China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2012

The Board of Directors (the "Board") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 30 June 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 30 June	
		2012	**2011**
	Notes	*RMB'000*	*RMB'000*
Sales of milk produced	4	1,677,615	1,113,354
Gain arising from changes in fair value less costs to sell of dairy cows	12	131,481	55,538
Other income	5	116,551	101,850
Farm operating expenses		(1,148,697)	(730,307)
Employee benefits expense		(127,989)	(89,649)
Depreciation		(94,798)	(67,304)
Share of profit of an associate		1,983	–
Net foreign exchange loss		(4,335)	(17,367)
Other gains and losses		(1,052)	(1,197)
Other expenses		(71,985)	(61,871)
Profit before finance costs and tax	6	478,774	303,047
Finance costs	7	(71,323)	(59,141)
Profit before tax		407,451	243,906
Income tax charge	8	(143)	(8)
Profit and total comprehensive income for the year		407,308	243,898
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		398,482	224,605
Non-controlling interests		8,826	19,293
		407,308	243,898
Earnings per share (RMB)	10		
Basic		8.30 cents	5.20 cents
Diluted		8.22 cents	5.15 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2012 RMB'000	As at 30 June 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,964,585	2,221,265
Land use rights		67,577	62,863
Goodwill		310,426	310,426
Interest in an associate		15,483	–
Long-term prepaid rentals		65	130
Deposit for acquisition of biological assets		9,024	1,094
Biological assets	12	4,185,600	2,651,407
		7,552,760	5,247,185
CURRENT ASSETS			
Inventories		263,882	212,719
Trade and other receivables	13	181,037	136,779
Land use rights		1,696	1,440
Pledged bank balances		134,162	287,119
Bank balances and cash		518,277	1,021,691
		1,099,054	1,659,748
CURRENT LIABILITIES			
Trade and other payables	14	821,230	482,811
Amount due to an associate		7,888	–
Borrowings – due within one year		664,217	303,797
Deferred income		7,764	4,943
		1,501,099	791,551
NET CURRENT (LIABILITIES)/ ASSETS		(402,045)	868,197
TOTAL ASSETS LESS CURRENT LIABILTIIES		7,150,715	6,115,382
CAPITAL AND RESERVES			
Share capital		413,075	413,075
Reserves		4,653,415	4,254,933
Equity attributable to owners of the Company		5,066,490	4,668,008
Non-controlling interests		66,226	54,700
		5,132,716	4,722,708
NON-CURRENT LIABILITIES			
Borrowings – due after one year		1,926,572	1,219,137
Long-term other payable		–	100,000
Deferred income		91,427	73,537
		2,017,999	1,392,674
		7,150,715	6,115,382

NOTES

1. General information

China Modern Dairy Holdings Ltd. (the "Company") is incorporated in the Cayman Islands with limited liability. Its registered office 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 annual results 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

In preparing the annual results for the year ended 30 June 2012, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB402.0 million as at 30 June 2012 (30 June 2011: net current assets of RMB868.2 million). Having considered the secured credit facilities of approximately RMB1,175.8 million which remains unutilised as at date of the issuance of the annual results, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the annual results have been prepared on a going concern basis.

The annual results have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations promulgated by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. Principal accounting policies

The annual results have been prepared on the historical cost basis except for biological assets, which are measured at fair value less costs to sell. The accounting policies used in the annual results 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 consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of 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.

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

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

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

The Group has applied all the revised standards and amendments to standards and interpretation ("new and revised IFRSs") issued by the International Accounting Standards Board, which are mandatorily effective for the Group's financial year beginning 1 July 2011.

The adoption of these new and revised IFRSs had no material effect on the amounts reported in these consolidated financial statements and/or the disclosures set out in these consolidated financial statements.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets[3]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[5]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2015
3 Effective for annual periods beginning on or after 1 January 2012
4 Effective for annual periods beginning on or after 1 July 2012
5 Effective for annual periods beginning on or after 1 January 2014

IFRS 13 Fair Value measurement

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

IFRS 13 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that IFRS 13 will be adopted in the Group's financial statements for the annual period beginning 1 July 2015 and that the application of this new Standard may affect the amount reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements. More specifically, IFRS 13 is applicable to the Group's biological assets measured at fair value.

