniu Group to enlarge its market share by leveraging the established distribution channel of Mengniu Group. In the meantime, the Group discontinued its cooperation with other major distributors. These distributors have been engaged by Mengniu Group as the secondary distributors of Mengniu Group for distribution of liquid milk products of the Group. In view of the termination of the direct distributorship with these distributors, the Group anticipated the repayment of the trade receivable of RMB1,067,132,000 due from these distributors would be delayed and the amount of repayment of trade receivables may not be fully recovered. The Group will closely monitor the operations of these distributors and reinforce collection. After taking into account of the present value of future collection and the security of 338,602,205 ordinary shares of the Company held by certain individuals who used to be the non-controlling equity holders of Modern Farm (Anhui) Dairy Product Sales Co., Ltd. (“Modern Farm Anhui”) and were responsible for selecting distributors, an impairment loss of RMB156,400,000 was recognised in respect of the Group’s trade receivables due from these distributors.

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:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables		
– within 120 days	462,634	672,426
– beyond 120 days but within 360 days	578,520	461,328
– beyond 360 days	244,895	82,263
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Bills receivable		
– within 120 days	27,950	–
– beyond 120 days but within 360 days	–	1,500
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	1,313,999	1,217,517
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12. 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 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade payables		
– within 60 days	973,306	1,204,450
– beyond 60 days but within 120 days	209,514	213,399
– beyond 120 days	32	84,293
Bills payable (<i>note</i>)	289,900	377,055
	<hr/>	<hr/>
	1,472,752	1,879,197
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Payable for acquisition of property, plant and equipment	448,150	554,959
Accrued staff costs	66,812	70,965
Accrued interest expenses	68,219	102,009
Advance payments from customers	19,000	77,119
Others	84,709	97,478
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	2,159,642	2,781,727
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Note: Bills payable are bank accepted and mature within six months from the respective issuance dates.

BUSINESS REVIEW

Industry Overview

On 10 June 2017, International Farm Comparison Network (IFCN) announced at the 18th IFCN Dairy Conference held in Kiel, Germany, that the global dairy crisis, which lasted for 4 years since the end of 2013, has duly ended and the milk prices will enter into a phase of steady growth as the global oversupply of raw milk in a macro circumstance is almost under control, and supply and demand balance is fundamentally stable. From January to May 2017, the milk production of dairy products in the major exporting countries was 118,810,000 tons, decreased by 1.10% from last year, which was mainly attributable to the fact that the low milk prices in the past three years led to a decline in global dairy herd size. It is expected that the demand will dominate the market in the next two to three years. In the short term, with the northern hemisphere entering into the summer, the insufficient supply will play a role in pushing up the milk prices due to a decrease in the production of main producing countries of raw milk.

In China, after the Spring Festival in 2017, the decrease in demand for raw milk by the major dairy enterprises and a short-term excess supply over demand in the raw milk market resulted in a decline of raw milk prices. During the summer of 2017, the raw milk production decreased due to the heat stress of cows caused by the high temperature and rainy weather throughout the country. After the decline in milk production, the requirements of purchasing raw milk of dairy enterprises had been significantly relaxed, and more efforts were made in providing support and incentives in respect of the heat stress work in farm so as to prevent continuous and significant decline in milk production, despite there was no shortage of milk supply.

During the first half of 2017, numerous activities were organized by relevant state authorities and industry associations, so as to promote the development of the industry, including, among others, “Quality Report of China Dairy Industry (2017)” (《中國奶業品質報告(2017)》) released by the Dairy Association of China, together with Milk and Dairy Product Quality Supervision, Inspection and Test Center of Ministry of Agriculture (農業部奶及乳製品品質監督檢驗測試中心); the 8th Dairy Conference of China & 2017 China Dairy Exhibition held by the Dairy Association of China; 2017 China’s Dairy Industry D20 Summit held with the theme of “Building Brands and Revitalizing Dairy Industry”; D20 enterprises has built a good corporate image by donation of dairy products worth RMB44 million to the students in impoverished areas in the “Milk Action to Build a Well-off Society in China” (中國小康牛奶行動) which was sponsored by Ministry of Agriculture and the Dairy Association of China; Each of the industry initiatives helped the orderly development of China’s dairy industry and the establishment of national brands, and further promoted the consumption of dairy products.

