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

MODERN FARMING

现代牧业

ANNUAL REPORT
2013

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)
Mr. HAN Chunlin (Chief Operation Officer)
Mr. SUN Yugang (Chief Financial Officer)

Non-Executive Directors

Mr. YU Xubo (Chairman)
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. DING Sheng

Independent Non-Executive Directors

Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. LIU Fuchun
Mr. KANG Yan

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway (Chairman)
Mr. HUI Chi Kin, Max
Mr. LIU Fuchun

REMUNERATION COMMITTEE

Mr. LI Shengli (Chairman)
Mr. WOLHARDT Julian Juul
Mr. LIU Fuchun

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Ms. GAO Lina
Mr. WONG Kai Hing

COMPANY SECRETARY

Mr. WONG Kai Hing

HEADQUARTERS

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

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104, Cayman Islands

HONG KONG OFFICE

Unit 2402, 24/F,
Alliance Building 130-136
Connaught Road Central Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Finance Limited
PO Box 1093,
Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law

Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to PRC Law

Commerce & Finance Law Offices

As to Cayman Islands Law

Maples and Calder

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Agricultural Development Bank of China Maanshan Branch
China
Construction Bank Maanshan Branch
Bank of Communication Maanshan Branch
Citibank N.A. Hong Kong

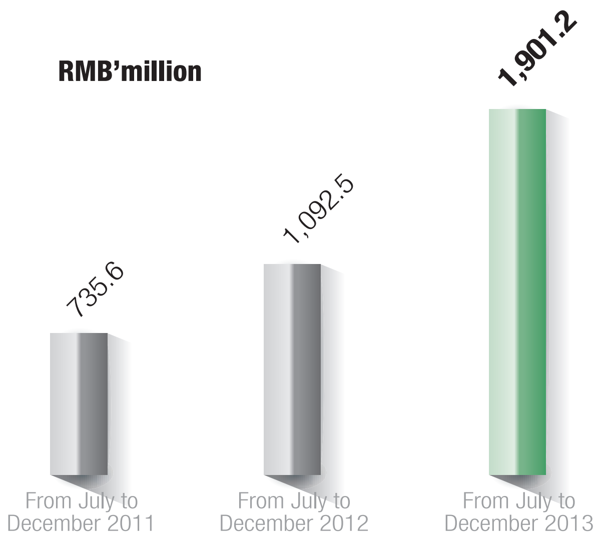
STOCK CODE

The Stock Exchange of Hong Kong Limited: 1117

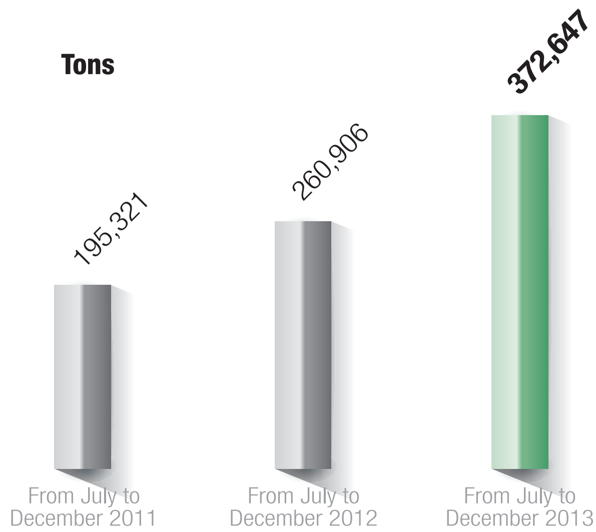
WEBSITE

http://www.moderndairyir.com

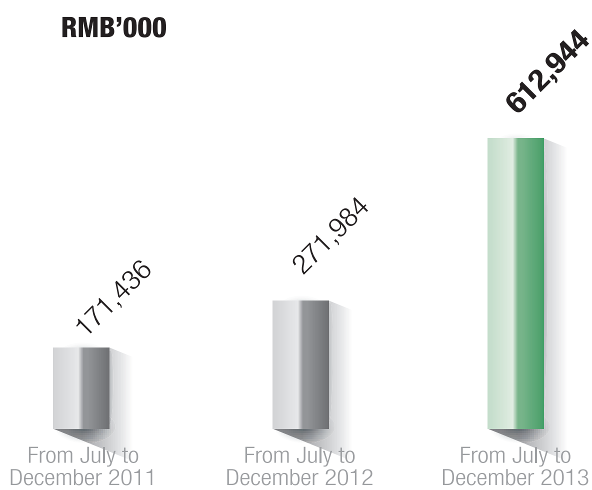
Financial Highlights



SALES REVENUE



SALES VOLUME



CASH EBITDA

* Cash EBITDA represents the EBITDA before gains/losses arising from changes in fair values less costs of selling dairy cows and other gains and losses.