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

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

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and SIC Interpretation 12 "Consolidation – Special Purpose Entities". IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC Interpretation 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.

In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors of the Company considered the application of these five standards will have no material impact on the results and financial position of the Group but will result in more extensive disclosure.

Other than as described above, the directors of the Company anticipate that the application of other new or revised standards, interpretations and amendments will have no material impact on the consolidated financial statements.

4. Sales of milk produced and Segment Information

Sales of milk produced represented mainly the fair value of milk produced 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 chairman of the Group (the "Chairman"), in order to allocate resources and to assess performance. The operation of the Group constitutes one operating and reportable segment i.e. production and sales of milk produced in the PRC.

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

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

Sales of milk produced of RMB1,616,494,000 (2011: RMB1,084,777,000) is from a single external customer.

5. Other Income

	Year ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Government grant related to:		
– Biological assets (note i)	90,017	62,001
– Income (note ii)	4,595	22,666
– Other assets	5,391	3,998
Bank interest income	15,360	12,155
Write-off of payables	688	615
Others	500	415
	116,551	101,850

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 operations.

6. Profit before finance costs and tax

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

	Year ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Auditors' remuneration	2,956	2,571
Release of land use rights	1,554	1,403
Transaction costs for listing of shares	–	24,728

7. Finance costs

	Year ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Interest expenses on:		
Bank borrowings wholly repayable within five years	122,948	74,867
Bank borrowings wholly repayable after five years	6,351	10,026
Other borrowings wholly repayable within five years	49	241
Total borrowing costs	129,348	85,134
Less: Capitalised amount	(58,025)	(25,993)
	71,323	59,141

8. Income tax charge

	Year ended 30 June 2012 *RMB'000*	2011 *RMB'000*
Current tax:		
PRC enterprise income tax	143	8

(i) PRC Enterprise Income Tax

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

According to the PRC tax law and its interpretation rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full PRC Enterprise Income Tax exemption derived from such business. The Group's principal subsidiaries which are engaged in qualifying agricultural business are entitled to exemption of PRC Enterprise Income Tax.

(ii) Hong Kong Profits Tax

No provision for Hong Kong profits tax for the years ended 30 June 2012 and 2011 has been made as the Group has no assessable profits arising in Hong Kong for both years.

9. Dividends

No dividends were paid, declared or proposed during the year ended 30 June 2012. The directors do not recommend the payment of a final dividend (2011: Nil).

10 Earnings per share

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

	Year ended 30 June 2012 *RMB'000*	2011 *RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	398,482	224,605
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	–	(283)
Earnings for the purpose of diluted earnings per share	398,482	224,322

	Year ended 30 June	
	2012	**2011**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	4,800,000,000	4,320,653,151
Effect of share options issued by the Company	48,960,380	38,325,183
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,848,960,380	4,358,978,334

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share for the year ended 30 June 2011 have been determined assuming 5,124,000 ordinary shares allotted and credited to Advanced Dairy I Company Limited ("Advanced Dairy I") and the capitalisation issue of 3,990,000,000 ordinary shares were in existence from 1 July 2010.

11. Property, plant and equipment

During the year ended 30 June 2012, the Group spent RMB929,041,000 (2011: RMB768,650,000) to acquire property, plant and equipment in order to increase its production capacity.

12. Biological assets

The fair value of the Group's dairy cows as at 30 June 2012 were based on the valuation carried out by an independent qualified professional valuer, Jones Lang LaSalle Sallmanns Appraisal and Advisory Limited, which are determined with reference to the market-determined prices, if available, of items with similar age, breed and genetic merit. There are no market-determined prices of milkable cows. Therefore, the directors of the Company have applied net present value approach to calculate the fair value less costs to sell for these items. The resulting gain arising from changes in fair value less costs to sell of dairy cows of RMB131,481,000 (2011: RMB55,538,000) has been recognized directly in profit or loss for the year ended 30 June 2012. Such gain comprises cash proceeds from sales of bulls and culling of cows which amounted to RMB88,921,000 (2011: RMB59,035,000).

