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现代牧业

**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**

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 31 December 2011.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Notes	For the Six months ended 31 December	
		2011 RMB'000 unaudited	2010 RMB'000 unaudited
Sales of milk produced	4	735,640	457,220
Gain arising from changes in fair value less costs to sell of dairy cows	11	63,508	43,149
Other income		45,337	20,059
Farm operating expenses		(523,130)	(294,782)
Employee benefits expenses		(56,371)	(39,993)
Depreciation		(42,175)	(31,134)
Share of loss of an associate		(966)	—
Net foreign exchange (loss) gain		(4,967)	1,068
Other gains and losses		(840)	(358)
Other expenses		(24,107)	(40,613)
Profit before finance costs and tax	5	191,929	114,616
Finance costs	6	(28,690)	(27,735)
Profit before tax		163,239	86,881
Income tax charge	7	—	(8)
Profit and total comprehensive income for the period		<u>163,239</u>	<u>86,873</u>
Profit and total comprehensive income attributable to			
Owners of the Company		159,934	71,297
Non-controlling interests		3,305	15,576
		<u>163,239</u>	<u>86,873</u>
Earnings per share (RMB)	9		
Basic		3.33 cents	1.85 cents
Diluted		<u>3.30 cents</u>	<u>1.84 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	31 December 2011	30 June 2011
<i>Notes</i>	<i>RMB'000</i> <i>unaudited</i>	<i>RMB'000</i> <i>audited</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	2,660,073	2,221,265
Land use rights	66,962	62,863
Interest in an associate	10      12,534	—
Goodwill	310,426	310,426
Long-term prepaid rentals	130	130
Deposit for acquisition of biological assets	13,145	1,094
Biological assets	11 <u>3,285,400</u>	<u>2,651,407</u>
	<u>6,348,670</u>	<u>5,247,185</u>
<b>CURRENT ASSETS</b>		
Inventories	338,068	212,719
Trade and other receivables	12      210,520	136,779
Land use rights	1,531	1,440
Pledged bank balances	343,321	287,119
Bank balances and cash	<u>674,148</u>	<u>1,021,691</u>
	<u>1,567,588</u>	<u>1,659,748</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	13      745,606	482,811
Borrowings — due within one year	509,931	303,797
Deferred income	<u>5,570</u>	<u>4,943</u>
	<u>1,261,107</u>	<u>791,551</u>
<b>NET CURRENT ASSETS</b>	<u>306,481</u>	<u>868,197</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u><u>6,655,151</u></u>	<u><u>6,115,382</u></u>

	<b>As at</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2011</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>audited</i>
<b>CAPITAL AND RESERVES</b>		
Share capital	413,075	413,075
Reserves	<u>4,414,867</u>	<u>4,254,933</u>
Equity attributable to owners of the Company	4,827,942	4,668,008
Non-controlling interests	<u>60,705</u>	<u>54,700</u>
<b>TOTAL EQUITY</b>	<u>4,888,647</u>	<u>4,722,708</u>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings — due after one year	1,693,422	1,219,137
Long-term other payable	11,885	100,000
Deferred income	<u>61,197</u>	<u>73,537</u>
	<u>1,766,504</u>	<u>1,392,674</u>
	<u><u>6,655,151</u></u>	<u><u>6,115,382</u></u>

## NOTES

### 1. General information

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

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

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

### 2. Basis of preparation

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

### 3. Principal accounting policies

The condensed consolidated financial statements have been prepared on historical cost basis except for biological assets, which are measured at fair value less costs to sell. The accounting policies and methods of computation used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 30 June 2011. In addition, the Group adopted the new accounting policy as follows:

#### *Investment in an associate*

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

In the current interim period, the Group has also applied, for the first time, a number of revised standards and amendments ("new or revised IFRSs") issued by the International Accounting Standards Board. The application of these new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting period.