RESULTS

	For the 6 months ended 31 December 2013 RMB'000	For the 6 months ended 31 December 2012 RMB'000	For the 12 months ended 30 June 2013 RMB'000
Sales of milk produced	**1,901,248**	1,092,528	2,480,561
Earnings before interest and tax	**462,637**	240,415	503,726
Cash EBITDA*	**612,944**	271,984	680,197
Cash EBITDA margin	**32.2%**	24.9%	27.4%
Net profit	**343,257**	178,259	341,996

FINANCIAL POSITION

	As at 31 December 2013 RMB'000	As at 30 June 2013 RMB'000
Biological assets	**5,954,363**	5,465,008
Cash and cash equivalents	**369,041**	378,030
Total assets	**12,493,821**	11,163,663
Total borrowing (includes short-term debenture)	**4,948,666**	4,279,041
Gearing ratio (Total borrowing/ Total assets)	**39.6%**	38.3%

* Cash EBITDA represents the EBITDA before gains/losses arising from changes in fair values less costs of selling dairy cows and other gains and losses.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or the "Directors") of China Modern Dairy Holdings Ltd. ("Modern Dairy" or the "Company"), together with its subsidiaries (the "Group"), I am pleased to present the annual results of Modern Dairy for the six months ended 31 December 2013 (the "period under review") to our shareholders ("Shareholders").

BUSINESS REVIEW

With surging costs such as wages and feed price in recent years coupled with rising beef price during the period under review, a lot of individual players from traditional milk-producing areas quitted the dairy industry, leading to reduced number of dairy cows and intensifying milk shortage. Meanwhile, as the income and consumption level of the Chinese residents increased they are more concern about health and food safety, which drove increasing demand for high-ended raw milk and rising price of raw milk, with high-end raw milk in particular. Consequently, the Group's business maintained rapid growth during the period under review.

During the six months ended 31 December 2013, the Group's operating results reached a historical high due to increases in productivity and the increased demand for high-end dairy products in the PRC. As of 31 December 2013, the Group had 22 farms operating, 2 farms under construction invested through the joint venture and 2 farms under construction by the Group in the PRC with approximately 186,838 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. Total sales volume for the Group amounted to 372,647 tons for the six months ended 31 December 2013. This represented an increase of 42.8% from 260,906 tons in the corresponding period of 2012 and indicates that the Group has established a stable and leading market position in China's raw milk market.

For the six months ended 31 December 2013, the Group recorded an average annual milk yield of 8.51 tons per milkable cow, representing an increase of 7.2% from 7.94 tons in the corresponding period last year. Such a result is attributable to advanced herd management, continued genetic improvement of our cows, and an increase in the number of cows reaching the peak stage of lactation. EBIT margin of the Group increased to 24.3% from 22.0% as compared to the corresponding period last year. Cash EBITDA (i.e. EBITDA before gains/losses arising from changes in fair values less costs of selling dairy cows and other gains and losses) increased by 125.3% to RMB612.9 million for the six months ended 31 December 2013 from RMB272.0 million as compared to the corresponding period last year. Cash EBITDA margin increased to 32.2% from 24.9% as compared to the corresponding period last year. Profit attributable to Shareholders was approximately RMB327.5 million, increased by 92.3% from approximately RMB170.3 million as compared to the corresponding period last year. Basic earnings per share were approximately RMB6.79 cents, representing an increase of 91.3% from approximately RMB3.55 cents as compared to the corresponding period last year.