13. Trade and other receivables

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

	Year ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Trade receivables		
– Within 60 days based on invoice date	138,652	100,019
– Over 60 days based on invoice date	–	408
	138,652	100,427
Advances to suppliers	35,844	26,589
Others	6,541	9,763
	181,037	136,779

Trade receivables at the end of the respective reporting periods principally represent receivables from sales of raw milk. The Group allows a credit period of 60 days (2011: 60 days) to its major trade customers.

14. Trade and other payables

The following is an analysis of trade and other payables at the end of the reporting period:

	Year ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Trade and bills payables		
– Within 60 days based on invoice date	345,278	177,066
– Over 60 days based on invoice date	37,312	19,478
	382,590	196,544
Payable for acquisition of property, plant and equipment	267,738	238,868
Accrued staff costs	31,606	21,447
Advanced payments from customers	103,770	5,863
Payable for transaction cost for listing of shares	6,139	7,552
Others	29,387	12,537
	821,230	482,811

The credit period taken for the settlement of trade purchase is 60 days (2011: 60 days).

15. Operating lease commitments

The Group as lessee

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

	As at 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Within one year	1,022	1,427
In the second to fifth year inclusive	368	716
Over five years	885	1,419
	2,275	3,562

INDUSTRY OVERVIEW

2012 sees China's national economy develop steadily in general, despite the complex economic climate both domestically and internationally. In particular, the dairy product industry has been adjusting to a higher level of quality and safety. Emphasis has been placed on constructing milk source production bases, as well as developing local dairy brands. Indeed, this may be a trend that will dominate China's dairy industry in the future.

In recent years, China's dairy product industry has been facing great challenges brought about by food safety issues and industrial transition. Many industry leaders have jumped on the bandwagon of constructing their own milk farms in order to secure safe milk sources. Moreover, with increasingly intense competition from international players, local brands are now using standardized scale farming as a means to increase their competitiveness.

In early 2012, to ensure the healthy and sustainable development of China's dairy product industry, the Ministry of Agriculture issued the National Strategies for the Grain-saving Animal Husbandry Industry (2011-2020). It was stated that, as a key part of China's grain-saving imperative, more resources should be invested in the dairy industry. Examples include constructing infrastructure for breeding fine dairy cattle, and enhancing China's capabilities in breeding generally. It was also stated that subsidies for raising fine cattle breed will be expanded, while full subsidies for raising fine dairy cattle breed will continue. Foreign dairy cattle breeds will also be gradually imported to China in an attempt to introduce better genes amongst bulls locally. It is targeted that by years 2015 and 2020, dairy output will reach 50 million tons and 64 million tons respectively.