The Group has not applied the following new or revised standards, amendments or interpretation that have been issued but are not yet effective:

IFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
IFRS 9	Financial Instruments <sup>5</sup>
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>5</sup>
IFRS 10	Consolidated Financial Statements <sup>1</sup>
IFRS 11	Joint Arrangements <sup>1</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
IFRS 13	Fair Value Measurement <sup>1</sup>
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income <sup>2</sup>
Amendments to IAS 12	Deferred Tax - Recovery of Underlying Assets <sup>3</sup>
IAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
IAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
IAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures <sup>1</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2015.

The directors of the Company (the "Directors") are in the process of making an assessment of the impact of the new and revised standards, amendments or interpretation on the results and financial position of the Group and disclosures in the consolidated financial statements.

#### 4. Sales of milk produced and segment information

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

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

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

#### 5. Profit before finance costs and tax

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

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>unaudited</i>
Auditors' remuneration	949	673
Transaction costs attributable to issue of shares	—	24,356
Exchange loss (gain)	4,967	(1,068)
Loss on disposal of property, plant and equipment, net	840	358
Release of land use rights	<u>742</u>	<u>708</u>

#### 6. Finance costs

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>unaudited</i>
Interest expenses on:-		
Bank borrowings wholly repayable within five years	41,789	32,379
Bank borrowings wholly repayable after five years	13,812	5,621
Other borrowings wholly repayable within five years	<u>—</u>	<u>87</u>
Total borrowing costs	55,601	38,087
Less: capitalized amount	<u>(26,911)</u>	<u>(10,352)</u>
	<u>28,690</u>	<u>27,735</u>

Borrowing costs are capitalized in construction in progress.

## 7. Income tax charge

	Six months ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>unaudited</i>
Current tax:		
PRC enterprise income tax	<u>—</u>	<u>8</u>

The tax charge for the period under review 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.

According to prevailing tax rules and regulations in the PRC, certain entities of the Group operating in agricultural business are exempted from enterprise income tax.

## 8. Dividend

No dividends were paid, declared or proposed during the reporting period. The Directors do not recommend the payment of an interim dividend.

## 9. Earnings per share

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

	Six months ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>unaudited</i>
<u>Earnings</u>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	159,934	71,297
Adjustment to the share of profit of Modern Farming Group Co., Ltd (“Modern Farm”) and its subsidiaries based on dilution of their earnings per share	<u>—</u>	<u>(283)</u>
Earnings for the purpose of diluted earnings per share	<u>159,934</u>	<u>71,014</u>

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<i>unaudited</i>	<i>unaudited</i>
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,800,000,000	3,849,121,739
Effect of share option issued by the Company	<u>49,463,858</u>	<u>19,988,361</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,849,463,858</u>	<u>3,869,110,100</u>

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for the six months ended 31 December 2010 have been determined assuming 5,124,000 ordinary shares were allotted and credited to Advanced Dairy I Company Limited (“Advanced Dairy”) and the capitalisation issue as set out in note 28(vi) of the Group’s consolidated financial statements for the year ended 30 June 2011 occurred on the date of incorporation of the Company.

#### 10. Interest in an associate

During the current period, the Group acquired 18% equity interest in Qiushi Grass Industry Co., Ltd. (“Qiushi”) through a cash capital contribution of RMB13,500,000.

Qiushi was established in the PRC on 30 September 2011 as a limited liability company and was formed by Ms. Deng Yuan (“Ms. Deng”) and Mr. Qi Xiaohang (“Mr. Qi”) who are family members of Mr. Deng Jiuqiang and Ms. Gao Lina, directors of the Company, and two independent third party individuals. Subsequent to the Group’s capital injection of RMB13,500,000 on 7 December 2011, Ms. Deng and Mr. Qi and the two independent third party individuals owned 63.33%, 13.33%, 2.67% and 2.67% equity interest of Qiushi, respectively.