Business Review

The Group is primarily engaged in two business segments: (i) dairy farming business, which mainly involves the production and sales of raw milk to customers for processing into dairy products; and (ii) the business of liquid milk of our own brand, which mainly involves the production and sales of liquid milk products.

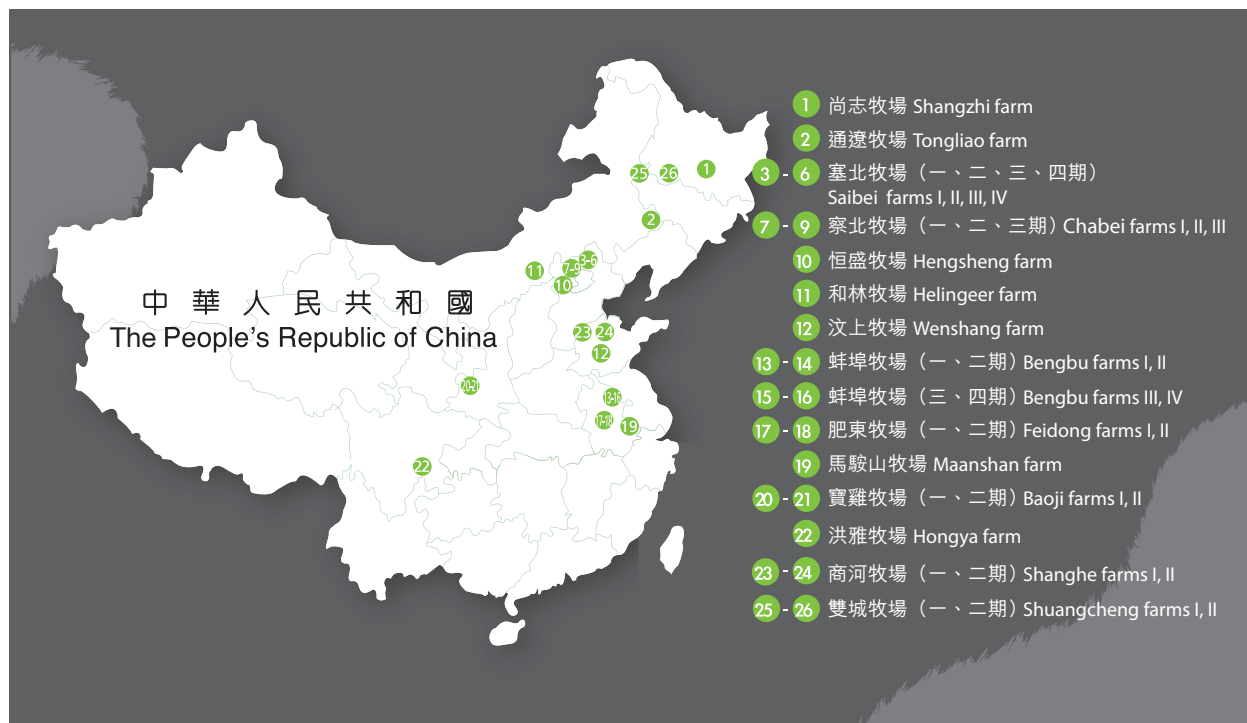
For the six months ended June 30, 2017, the Group's unit price of the raw milk decreased from RMB4.04/kg in the same period of the last year to RMB3.59/kg, down by 11.14%. With the increase in the numbers of dairy cows and milk yield per cow, the milk yield of the Group in the first half of 2017 amounted to 598,000 tons, representing a year-on-year increase of 7.75%. During the reporting period, the sales revenue of raw milk realized by the Group as a whole was RMB1.939 billion, increased by 23.23% on a year-on-year basis. Benefiting from the cost control and an increase in milk yield, the gross margin of the Group's raw milk sales business decreased by 5.5 percentage points in the first half of the year, a decline, to a less extent, than that in the raw milk price for the same period. Affected by the sluggish market demand and the handover of brand milk business, the sales and profit from the business of liquid milk of the Group with our own brand significantly decreased in the first half of 2017.