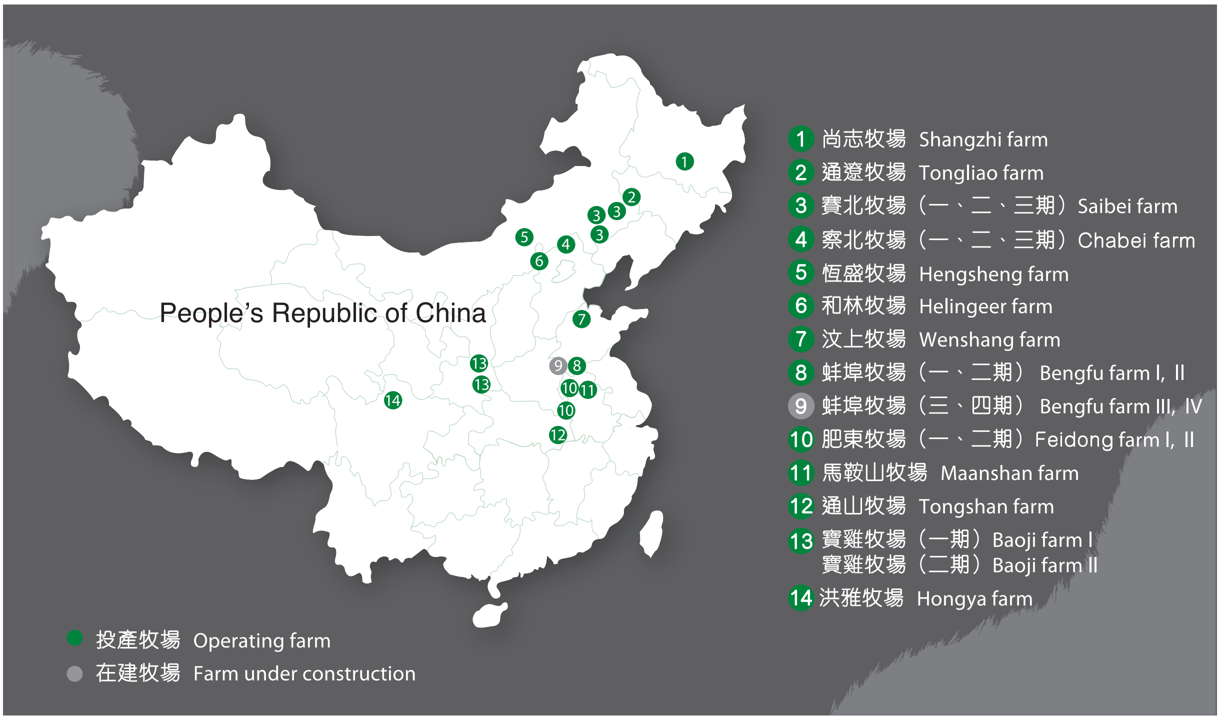
The Twelfth Five Year Plan for National Livestock Development (2011-2015), newly issued last year, also specifies targets set for the livestock industry in China. These targets include (but are not limited to): (i) standardizing scale raising of livestock and poultry; (ii) launching construction projects for standardizing scale raising on dairy cattle farms or communities; (iii) accelerating the realization of standardized scale raising of livestock and poultry; (iv) promoting the industry's shifting development; and (v) ensuring an effective supply of livestock products. The Plan also clearly states that during the "Twelfth Five Year" period, the target for livestock development is to (i) achieve a significant improvement in the quality of livestock industry, and (ii) develop standardized scale farming. 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 cattle are expected to exceed 38%.

The series of policies and measures launched by the government shows that China's dairy product industry is undergoing a fast consolidation, and that market competition mechanism will play a more significant role than ever. Large-scale dairy corporations who enjoy a strong financial base, a well known branding, advanced technologies and economies of scale will benefit from such growth. As a well-known and leading enterprise in the dairy farming industry nationwide, we carry out strict quality control, promote the construction of new farms, and continue to identify new opportunities for the business development of the Group. This allows us to lay a solid foundation for the Group to consolidate our position as an industry leader, and develop with the industry in the future.

BUSINESS REVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. During the year ended 30 June 2012, the Group completed the construction of four new farms. As of 30 June 2012, the Group had 20 farms in operation and two farms under construction in China with approximately 159,000 dairy cows in total. Our farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources required by our farms.

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 of a certain amount of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 8.09 tons for the year ended 30 June 2012, representing an increase of 4.7% from 7.73 tons last year. Such results are attributable to effective herd management, genetic improvement of our cows through generations and the 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 28.5% for the year ended 30 June 2012 from 27.2% last year, and the net profit margin increased to 24.3% for the year ended 30 June 2012 from 21.9% last year.

PROSPECTS

With the increasing per capital income and consumer spending in China, as well as higher awareness of health, it is expected that there will be a growing demand for high-end quality raw milk. At present, the milk consumption per capita in China is still far below the world average, and hence tremendous growth potential exists for raw milk. Such factors will translate into a favourable environment for the Group's further development.