As at 31 December 2011, the registered capital of Qiushi was RMB75,000,000. Qiushi is principally engaged in planting and sale of forage grass in the PRC.

#### 11. Biological assets

The Group’s dairy cows were fair valued by the Directors at 31 December 2011 while the fair value of the Group’s dairy cows at 30 June 2011 has been arrived at on the basis of a valuation carried out by an independent qualified professional valuer. As at 31 December 2011, the fair value less costs to sell of heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Since there are no market-determined prices for milkable cows, the Directors have applied net present value approach to calculate the fair value less cost to sell for these items. The resulting gain arising from changes in fair value less costs to sell of dairy cows of RMB63,508,000 (six months ended 31 December 2010 (unaudited): RMB43,149,000) has been recognized directly in profit or loss for the six months ended 31 December 2011.



The principal valuation assumptions affecting the estimation of the fair value of dairy cows by applying the net present value approach are the same as those set out in note 20 of Group's consolidated financial statements for the year ended 30 June 2011.

12. **Trade and other receivables**

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

	<b>As at</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2011</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>audited</i>
Trade receivables		
— Within 60 days based on invoice date	131,014	100,019
— Over 60 days based on invoice date	<u>50</u>	<u>408</u>
	131,064	100,427
Advances to suppliers	63,011	26,589
Others	<u>16,445</u>	<u>9,763</u>
	<u>210,520</u>	<u>136,779</u>

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

### 13. Trade and other payables

The credit period taken for the settlement of trade purchase is 60 days (30 June 2011: 60 days). The following is an aged analysis of trade payables, presented based on the invoice date, at the end of the respective reporting periods.

	<b>As at</b>	
	<b>31 December 2011</b>	<b>30 June 2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>audited</i>
Trade payables		
Within 60 days	321,814	177,066
Over 60 days	<u>32,254</u>	<u>19,478</u>
	354,068	196,544
Payable for acquisition of property, plant and equipment	244,736	238,868
Accrued staff costs	27,582	21,447
Advanced payments from customers ( <i>note a</i> )	92,338	5,863
Payable for transaction cost	6,790	7,552
Amount due to non-controlling shareholder of subsidiary ( <i>note b</i> )	5,300	—
Others	<u>14,792</u>	<u>12,537</u>
	<u>745,606</u>	<u>482,811</u>

*Note:*

- (a) The balance as at 31 December 2011 mainly represented the Group's receipt in advance from a customer to secure the supply of raw milk from the newly established farms to this customer and such balance will be utilised to settle the sales amount of raw milk produced from these new farms in the forthcoming year.
- (b) Amount due to non-controlling shareholder of subsidiary is unsecured, interest-free and is repayable on demand.

## **BUSINESS REVIEW**

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. For the six months ended 31 December 2011, the Group's operating results reached historical high, due to the increase in productivity and rising demand for high-end dairy products in China. As of 31 December 2011, the Group had 16 farms in operation and 4 farms under construction in China with 128,759 dairy cows in total. Our farms are situated across the PRC in strategic geographical locations that have close proximity to downstream dairy product processing plants and feed supply sources required by our farms. Total sales volume of the Group amounted to 195,321 tons, representing an increase of 66.5% from 117,285 tons in the corresponding period of 2010, which indicated that the Group has established a strong and leading market position in China's raw milk market.