On 23 September 2013, the Group entered into two agreements with Success Dairy II Limited ("Success Dairy") in respect of the formation of two joint venture companies to design, construct and operate new dairy farms. The Group owns 18% of the issued share capital of each of the joint venture company and Success Dairy owns the remaining 82% of the issued share capital. The total investment of these joint ventures is US$140 million. We believe that the formation of the joint venture is in the best interests of the Group. In contrast with setting up dairy farms by itself, using the structure of a joint venture reduces short term capital expenditure and improves the Company's cash flow. According to the relevant co-operation agreement, the joint venture entity will purchase a total of approximately 13,200 dairy cows from the Company, which will utilize excess heifers of the Group resulted from its natural herd growth. Moreover, the proceeds received from the sale of dairy cows will have positive contribution to the Company's revenue. Pursuant to the call option arrangement as agreed between the joint venture partners, the Company may acquire the remaining 82% of the equity interests in each of the joint venture companies in the future.

Since China Mengniu Dairy Company Limited ("Mengniu") became the largest single shareholder of the Company, this further strengthened the strategic cooperation between the Group and Mengniu Group, while ensuring the stable supply of raw milk for Mengniu Group. As the Group's management remains unchanged and maintains independent operation, the agreement entered into with Mengniu in 2008 in respect of the 10-year raw milk supply shall be performed as usual. During the period under review, the proportion of sales volume of milk that the Group sold to Mengniu was 75.7%. With the increase in milk production by the Company, the annual growth of the Group's actual supply of milk to Mengniu was 19.1%. Currently, it accounts for approximately 20% of Mengniu's demand and accounts for more than 70% of total demand of the Milk Deluxe series of Mengniu.

Moreover, since launching our own brand of UHT milk packs at the beginning of 2012, the Group has actively increased its market share. Sales of that part of the business recorded considerable growth in cities in Mainland China, accounting for 10.7% of our total sales for the six months ended 31 December 2013. The freshness and purity of our products are highly valued by our customers. Sales of our own brand of milk rapidly increased by 262.9% to RMB204.3 million for the six months ended 31 December 2013 from RMB56.3 million as compared to the corresponding period last year.

PROSPECTS

Looking forward, with per capita disposable income and consumer spending continuously rising in the PRC, as well as increasing focus on health, the demand for high-end quality raw milk in the PRC will maintain strong growth. The government and media constantly promote standardized development of the dairy industry by strengthening the regulations and supervision. The product mix within the industry will be further upgraded, with high-priced and high value-added products gradually attracting market attention. Under the dual driving forces of increasing consumption and demand, the dairy industry will maintain steady growth in sales. With a continuous shortage of supply in raw milk which cannot be resolved within a short period of time, it is expected that there is still room for an increase in prices of raw milk. All the above factors will contribute to creating a favorable environment for the further development of the Group.

As the largest dairy farming company as well as the largest raw milk producer in the PRC (in terms of herd size), Modern Dairy has been committed to providing high-end raw milk. In the future, the Group will actively seek opportunities for the development and construction of new dairy farms, and strive to improve the pure-bred yield of our dairy cows in order to meet rising market demand. As we continue to enhance our management techniques for large-scale dairy farms, it is expected that our herd size will maintain fast growth. At present, the proportion of milkable cows to calves is 53% to 47%. In the next two years, it is expected that this ratio will be further increased to 60% to 40%, achieving an optimal cow herd structure. For the six months ended 31 December 2013, we recorded an average annual milk yield per milkable cow of 8.51 tons, representing an increase of 7.2% from 7.94 tons for the corresponding period last year. We are confident that we will be able to achieve our target of producing one million tons of milk in 2015. The comprehensive strength of our Group will be further enhanced, while Shareholders and investors will also benefit from the healthy development of the Company.

Meanwhile, the Group will actively expand its downstream business. Our own brand of UHT milk packs are highly recognized by consumers in the PRC, recording considerable growth in annual sales. It is expected that the sales network will further expand into most parts of China in 2014. We believe with the sustained and steady growth of the sales of premium milk in recent years, the sales volume of our own brand of milk will increase substantially, thereby making significant contributions to the profit of the Group.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my gratitude to our staff for their continuous contribution and dedication. My gratitude also goes to our Shareholders, customers and business partners for their support and trust.