Despite the external operating environment was still hard, all indicators in terms of operation have achieved certain extent of improvements. For the six months ended June 30, 2017, the Group's milk yield per cow was 9.8 tons, which increased by 0.4 tons from 9.4 tons in the same period of last year, while cash cost of raw milk decreased to RMB2.42/kg from RMB2.51/kg for the same period of last year.

As a pioneer in domestic large-scale farming, the Group has won widespread recognition from both domestic and overseas food and technological sectors successively. In May 2017, room-temperature pure milk of the Group was awarded with the gold prize in food category at the Monde Selection for the fourth time, becoming the only product which won the award for four times in our country; while the room-temperature yogurt was also awarded the silver prize in food category for the first time. In June 2017, the Group's production mode of "Integration of Planting, Breeding and Processing" was officially qualified with SGS certification by Société Générale de Surveillance S.A., becoming the first and only enterprise in China qualified with SGS certification, which meant that our advanced production mode had passed the stringent inspection conducted by the international authoritative inspection institution and achieved the world-class standards. With the authentication of the room-temperature and pasteurized milk being recognised as quality milk, the Group has become the first enterprise with such acceptance of certification.

Since Mengniu Company completed the mandatory cash offer for the Company in March 2017, the cooperation between the Company and Mengniu Company has been more closely. On 16 June 2017, the Company initially entered into a supply and processing framework agreement with Mengniu Group. The Company is now more focused on the upstream production after Mengniu commenced to be responsible for the matters in respect of the sales and distribution of the milk of the Company under our own brand from May of 2017. The cooperation will not only help the Company improve its profitability but also promote the long-term development of the milk under the brand of the Group. On 11 July 2017, the Company and Mengniu jointly launched a key strategic product, “fresh” pure milk. Its innovative design under the silver “refrigerator” concept symbolizes that the product package keeps milk fresh as a refrigerator does. Also on the refrigerator-style design is a LCD panel which underlines the characteristic of “only two hours from milking to processing”. Such design aims to expand the sales market and bring more development opportunities.

OUR FARMS



As of 30 June 2017, the Group had 26 own farms in the People's Republic of China (“PRC”) with an aggregate of approximately 223,217 dairy cows.

Herd size

	30 June 2017 Heads	31 December 2016 Heads
Dairy cows		
Milkable cows	117,240	119,286
Heifers and calves	105,977	109,914
	<hr/>	<hr/>
Total number of dairy cows	223,217	229,200
	<hr/>	<hr/>

As at 30 June 2017, 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 2017, the current herd size is 223,217 compared to 229,200 as at 31 December 2016.

MILK YIELD

The Group's performance is directly affected by the 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. The Group has achieved an average annualised milk yield per cow of 9.8 tons for the six months ended 30 June 2017, representing an increase of 4.26% from 9.4 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows throughout generations and increase in number of cows reaching the peak stage of lactation.

FINANCIAL OVERVIEW

Revenue

The following table sets out the breakdown of consolidated revenue by two operating segments for the six months ended 30 June 2017 and 30 June 2016:

	Six months ended 30 June					
	2017			2016		
	External Sales RMB'000	Internal Sales RMB'000	Subtotal RMB'000	External Sales RMB'000	Internal Sales RMB'000	Subtotal RMB'000
Sales of dairy farming business	1,939,288	139,032	2,078,320	1,573,715	341,272	1,914,987
Sales of liquid milk products business	405,092	–	405,092	655,395	–	655,395
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Consolidated revenue	2,344,380	139,032	2,483,412	2,229,110	341,272	2,570,382
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The Group's revenue increased by 5.16% from RMB2.229 billion for the six months ended 30 June 2016 to RMB2.344 billion for the six months ended 30 June 2017 primarily due to the increase in sales of raw milk.

Dairy farming business

Despite the selling price of raw milk as an aggregate of external and internal sale decreased by 10.44% as compared to the corresponding period last year, revenue from our dairy farming business increased by 8.53% as compared to the corresponding period last year. Such increase was primarily due to an increase in our raw milk sales volume of 21.18% as compared to the corresponding period last year. The following table sets out the sales amount, sales volume and average selling price (ASP) of our raw milk for the periods indicated:

	Six months ended 30 June					
	2017			2016		
	Sales amount <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/KG</i>	Sales amount <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/KG</i>
Raw milk						
External sales	1,939,288	539,716	3.59	1,573,715	389,437	4.04
Internal sales	139,032	37,777	3.68	341,272	87,118	3.92
Subtotal	<u>2,078,320</u>	<u>577,493</u>	<u>3.60</u>	<u>1,914,987</u>	<u>476,555</u>	<u>4.02</u>

Liquid milk products business

Revenue from our liquid milk products business decreased by 38.17% from RMB655 million for the six months ended 30 June 2016 to RMB405 million for the six months ended 30 June 2017, which accounted for 29.4% and 17.28% of our consolidated turnover for the six months ended 30 June 2016 and 2017, respectively.