Moreover, the central government continues to guide and direct the healthy and sustainable growth of the dairy product industry through various policies. During the year under review, the government issued the National Strategies for the Grain-saving Animal Husbandry Industry (2011-2020). The Strategies state that since the dairy industry is a key part of the country's grain-saving animal husbandry, it calls for better infrastructure for original and fine breed farms of grain-saving livestock and poultry (including dairy cattle). Greater proprietary breeding capabilities should be promoted, and it has been reiterated that the government will continue to provide greater financial support to the dairy product industry by expanding subsidies to fine breeding. Such policies aid the moving forward of the industry, and will gradually enhance consumer confidence in Chinese owned dairy products.

With such favourable policies in place, our principal goal is to further strengthen our position as the market leader in China's large-scale dairy farming industry. In 2011, the Ministry of Agriculture issued the "Twelfth Five Year Plan for National Livestock Development (2011-2015)", which clearly indicated that during the "Twelfth Five" period, the target for livestock development is to achieve significant improvement in the quality of the livestock industry, and develop standardized scale farming. 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 are expected to exceed 38%. At the same time, financial subsidies will continue to increase.

The implementation and promotion of "Twelfth 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. Leveraging on this, we will continuously seek opportunities to achieve sustainable growth of our business and to enhance Shareholders' value. We will continue to replicate our successful business model across China to further broaden our customer base. Moreover, we will invest significant resources in importing quality foreign dairy cattle, continue to open sizable farms for over 10,000 cattle to increase our farming scale, and continue to adopt and develop comprehensive, modern and scientific breeding and feeding techniques. We will also develop our know-how to improve our milk yield and quality, as well as developing our cattle breeding techniques. In respect of farm management, we will further improve our comprehensive, modern and scientific farm management practices to enhance operating efficiency; and also develop new business initiatives and products to diversify our revenue stream.

Currently, our farms are designed and constructed with modern and scientific layouts to ensure high milk yields and continuous improvement in cost efficiency. We believe our raw milk is amongst the highest quality and safest milk in China. We also believe that we are operating the most well-managed large-scale dairy farms in China with the most comprehensive facilities and the advanced breeding, feeding and herd management skills. Under the leadership of our experienced management, the overall capabilities of the Group will further improve and our Shareholders and investors will also benefit from our healthy development.

FINANCIAL OVERVIEW

Herd size

	As at	
	30 June 2012	**30 June 2011**
	Head	*Head*
Dairy cows		
Milkable cows	70,793	46,267
Heifers and calves	88,554	61,309
Total dairy cows	159,347	107,576

Sales of milk produced

96.4% of the sales of milk produced by the Group were sold to our primary customer, China Mengniu Dairy Company Ltd. ("Mengniu") (2011: 97.4%). Our total sales of milk produced increased by 50.7% from RMB1,113.4 million in last fiscal year to RMB1,677.6 million for the year ended 30 June 2012. The increase in sales revenue is mainly due to increase in sales volume of milk by 49.5% from 288,620 tons in last fiscal year to 431,394 tons for the year ended 30 June 2012. The increase in sales volume is attributable to the expansion of our herd size and increase in average milk yield per cow. Currently, the raw milk produced from Saibei farm, Chabei farm, Hengsheng Farm and Helingeer farm of the Group are mainly used for the production and processing of Mengniu Group's Milk Deluxe. The raw milk currently produced from the above four farms of such geographic locations amounted to 650 tons per day, and the raw milk from other geographic locations also used for the production and processing of other high-end milk of Mengniu Group.