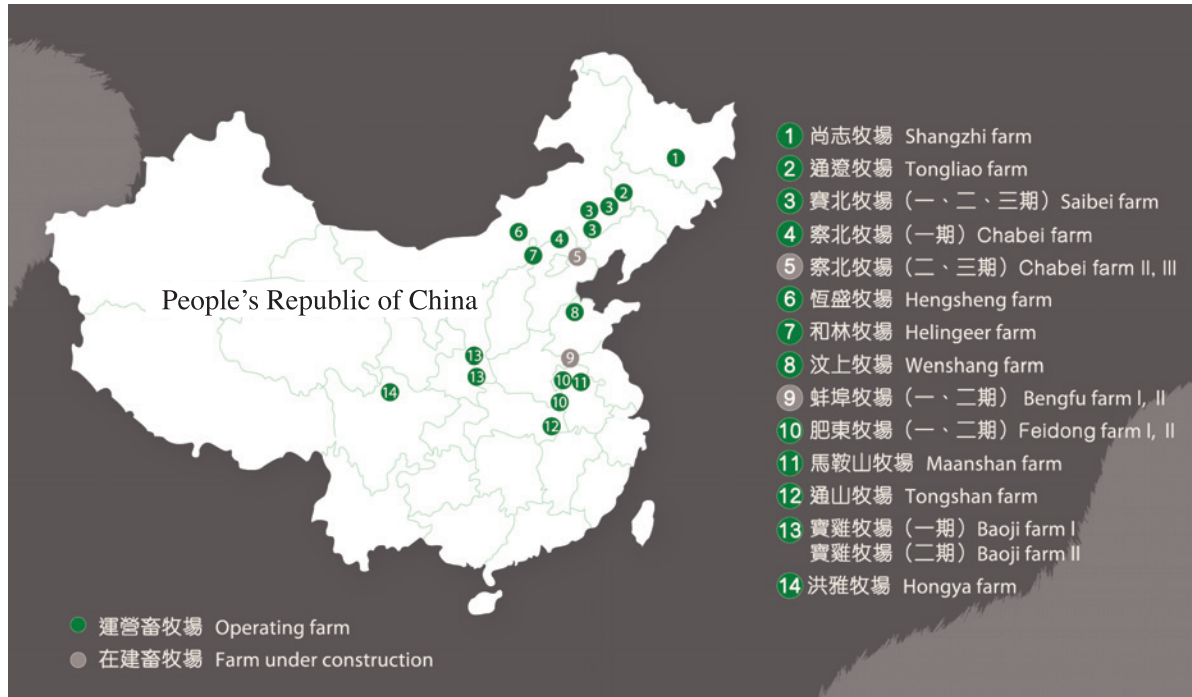
We achieved an average annual milk yield of 7.80 tons during the six months ended 31 December 2011, representing an increase of 3.3% from 7.55 tons in the corresponding period last year. Such results are attributable to our advanced herd management, continued genetic improvement of our cows and increase in number of cows reaching the peak stage of lactation.

Driven by the gradual attainment of economies of scale and increase in milk yield, EBIT margin of the Group increased to 26.1% from 25.1% in the corresponding period last year, while net profit margin increased from 19.0% to 22.2%.

To ensure safety of the raw milk produced by the Group and boost consumer confidence, the Group has devoted itself to implementing a series of comprehensive quality control measures to ensure that raw milk is free from contamination throughout the processes of feeding, breeding, milking and transportation. For the quality control on feeds, the Group has stringent procedures in place for selection of feed providers and feed storage. In addition, each batch of feeds is tested and examined for quality. For breeding, the Group has installed an efficient information system to continuously monitor milkable cows as a precaution against diseases. For the milking process, the Group continues to enhance the hygiene standards in our production premises and uses automatic milking systems to pipe the milk directly from cows to our central milk tanks ensuring the quality of raw milk. For the process of transportation, the Group continuously monitors the freezing equipment and the route of transportation and enhances our communication and co-ordination with the clients to ensure that the raw milk will not be contaminated during transportation. Through the constant technology improvements of the Group, the quality of the Group's raw milk continued to improve. Leveraged on advanced technologies and farm ancillary facilities, as well as premium feed supply sources, the Group was able to produce world-class raw milk during the current interim period.

Meanwhile, we introduced UHT milk packs of own brand during the period for sale in China's major cities, including Beijing, Hefei and Zhongshan. The freshness and purity of our products are highly valued by our customers.