Going forward, the Group will continue to adhere to its principles of "creating the most advanced farms nationwide and producing the highest quality milk nationwide through harmonious development between man and nature". The Group will remain committed to the highest standards of product safety and quality, and will improve our milk yield and quality by continuing to adopt and develop comprehensive modern scientific breeding and feeding techniques and know-how; and to further strengthen our position as the market leader in China's large-scale dairy farming industry. The Group will continue to pursue business expansion opportunities by leveraging on the rapid growth of China's economy and the rising market demand for dairy products to bring satisfactory return to our Shareholders, customers and business partners.

YU Xubo
Chairman

Hong Kong, 20 March 2014

Management Discussion and Analysis

INDUSTRY OVERVIEW

During the period under review, the PRC government continued to implement guidelines which aim to make progress while also striving to maintain stable socio-economic development. The Third Plenary Session of the 18th Central Committee of the Communist Party proposed "letting the market play a decisive role in the allocation of resources". This motto was in line with the increasing consumers demand for high-end dairy products in recent years and thus became a beacon in the overall Chinese dairy industry. While introducing new policies, the PRC government also continued to promote normative development of the industry by strengthening regulatory and media supervision. In this environment, the operating structure of dairy enterprises continued to be upgraded, and there is a clear trend that a growing number of mergers and acquisitions will take place in the domestic dairy industry. Leading enterprises with scale, high-quality internal control and brand advantages in the dairy industry are expected to emerge through merger with and acquisition of other smaller enterprises. As a result of the external economic environment and increasing market demand, enhancing the quality and safety of dairy products by focusing on the construction of milk source base, as well as developing self-owned dairy brands will become the dominant focus of the entire dairy industry in China.

In recent years, the sight of "shortages" in the dairy industry has been obvious. On the one hand, during the reporting period, the price of feeds has been increasing and the quality control of raw milk by the PRC government became more stringent, which has limited the room for survival of dairy farmers. Coupled with rising beef prices, many dairy farmers chose to sell their dairy cows and seek alternative career instead of engaging in the business of raising cows. With the rapid decrease of the number of dairy farmers, and given the fact that the construction of large raising farms was slower than the rate of decrease of the number of dairy farmers, the number of dairy cows dropped on a nationwide basis. This has led to a trend of milk supply shortage in China.

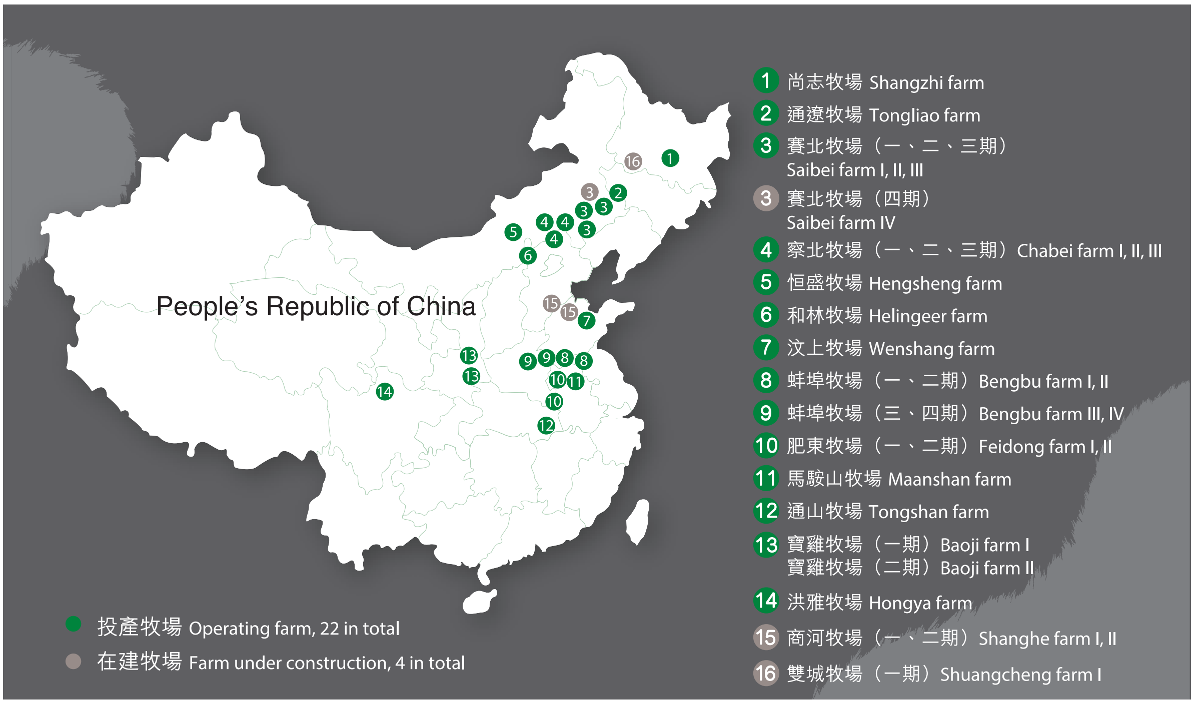
With the accelerated urbanization in China in recent years, the dietary habit of urban consumers is beginning to resemble the habit of those in the developed countries, thus further increasing the demand for high-end raw milk. On 15 November 2013, after the Third Plenary Session of the 18th Central Committee of the Communist Party, the PRC government issued the "Notice of the CPC Central Committee on Certain Major Issues regarding Deepening the Reform in an All-round Way" which proposed to implement a new policy of allowing couples with one child to have an additional child. Following the introduction of this "two children" policy, it is expected the demand for dairy products will continue to rise, but supply will unlikely increase substantially in the short term. The gap between raw milk supply and demand remains large. Against this backdrop, the rising trend of milk prices is expected to persist.