Due to the impact of sluggish market demand and handover of brand milk market, total sales volume of our liquid milk decreased by 43.47% from 76,229 tons for the six months ended 30 June 2016 to 43,092 tons for the six months ended 30 June 2017. The following table sets out the breakdown of sales amount, sales volume and average selling price of our liquid milk products for the periods indicated:

	Six months ended 30 June					
	2017			2016		
	Sales amount <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/KG</i>	Sales amount <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/KG</i>
Liquid milk products	<u>405,092</u>	<u>43,092</u>	<u>9.40</u>	655,395	76,229	8.60

COST OF SALES BEFORE RAW MILK FAIR VALUE ADJUSTMENT

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

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

	Six months ended 30 June			
	2017		2016	
	RMB'000	%	RMB'000	%
Raw materials	1,142,298	75.40%	980,486	75.99%
Labor cost	102,753	6.78%	76,485	5.93%
Utilities	32,865	2.17%	28,116	2.18%
Depreciation	117,976	7.79%	94,765	7.34%
Other costs of farms	119,140	7.86%	110,470	8.56%
Subtotal of cost of sales before raw milk fair value adjustment of dairy farming business	1,515,032	100%	1,290,322	100%
Inter-segment cost	(101,111)		(232,388)	
Cost of external sales before raw milk fair value adjustment of dairy farming business	1,413,921		1,057,934	

With the increase in the sales volume of raw milk, total raw materials (before eliminating cost of sales in relation to internal supply of raw milk) for the six months ended 30 June 2017 increased to RMB1,142 million from RMB980 million for the corresponding period last year, representing an increase of 16.50%.

Meanwhile, the cost (excluding depreciation) per ton of raw milk sold (before offsetting cost of sales in relation to internal supply of raw milk) decreased by 3.57% from RMB2,509 for the corresponding period last year to RMB2,419 for the six months ended 30 June 2017, mainly due to an increase in annualised milk yield per cow.

Cost of sales of liquid milk product business

	Six months ended 30 June			
	2017		2016	
	RMB'000	%	RMB'000	%
Raw materials	280,029	78.34%	457,756	85.58%
Labor cost	15,711	4.39%	15,944	2.98%
Depreciation	26,260	7.35%	22,919	4.29%
Utilities	11,579	3.24%	12,855	2.40%
Other processing costs	23,893	6.68%	25,382	4.75%
Subtotal of cost of sales before raw milk fair value adjustment of liquid milk product business	357,472	100%	534,856	100%
Inter-segment cost	(45,997)		(89,049)	
Cost of external sales before raw milk fair value adjustment of liquid milk product business	311,475		445,807	

Raw material cost for the six months ended 30 June 2017 decreased from RMB457.8 million for the corresponding period last year to RMB280.0 million, representing a decrease of 38.83%. Sales of our liquid milk decreased by 38.19% to RMB405.1 million for the six months ended 30 June 2016 from RMB655.4 million for the corresponding period last year.

Cost (excluding depreciation) per ton of liquid milk sold increased from RMB6,716 for the corresponding period last year to RMB7,686 for the six months ended 30 June 2017, representing an increase of 14.44%. It was due to the inadequacy of utilization of productivity.

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin of our two operating segments for the periods indicated:

	Six months ended 30 June			
	2017		2016	
	Gross profit RMB'000	Gross profit margin	Gross profit RMB'000	Gross profit margin
Dairy farming business				
Before elimination	563,288	27.10%	624,665	32.62%
After elimination	525,367	27.09%	515,781	32.77%
Liquid milk products business				
Before elimination	47,620	11.76%	120,539	18.39%
After elimination	93,617	23.11%	209,588	31.98%

- *Dairy farming business*

Gross profit of our dairy farming business (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 9.83% from RMB624.7 million for the six months ended 30 June 2016 to RMB563.3 million for the six months ended 30 June 2017. The decrease above was primarily due to the decrease in selling price of raw milk.