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

As at 30 June 2012, the biological assets of the Group were valued at RMB4,185.6 million (2011: RMB2,651.4 million) by an independent qualified professional valuer, Jones Lang LaSalle Sallmanns Appraisal and Advisory Limited. Gain arising from changes in fair value of biological assets increased by 136.7% from RMB55.5 million for last fiscal year to RMB131.5 million for the year ended 30 June 2012. Such gain comprises cash proceeds from sales of bulls and culling of cows of RMB88.9 million (2011: RMB59.0 million). The increase for the year was mainly due to enhanced herd mix management resulting in increasing heifer rate of the milkable cows produced by the Company which is currently more than 56%, a decrease in culling rate of milkable cows and a higher herd natural growth rate.

Other Income

Other income for the year mainly consists of government grants of RMB100.0 million, (2011: RMB88.7 million). A majority of the government grants was unconditional government subsidies for the purchase of quality breed heifers.

Farm operating expenses

With the expansion of our herd size and general increase in market price of feeds, total feed costs during the year ended 30 June 2012 increased to RMB1,013.9 million from RMB648.2 million last fiscal year, representing an increase of 56.4%.

Meanwhile, cost (except employee benefit expenses and depreciation) per ton of raw milk sold increased by 5.3% from RMB2,530 in last fiscal year to RMB2,663 in the year ended 30 June 2012. This was driven by increase in prices of feeds, mainly including corns and alfalfa, the price of two feeds both increased over 10% year-on-year, the price of other raw materials also increased in different levels. The feeds of milkable cows will be affected from the sustainable increase in price of agricultural products in a certain extent.

Employee benefit expenses

As of 30 June 2012, our Group has 3,798 employees, representing an increase of 23.8% in headcount since 30 June 2011. Our employee benefits expenses increased by 42.7% from RMB89.6 million last fiscal year to RMB128.0 million in the year ended 30 June 2012. The increase was mainly related to an increase in headcount for our new farms, the proportion of milkable cows to total number of dairy cow has also increased and the general increase in basic salary.

Depreciation

Depreciation expenses increased by 40.9% from RMB67.3 million last fiscal year to RMB94.8 million for the year ended 30 June 2012. This is mainly due to more farms being 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, travelling expenses and other office administrative expenses. The increase of 16.3% from RMB61.9 million last fiscal year to RMB72.0 million for the year ended 30 June 2012 was mainly due to absence of transaction costs attributable to the issue of shares in 2012 (2011: RMB24.7 million), as well as transportation costs for the year that amounted to RMB27.1 million charged to other expenses (2011: RMB15.6 million directly offset sales of milk produced).

Finance costs

Finance costs increased from RMB59.1 million for last fiscal year to RMB71.3 million for the year ended 30 June 2012, which was mainly attributable to the increase in bank loans for acquisition of dairy cows and farm operation.

Profit and total comprehensive for the year and Profit and total comprehensive income attributable to owners of the Company

For the year ended 30 June 2012, the Group recorded a profit and total comprehensive income of RMB407.3 million, up 67.0% from net profit of RMB243.9 million recorded last fiscal year.

The Group's profit and comprehensive income attributable to owners of the Company was RMB398.5 million for the year ended 30 June 2012, representing an increase of 77.4% from RMB224.6 million for last fiscal year. This was mainly contributed to the increase in sales revenue and average milk yield per cow and effective cost control measures.

Basic earnings per share were approximately RMB8.30 cents (2011: RMB5.20 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 30 June 2012, the Group's net cash inflow from operating activities amounted to RMB542.40 million, as compared to RMB310.8 million in last fiscal year.

At 30 June 2012 and date of issuance of annual results, the Groups' available and unutilised banking facilities amounted to approximately RMB740.0 million (2011: RMB1,424.3 million) and RMB1,175.8 million, respectively. The directors of the Company are of the opinion that the working capital available to the Group is sufficient for its present requirements.

The table below sets forth our short-term and long-term borrowings as of 30 June 2012.