Meanwhile, environment problems also continues to gather attention. It is reported that in the past few years, the scale of poultry raising has continued to expand and has become a major source of pollution in agricultural and rural areas. On 8 October 2013, Regulations on the Prevention and Control of Pollution Caused by Large-scale Breeding of Livestock and Poultry (Draft) was considered and approved at the State Council executive meeting chaired by Li Keqiang, Premier of the State Council. The regulation aims to facilitate livestock and poultry pollution prevention and control, as well as the healthy development of the animal husbandry industry and promote the transformation and upgrade of the animal husbandry industry. Being the largest dairy farming company and the largest producer of raw milk in the PRC, the Group is in the forefront of the industry and has already invested large amounts of capital in the construction of dung treatment facilities and farms construction. Waste pollutants generated from livestock and poultry farming, including fecal waste and sewage are collected and converted into useful resources (such as biogas produced from cow manure through fermentation which can be used for power generation or conversion into energy). The remaining materials can be used as, amongst others, fertilizers and cow mattress materials. While complying with the prevailing national policies, this also allows us to consolidate our position as an industry leader, which is conducive to our development 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. During the six months ended 31 December 2013, the Group's operating results reached a historical high due to increases in productivity and the increased demand for high-end dairy products in the PRC. As of 31 December 2013, the Group had 22 farms operating, 2 farms under construction invested through the joint venture and 2 farms under construction by the Group in the PRC with approximately 186,838 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. Total sales volume for the Group amounted to 372,647 tons for the six months ended 31 December 2013. This represented an increase of 42.8% from 260,906 tons in the corresponding period of 2012 and indicates that the Group has established a stable and leading market position in China's raw milk market. In terms of production, our Group accounted for more than 70% of the milk source supply of Milk Deluxe, Mengniu Group's premium brand of milk. For other independent third parties, our raw milk is also used for the production of premium milk. The sales volume of premium milk in the PRC has increased consistently for more than 15% in recent years. Looking forward, our Group's emphasis on quality and premium milk sales remains the growth engine of the future.

Our farms



Our financial results are directly affected by our milk yield per cow. In general, as the milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield per cow of 8.51 tons for the six months ended 31 December 2013. This represents an increase of 7.2% from 7.94 tons in the corresponding period last year. Such a result is attributable to effective herd management, genetic improvement of our cows across generations and the increase in the number of cows reaching the peak stage of lactation.