Gross profit margin of our dairy farming business (before eliminating cost of sales in relation to internal supply of raw milk) decreased from 32.62% for the six months ended 30 June 2016 to 27.10% for the six months ended 30 June 2017, primarily due to the decline in selling price of raw milk.

- *Liquid milk products business*

Gross profit of our liquid milk products business decreased by 60.50% from RMB120.5 million for the six months ended 30 June 2016 to RMB47.6 million for the six months ended 30 June 2017. Gross profit margin of our liquid milk products business decreased from 18.39% for the six months ended 30 June 2016 to 11.76% for the six months ended 30 June 2017. The decrease above was primarily due to the decrease in sales volume of our branded milk products and the increase in the costs resulting from the inadequacy of utilization of productivity.

LOSSES ARISING FROM CHANGES IN THE DIARY COW FAIR VALUE LESS COSTS TO SELL OF DAIRY COWS

The Group's dairy cows were fair valued by the directors of the Company on 30 June 2017 while the value of the Group's dairy cows as at 31 December 2016 has been arrived at on the basis of a valuation carried out independently by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the dairy cow fair value less costs to sell of dairy cows were RMB497.08 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB499.2 million), mainly attributable to the decrease in selling price of raw milk.

GAINS ARISING ON INITIAL RECOGNITION OF AT FAIR VALUE LESS COSTS TO SELL AT THE POINT OF RAW MILK HARVEST

Our gains arising on initial recognition at fair value less costs to sell at the point of raw milk harvest decreased by 10.0% from RMB557.3 million for the six months end 30 June 2016 to RMB501.4 million for the six months ended 30 June 2017, mainly due to the decline in the selling price of 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 six months ended 30 June 2017, other income amounted to RMB27.8 million (six months ended 30 June 2016: RMB40.2 million). Other income mainly consisted of government grants and interest income, of which interest income for the six months ended 30 June 2017 amounted to RMB5.3 million (six months ended 30 June 2016: RMB5.0 million), and government grants for the six months ended 30 June 2017 amounted to RMB13.8 million (six months ended 30 June 2016: RMB32.7 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	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Selling and distribution costs	244,351	136,172
Administrative expenses	209,691	129,891
Total operating expenses	454,042	266,063

Our operating expenses increased from RMB266.1 million for the six months ended 30 June 2016 to RMB454.0 million for the six months ended 30 June 2017.

- Selling and distribution costs

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 RMB73.6 million for the six months ended 30 June 2017 from RMB50.6 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 RMB80.1 million for the six months ended 30 June 2017 from RMB6.2 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:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Farm segment		
Transportation costs	73,618	50,570
Liquid milk segment		
Transportation, loading and unloading costs	34,321	66,549
Staff remuneration	22,217	4,380
Publicity expenses	80,138	6,150
Others	33,018	8,430
Business tax and surcharge	1,039	93
Total selling and distribution costs	244,351	136,172

- Administrative expenses

Administrative expenses mainly consisted of, among other things, remuneration of management (including equity-based share option expenses) and depreciation of office buildings, staff quarters and facilities, of which remuneration of management (excluding equity-based share option expenses) increased from RMB50.2 million for the six months ended 30 June 2016 to RMB58.7 million for the six months ended 30 June 2017.

During the six months ended 30 June 2017, equity-based share option expenses included in the administrative expenses amounted to RMB83.0 million as compared to RMB12.5 million for the six months ended 30 June 2016, representing an increase of 564.00%. It was mainly due to one-off amortization of remaining unamortized value of options after the acceptance by staff of the offer made by Mengniu in respect of their options during the current period.

OTHER GAINS AND LOSSES

Losses arising from other gains and losses amounted to RMB183.2 million (six months ended 30 June 2016: losses arising from other gains and losses amounted to RMB388.8 million). Other gains and losses 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 and impairment loss from receivables.

As a result of the failure of the distributors to settle the trade receivables on time when the relevant trade receivables were due, the Group has therefore recognized an impairment loss of RMB156.4 million accordingly. A loss of fair value of RMB387.8 million arising from financial liabilities measured FVTPL was record for the same period last year.