	As at	
	30 June 2012	**30 June 2011**
	RMB'000	*RMB'000*
Bank borrowings	2,589,982	1,518,697
Other borrowings	807	4,237
	2,590,789	1,522,934
Carrying amount repayable:		
Within one year	664,217	303,797
Between one to two years	643,442	144,065
Between two to five years	1,180,200	817,842
Over five years	102,930	257,230
	2,590,789	1,522,934
Less: amounts due within one year shown under current liabilities	(664,217)	(303,797)
Amounts due after one year	1,926,572	1,219,137
Secured borrowings	1,440,330	1,223,305
Unsecured borrowings	1,080,459	210,922
Guaranteed borrowings	70,000	88,707
	2,590,789	1,522,934

At 30 June 2012, gearing ratio, being the ratio of total borrowings to total assets was 29.9% (2011: 22.0%). The annual interest rate of the bank and other borrowings during the year ended 30 June 2012 varied from 2.45% to 7.05% (2011: 0.4% - 6.46%). As of 30 June 2012, all borrowings were denominated in Renminbi.

BUSINESS STRATEGIES

Continue to replicate our successful business model across China and further broaden our customer base

We plan to build dairy farms in strategically selected regions in China, where we expect demand for high quality milk to continue to grow rapidly. While we will strengthen our strategic relationship with Mengniu, we also plan to further develop strategic relationships with new customers.

Improve our pure-bred yield and raw milk quality by continuing to adopt modern and scientific breeding and feeding techniques

We have continued to improve our operations since the commencement of our business, resulting in rising average milk yield per annum. Currently, our average milk yield per annum per milkable cow is among the highest produced in China. We believe that the yield and raw milk quality of our milkable cows will continue to rise by improving the genetic mix of our herd for each generation, further increasing the ratio of milkable cows among our herd and optimizing the mix of feed.

Continue to enhance feed nutrients and optimize the mix of feed by continuing the research on feed mix

We will continue to work closely with local farmers and agriculture institutes to research and grow plants and crops that are suitable for our dairy cows. In addition, based on the location of our farms, we will collaborate with local farmers in specific regions to establish a tailor-made feed supply chain, with the aim to reduce the cost of transporting feed and ensure the quality, nutritional content and stable supply of the feed.

PLEDGE OF ASSETS

As at 30 June 2012, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.5 million, (2011: RMB10.8 million), RMB66.1 million (2011: RMB117.1 million) and RMB2,372.8 million (2011: RMB1,636.6 million), respectively , were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2012, the Group has capital commitments of RMB653.3 million related to acquisition of property, plant and equipment and of RMB192.0 million for purchase of heifers.

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

FINANCIAL MANAGEMENT POLICIES

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

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 3,798 employees (30 June 2011: 3,067) in Mainland China and Hong Kong as at 30 June 2012. Total staff costs for the year ended 30 June 2012, excluding directors' fees, were approximately RMB124.7 million (2011: RMB86.8 million).

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

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2012 (2011: Nil).

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 30 June 2012, the Company has continued to comply with the code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Lisiting Rule") (the "Stock Exchange"). The Stock Exchange pulbished its consultation conclusions on the review of the Code in October 2011 and renamed it the Corporate Governance Code (the "New Code"), setting out the amendments required to be made in 2012. The Company has adopted all the code provisions of the New Code.

The Company has complied with all code provisions set out in Code from 1 July 2011 to 31 March 2012 and the New Code throughout the period from 1 April 2012 to 30 June 2012 except for the deviations from code provision A5.1.

Pursuant to code provision A.5.1 of the New Code, each issuer should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors by 1 April 2012. The Company has not established a nomination committee until 16 April 2012 as the Board was considering the candidates for the nomination committee during the relevant period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (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, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 30 June 2012.

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 year ended 30 June 2012.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 30 June 2012 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises two independent non-executive director, Mr. LEE Kong Way Conway and Prof. GUO Lianheng and non-executive director Mr. HUI Chi Kin Max. During the year ended 30 June 2012, the Audit Committee held two meetings to review the internal control and financial reporting matters. The results for the year ended 30 June 2012 have been reviewed by the Audit Committee.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 30 June 2012 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.
GAO Lina
Deputy Chairman & Chief Executive Officer

Hong Kong, 17th September, 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.