Cash EBITDA (EBITDA before gains/(loss) arising from changes in fair values less costs to sell of dairy cows and other gains and losses) increased by 125.3% from RMB272.0 million in the corresponding period last year to RMB612.9 million for the six months ended 31 December 2013. Cash EBITDA margin increased from 24.9% in the corresponding period last year to 32.2% for the six months ended 31 December 2013.

On 23 September 2013, the Group entered into two agreements with Success Dairy II Limited ("Success Dairy") in respect of the formation of two joint venture companies to design, construct and operate new dairy farms. The Group owns 18% of the issued share capital of each of the joint venture company and Success Dairy owns the remaining 82% of the issued share capital. The total investment of these joint ventures is US$140 million. We believe that the formation of the joint venture is in the best interests of the Group. In contrast with setting up dairy farms by itself, using the structure of a joint venture reduces short term capital expenditure and improves the Company's cash flow. According to the relevant co-operation agreement, the joint venture entity will purchase a total of approximately 13,200 dairy cows from the Company, which will utilize excess heifers of the Group resulted from its natural herd growth. Moreover, the proceeds received from the sale of dairy cows will have positive contribution to the Company's revenue. Pursuant to the call option arrangement as agreed between the joint venture partners, the Company may acquire the remaining 82% of the equity interests in each of the joint venture companies in the future.

FINANCIAL OVERVIEW

Herd size

	As at	
	31 December 2013 Head (Audited)	30 June 2013 Head (Audited)
Dairy cows		
Milkable cows	98,791	86,710
Heifers and calves	88,047	91,211
Total dairy cows	186,838	177,921

The Group did not purchase any heifers and milkable cows for the six months ended 31 December 2013. As at 31 December 2013, the current herd size is 186,838 compared to 177,921 as at 30 June 2013.

Sales of milk produced

The Company entered into a ten year agreement to supply raw milk to our primary customer China Mengniu Dairy Company Ltd ("Mengniu") in October 2008. As of the six months ended 31 December 2013, 75.7% of the Group's sales volume of milk was sold to Mengniu (twelve months ended 30 June 2013: 83.7%). Meanwhile, the Group has acquired several new customer accounts and continuously expanded the market share of the Group's own brand. Our total sales of milk increased by 74.0% from RMB1,092.5 million in the corresponding period of last year to RMB1,901.2 million for the six months ended 31 December 2013. Among others, sales of our own brand of milk increased by 262.9% from RMB56.3 million in the corresponding period last year to RMB204.3 million for the six months ended 31 December 2013. The increase in sales revenue is mainly due to an increase in sales volume of milk by 42.8% from 260,906 tons in the corresponding period of last year to 372,647 tons for the six months ended 31 December 2013. The sales volume of our own brand of milk increased by 278.9% from 4,830 tons in the corresponding period last year to 18,300 tons for the six months ended 31 December 2013. The increase in sales volume is attributable to the expansion of our herd size and an increase in average milk yield per dairy cow. Currently, the raw milk produced by the Group is mainly used for the production of Mengniu Milk Deluxe and other types of high quality dairy products.

Also, the Group actively expands the market share of its UHT milk packs under its own brand, sales of which accounted for 10.7% of its total sales. For the six months ended 31 December 2013, the freshness and quality of our products are highly valued by our customers. Sales of our own brand of milk increased by 262.9% from RMB56.3 million in the corresponding period of last year to RMB204.3 million for the six months ended 31 December 2013. Our products are highly recognized by consumers. We have also successfully challenged the traditional sales model, which relies heavily on advertisements as a marketing strategy. Our marketing is mainly conducted by word of mouth, which reduces costs and demonstrates consumers' trusts in our products.

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

As at 31 December 2013, the biological assets of the Group were valued at RMB5,954.0 million (30 June 2013: RMB5,465.0 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal And Advisory Limited. Loss arising from changes in the fair value of biological assets was RMB16.4 million for the six months ended 31 December 2013 (twelve months ended 30 June 2013: loss arising from changes in fair value less costs to sell of dairy cows RMB38.6 million). This was mainly attributable to the increase in ratio of milkable cows among our herd across generations, and after producing milk of milkable cows and along with increase of lactation period, impairment will be occurred as cash flow generated in the future will be reduced.