FINANCE CHARGES

Finance charges decreased slightly from RMB195.8 million of the corresponding period last year to RMB183.0 million for the six months ended 30 June 2017. The slight decrease in finance costs was mainly due to one-off amortization of initial fees of RMB35.7 million due to the early repayment of the offshore borrowings of USD390.0 million for the corresponding period last year.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Taking into account of all the above factors, the loss attributable to owners of the Company was RMB666.3 million for the six months ended 30 June 2017. The loss attributable to the owners of the Company was RMB565.7 million for the six months ended 30 June 2016.

Basic loss per share was approximately RMB11.20 cents (six months ended 30 June 2016: basic earnings per share of RMB10.66 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2017, the Group's cash flow used in operating activities amounted to RMB(0.57) million, as compared to net cash generated from operating activities of RMB404.4 million for the six months ended 30 June 2016.

As at 30 June 2017, the Group's available and unutilized banking facilities amounted to approximately RMB5,155.1 million (31 December 2016: RMB6,709.3 million). In the opinion of the Group's management, the working capital available to the Group is sufficient to meet its present needs.

Interest-bearing borrowings

As at 30 June 2017, the interest-bearing debt ratio, being the ratio of total interest-bearing borrowings to total assets, was 42.5% (31 December 2016: 38.22%). As at 30 June 2017, all interest-bearing borrowings were denominated in Renminbi.

	30 June 2017	31 December 2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Bank borrowings	3,415,445	3,885,825
Short-term debenture	499,394	799,425
Medium-term notes	1,796,450	1,796,605
Corporate bonds	1,045,820	249,020
Other borrowing	435,129	75,489
	<u>7,192,238</u>	<u>6,806,364</u>
Carrying value repayable:		
Within one year	4,754,478	4,116,277
Between one and two years	1,132,940	1,367,902
Between two and five years	1,304,820	1,322,185
	<u>7,192,238</u>	<u>6,806,364</u>

Bank borrowings

The annual interest rate of the bank borrowings for the six months ended 30 June 2017 varied from 0.90% to 6.40% (six months ended 30 June 2016: 1.81% to 6.04%).

The table below sets forth our short-term and long-term bank borrowings for the dates indicated below:

	30 June 2017	31 December 2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Bank borrowings	3,415,445	3,885,825
Unsecured borrowings	1,624,495	2,000,736
Secured borrowings	222,950	404,589
Guaranteed borrowings	1,568,000	1,480,500
	<u>3,415,445</u>	<u>3,885,825</u>
Carrying amount repayable:		
Within one year	2,638,945	3,278,325
Between one to two years	517,500	133,000
Between two to five years	259,000	474,500
	<u>3,415,445</u>	<u>3,885,825</u>

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 buy 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.

In May 2017, the Group entered into two entrusted loan agreements with Mengniu Group and Agricultural Bank of China (“ABC”), pursuant to which, Mengniu Group agreed to offer borrowing facilities of RMB1,500,000,000 to the Group through ABC. The borrowing facilities will mature in May 2020 and bear interest at rates determined based on the benchmark interest rate of People’s Bank of China. During the current period, the Group drew down borrowings of RMB377,000,000 under the agreements. The borrowings will mature within one year and bear interest at rates ranged from 3.96% to 4.00% per annum.

	30 June 2017 RMB’000 (Unaudited)	31 December 2016 RMB’000 (Audited)
Principal payable:		
Within one year		
– Collateralised borrowing	41,489	38,527
– Borrowings from Mengniu Group	<u>377,000</u>	<u>–</u>
	418,489	38,527
Within a period of more than one year but not more than two years		
– Collateralised borrowing	<u>16,640</u>	<u>36,962</u>
	435,129	75,489
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(418,489)</u>	<u>(38,527)</u>
Amount due for settlement after 12 months	<u>16,640</u>	<u>36,962</u>

GROUP STRUCTURE AND CAPITAL STRUCTURE

As at 25 January 2017, pursuant to the Sale and Purchase Agreement dated 16 June 2016 and poll results of the general meeting held by the Company on 1 August 2016, the Group allotted and issued 338,602,205 consideration shares; in addition, pursuant to the supplemental agreement dated 12 December 2016 entered into by the Company and Success Dairy II Limited (the “Investor”) and a conditional investor option notice received on 28 December 2016 from the Investor, the Group allotted and issued 488,036,618 consideration shares as at 6 February 2017. As at 30 June 2017, the number of issued ordinary shares of the Company was 6,131,406,706 shares.