## Our Farms



Our financial results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the costs for production decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 7.8 tons for the six months ended 31 December 2011, representing an increase of 3.3% from 7.55 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation.

Driven by the increase in our milk yield and effective cost control measures, the EBIT margin of the Group increased to 26.1% for the six months ended 31 December 2011 from 25.1% in last corresponding period, and the net profit margin increased to 22.2% for the year ended 31 December 2011 from 19.0% same period last year.

## Herd size

	As of	
	31 December 2011	30 June 2011
	<i>Heads</i>	<i>Heads</i>
Milkable cows	54,338	46,267
Heifers and calves	<u>74,421</u>	<u>61,309</u>
Total dairy cows	<u>128,759</u>	<u>107,576</u>

## Sales of milk produced

98.5% of the sales of milk produced by the Group were sold to our primary customer, China Mengniu Dairy Company Limited (2010: 99.0%). Our total sales of milk produced increased by 60.9% from RMB457.2 million in last corresponding period to RMB735.6 million for the six months ended 31 December 2011. The increase in sales revenue is mainly due to an increase in sales volume of milk by 66.5% from 117,285 tons in the last corresponding period to 195,321 tons for the six months period ended 31 December 2011. The increase in sales volume is attributable to the expansion of our herd size and increase in average milk yield per cow.

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

As at 31 December 2011, the biological assets of the Group were revalued at RMB3,285.4 million (30 June 2011 (valued by an independent professional valuer): RMB2,651.4 million) by the Directors. Gain arising from changes in the fair value of biological assets increased by 47.2% from RMB43.1 million in last corresponding period to RMB63.5 million in the six months ended 31 December 2011. The increase was primarily due to natural growth of our herd size and milk yield enhancement.

## Other Income

Other income for the interim period mainly consists of government grants of RMB34.3 million (2010: RMB17.9 million) and bank interest income of RMB10.5 million (2010: RMB1.4 million). A majority of the government grants was unconditional government subsidies for purchase of quality breed heifers.

## Farm Operating Expenses

	Six months ended	
	31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>unaudited</i>	<i>unaudited</i>
Feeds	462,636	252,664
Utilities	16,734	10,277
Other farm operating expenses	<u>43,760</u>	<u>31,841</u>
Total	<u>523,130</u>	<u>294,782</u>

With the expansion of our herd size and general increase in market price of feeds, total feed costs for the six months ended 31 December 2011 increased to RMB462.6 million, up 83.1% from RMB252.7 million for the same period last year.

### Employee benefit expenses

As of 31 December 2011, the Group has 3,451 employees. Total employee benefits expenses increased by 41.0% from RMB40.0 million in last corresponding period to RMB56.4 million in the six months ended 31 December 2011. The increase was mainly related to increased headcounts for new farms and general increase in base salary.

### Depreciation

Depreciation expenses increased by 35.5% from RMB31.1 million in last corresponding period to RMB42.2 million for the interim period ended 31 December 2011. This is because more farms have been put into operation and the proportion of milkable cows to total number of dairy cows has also increased.

### Other expenses

Other expenses mainly consist of professional fees, travel expenses and other office administrative expenses. The significant decrease in other expenses is mainly because there was RMB24.4 million transaction cost attributable to issue of shares incurred in last corresponding period while there was no such cost incurred in the six months ended 31 December 2011.

### Finance costs

Finance costs increased from RMB27.7 million for the last corresponding period to RMB28.7 million for the six months ended 31 December 2011, which was mainly attributable to the increase in bank loans for construction of new farms.

## **Profit for the Period and Profit Attributable to the Owners of the Company**

For the six months period ended 31 December 2011, the Group recorded a profit for the period of RMB163.2 million, up 87.9% from net profit of RMB86.9 million recorded same period last year. This was mainly attributable to the increase in sales revenue and average milk yield and effective cost control measures.

The Group's profit attributable to the owners of the Company was RMB159.9 million for the six months ended 31 December 2011, representing an increase of 124.3% from RMB71.3 million for same period last year.

Basic earnings per share were approximately RMB3.33 cents (2010: RMB1.85 cents).

## **Capital Structure, Liquidity and Financial Resources**

For the six months ended 31 December 2011, the Group's net cash inflow from operating activities amounted to RMB126.8 million, as compared to an outflow of RMB7.3 million in same period last year.

At 31 December 2011, the Group's available and unutilised banking facilities amounted to approximately RMB824.4 million. The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

The table below sets forth the short-term and long-term borrowings of the Group as at 31 December 2011.

	As at	
	<b>31 December 2011</b>	<b>30 June 2011</b>
	<i>RMB'000</i> <i>unaudited</i>	<i>RMB'000</i> <i>audited</i>
Bank borrowings	2,202,546	1,518,697
Other borrowings	<u>807</u>	<u>4,237</u>
	<u><u>2,203,353</u></u>	<u><u>1,522,934</u></u>
Carrying amount repayable:		
Within one year	509,931	303,797
Between one to two years	607,642	144,065
Between two to five years	913,550	817,842
Over five years	<u>172,230</u>	<u>257,230</u>
	2,203,353	1,522,934
Less: amount due within one year included in current liabilities	<u>(509,931)</u>	<u>(303,797)</u>
Borrowings due after one year	<u><u>1,693,422</u></u>	<u><u>1,219,137</u></u>
Secured borrowings	1,567,935	1,223,305
Unsecured borrowings	590,418	210,922
Guaranteed borrowings	<u>45,000</u>	<u>88,707</u>
	<u><u>2,203,353</u></u>	<u><u>1,522,934</u></u>

As at 31 December 2011, gearing ratio, being the ratio of total borrowings to total assets was 27.8% (30 June 2011: 22.0%). The annual interest rate of the bank borrowings during the six months ended 31 December 2011 varied from 0.40% to 7.05% (2010 corresponding period: 1.92% - 6.40%). As at 31 December 2011 and 30 June 2011, except one bank loan with carrying amount of RMB100 million was denominated in Hong Kong Dollars, all other borrowings were denominated in Renminbi.



## **PLEDGE OF ASSETS**

As at 31 December 2011, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.5 million (30 June 2011: RMB10.8 million), RMB107.3 million (30 June 2011: RMB117.1 million) and RMB2,374.5 million (30 June 2011: RMB1,636.6 million), respectively, were pledged as security for bank borrowings.

## **CAPITAL COMMITMENTS AND CONTINGENCIES**

As at 31 December 2011, the Group has capital commitments of RMB390.4 million related to acquisition of property, plant and equipment and of RMB45.4 million for purchase of heifers.

The Group did not have any significant contingent liabilities as at 30 June 2011 and 31 December 2011.

## **FINANCIAL MANAGEMENT POLICIES**

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

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

## **HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES**

The Group had approximately 3,451 employees in Mainland China and Hong Kong as at 31 December 2011. Total staff cost for the six month ended 31 December 2011, excluding Directors' fees, was approximately RMB54.3 million (2010: RMB38.5 million).

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

The Company granted management options in November 2010 and has adopted a share option scheme on 17 November, 2011 (“Share Option Scheme”) to provide incentive to our employees and other eligible persons to optimize their contributions to the Group and to reward them for their contribution to the Group. As at 30 June 2011, no share options have been granted under the Share Option Scheme.