ACQUISITION OF 45% EQUITY INTEREST IN MODERN FARM (ANHUI)

On 25 January 2017, the Company completed the acquisition of the remaining 45% equity interest in Modern Farm (Anhui) with five individuals (the “Acquisition”), and Modern Farm (Anhui) is owned as to 45% by the Company and as to 55% by Modern Farm. 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.

CONDITIONAL MANDATORY CASH OFFER

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 Mengniu Company to acquire all the issued shares in the Company (other than those already owned or agreed to be acquired by Mengniu Company or parties acting in concert with it) and for cancellation of all the outstanding options in the Company (“Option Offer” together with Share Offer referred to as “Offers”). The Share Offer was completed on 21 March 2017, Mengniu Company and the party acting in concert with it, Future Discovery Limited, held an aggregate of 3,755,769,412 shares in the Company, representing 61.25% of the Company as at the date of this announcement.

For details in respect to the Share Offer, please refer to the announcement and circular of the Company dated 25 January 2017 and 14 February 2017 respectively.

CONTINGENCIES AND PLEDGE OF ASSETS

As at 30 June 2017, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.3 million (31 December 2016: RMB9.4 million), RMB182.7 million (31 December 2016: RMB241.5 million) and RMB2,417.8 million (31 December 2016: RMB2,729.9 million) respectively were pledged to secure the Group’s borrowings.

The Group did not have any significant contingent liabilities as at 30 June 2017.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENT

As at 30 June 2017, the Group has capital commitment of RMB119.5 million related to acquisition of property, plant and equipment.

As at 30 June 2017, the Group has operating lease commitments of RMB15.9 million related to the operating leased property, plant and equipment and leased land.

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 considers 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 6,017 employees (31 December 2016: 6,051) in mainland China and Hong Kong as at 30 June 2017. Total staff costs (including staff compensation capitalised to immature dairy cows) for the six months ended 30 June 2017 were approximately RMB250.0 million (for the six months ended 30 June 2016: RMB213.9 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

With the quality of China's domestic dairy improved continuously to international standard, the increasing per capita income of consumers and the enhanced demand for food quality, it is expected that there is still huge development opportunities in China's high-end dairy market. In addition, the "National Development Planning for Dairy Industry (2016-2020)" issued by the central government specifies the strategic positioning of the development of the dairy industry and highlights that the dairy industry is indispensable for healthy China and a strong nation. The planning aims to achieve substantial results in the supply-side structural reform of the dairy industry by 2020, so as to enable the dairy industry as a whole to reach an internationally advanced level.

In the long run, the macro situation of raw milk oversupply has been nearly shaken off worldwide and supply-demand balance has been almost stabilized, which provide a basis for the gradual recovery of the dairy industry in the future. Such situation is mainly due to the decreased global dairy herd size resulted from low milk price in the past 3 years and expected demand-driven market within the next 2 to 3 years. In the short run, insufficient supply has played a part in pushing up milk prices as the output of main raw milk production countries has dropped due to the northern hemisphere's entering summer.

In the future, the Group will continue sticking to the principle of providing high quality raw milk and maintain its competitive advantages of high quality raw milk in each category index, so as to strengthen its leading position in the industry.

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 2017 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 non-executive Director was not able to attend the annual general meeting of the Company held on 30 June 2017 due to other business engagements.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by the Directors. Following specific enquiry by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017, except that the trustee of the share award scheme adopted by the Company on 9 September 2016 (the "Share Award Scheme"), pursuant to the rules of the Share Award Scheme, purchased on the open market a total of 450,000 shares of the Company at a total consideration of approximately HKD 0.80 million.

REVIEW OF INTERIM RESULTS

The condensed interim financial statements 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.

PUBLICATION OF THE INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.moderndairyir.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

The interim report of the Group will be published on the aforesaid website and be dispatched to the shareholders of the Company 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 August 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. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.