## USE OF PROCEEDS

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited on 26 November 2010 with net proceeds from the global offering of approximately HK\$2,197 million (after deducting underwriting commissions and related expenses). The net proceeds are expected to be used in the following manner:

<b>Purpose of net proceeds</b>	<b>Percentage<sup>(1)</sup></b>	<b>Amount of net proceeds HK\$'Million</b>	<b>Utilised HK\$'Million</b>	<b>Balance HK\$'Million</b>
Import high-quality Holstein dairy heifers from Australia or New Zealand	40%	878.8	(409.0)	469.8
Construction of new farms	30%	659.1	(414.2)	244.9
Purchase of suitable farm facilities including, among other things, milking systems, feed processing machinery, electricity generating machines and herd management software	20%	439.4	(381.5)	57.9
Working capital and other general corporate purposes	10%	<u>219.7</u>	<u>(219.7)</u>	<u>—</u>
		<u>2,197.0</u>	<u>(1,424.4)</u>	<u>772.6</u>

*Note*

- (1) Allocation of the use of net proceeds as set out in the prospectus of the Company dated 15 November 2010 (the “Prospectus”).

As at 31 December 2011, the remaining net proceeds were deposited in reputable financial institutions. The Directors intend to apply the remaining net proceeds in the manner as set out in the Prospectus.

## **PROSPECTS**

Looking ahead, the rising purchasing power of Chinese citizens and their growing concern over health issues will continue to increase the demand for high-end quality raw milk. The per capita milk consumption in China remains substantially below global average, indicating that there is still significant room for growth in demand. All these are beneficial to the further development of the Group.

The Ministry of Agriculture issued the “Twelveth Five Year Plan for National Livestock Development (2011 - 2015)”, which clearly indicated that during the “Twelve Five” period the target for livestock development is to achieve significant improvement in the quality of the livestock industry, and standardized scale farming is a development emphasis during the “Twelve Five” period. By 2015, the proportion of national scale breeding of livestock and poultry is expected to increase by 10 to 15 percent, and herds with more than 100 dairy cows will exceed 38%. At the same time, financial subsidies will continue to increase. The implementation and promotion of “Twelve Five” will provide new opportunities to our Group’s development, and will provide a firm foundation to secure the Group’s leading position in the industry and future development.

In terms of quality control of raw milk, the PRC has in recent years continuously strengthened safety control of the dairy industry by amending and re-enacting 66 national food safety standards in 2010, including “Raw Milk”, as well as issuing the “Notice on Further Strengthening the Work Quality and Safety for Dairy Products” and “Rules for Reviewing Production License for Dairy Products”, in order to standardize the dairy product market and eliminate corporations that are small scaled and have poor production conditions and weak quality assurance ability, so as to promote consolidation of the industry and drive the industry gradually towards a healthy and sustainable development. During the process of constant growth and development, there are issues at various stages that constantly alert the industry to accelerate the standardization of all regulations and controls, with a view to prioritize consumer health and truly achieve development in China’s dairy product industry. Being one of the first companies in China to adopt a large scale industrialized free-stall dairy farming operation model and given the historical responsibilities that the Company has been carrying, we feel our importance and the long distance required for us to carry out such responsibilities. Our Group will strive to promote modernized production models and lead the development of the industry.

To ensure the high quality and safety of raw milk and to boost consumer confidence, the Group will continue to implement a series of comprehensive quality control measures.

The management will further promote our successful farm operation model and will construct more farms in the coming years, so as to expand our production capacity as well as strengthen our leading position in China's dairy farming sector, and thereby contribute significantly to the sustainable growth of China's dairy product industry and deliver a satisfactory performance to our Shareholders and the general public.

### **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2011 (2010: Nil).

### **CORPORATE GOVERNANCE**

The Company has, throughout the six months ended 31 December 2011 complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 31 December 2011.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2011.

## **REVIEW OF INTERIM RESULTS**

The condensed consolidated financial statements of the Group for the six months ended 31 December 2011 have not been audited but have been reviewed by the Group's auditors, Deloitte Touche Tohmatsu, and the audit committee of the Company (the "Audit Committee").

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

## **PUBLICATION OF THE INTERIM REPORT**

The interim report of the Group for the six months ended 31 December 2011 will be published on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company ([www.moderndairyir.com](http://www.moderndairyir.com)) in due course.

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

Hong Kong, 20 February 2012

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