Other Income

Other income for the six months ended 31 December 2013 mainly consists of government grants which amounts to RMB6.0 million (six months ended 31 December 2012: RMB48.0 million). Government grants mainly consisted of subsidies for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy and standardizing sizable farm subsidy, etc.).

Farm operating expenses

	For the 6 months ended 31 December 2013 RMB'000 (Audited)	For the 6 months ended 31 December 2012 RMB'000 (Unaudited)	For the 12 months ended 30 June 2013 RMB'000 (Audited)
Feeds	927,649	661,486	1,386,506
Utilities	38,422	24,496	56,609
Other farm operating expenses	166,517	70,293	212,688
Total	1,132,588	756,275	1,655,803

With the expansion of our herd size and general increase in the market price of feeds, total feed costs for the six months ended 31 December 2013 increased to RMB927.6 million from RMB661.5 million in the last corresponding period. This represents an increase of 40.2% in the same period, our total sales of milk produced increased by 74.0% from RMB1,092.5 million in the last corresponding period to RMB1,901.2 million for the six months ended 31 December 2013.

Meanwhile, cost (excluding employee benefit expenses and depreciation) per ton of raw milk sold increased by 4.8% from RMB2,899 in the last corresponding period to RMB3,039 for the six months ended 31 December 2013, which was driven by an increase in the price of feeds. The Company was, however, able to transfer the increase in costs effectively: (i) the price of raw milk (other than branded milk) increased by 18.3% from RMB4.05 in the corresponding period last year to RMB4.79 for the six months ended 31 December 2013, (ii) the annual average milk yield per cow of the Group increased by 7.2% from 7.94 tons in the corresponding period last year to 8.51 tons for the six months ended 31 December 2013.

Employee benefit expenses

As of 31 December 2013, our Group has 5,288 employees. This represents a 6.7% increase in headcount from 30 June 2013 and a 20.8% increase from 4,378 as at 31 December 2012. Our employee benefits expenses increased by 48.8% from RMB77.7 million in the last corresponding period to RMB115.6 million for the six months ended 31 December 2013. The increase was mainly due to the increased headcount as well as a general increase in basic salary following an increase in the proportion of milkable cows to total number of dairy cows.

Depreciation

Depreciation expense increased by 57.5% from RMB58.1 million in the corresponding period last year to RMB91.5 million for the six months ended 31 December 2013. This is mainly due to an increase in farms being in operation and the increase in the proportion of milkable cows to the total number of dairy cows.

Other Gains and Losses

Other gains and losses increase by 3,433.3% from RMB1.2 million in the corresponding period last year to RMB42.4 million for the six months ended 31 December 2013. This is mainly due to a loss of RMB41.6 million arising from an one-off measurement at fair value accounted in the current loss in respect of the transaction cost payable to investing shareholders anticipated upon the exercise of a put option and a call option in future period as assessed during the period. Those two options were the put option granted to Success Dairy II Limited by the Company and the call option granted to the Company by the Success Dairy II Limited pursuant to the agreement entered into between the Company and Success Dairy II Limited for the establishment of a joint venture company on 23 September 2013.

Other expenses

Other expenses mainly consist of professional fees, milk transportation cost, travelling expenses and other office administrative expenses. The increase of 29.2% from RMB46.2 million in the corresponding period last year to RMB59.7 million for the six months ended 31 December 2013 was mainly due to increases in transportation costs following the increase in sales volume of milk. Transportation costs increased from RMB16.4 million in the corresponding period last year by 73.2% to RMB28.4 million for the six months ended 31 December 2013, mainly due to an increase in the sales volume of milk.

Finance costs

Finance costs increased from RMB58.8 million for the corresponding period last year to RMB113.5 million for the six months ended 31 December 2013. This was mainly attributable to the increase in bank loans and interest expense no longer being capitalized following the transfer of construction in progress to property, plant and equipment.

Profit attributable to owners of the Company

Taking into account all of the above factors, the Group's profit attributable to the owners of the Company was RMB327.5 million for the six months ended 31 December 2013. This represents an increase of 92.3% from RMB170.3 million from the corresponding period last year.

Basic earnings per share were approximately RMB6.79 cents (six months ended 31 December 2012: RMB3.55 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 31 December 2013, the Group's cash flow from operations before the movements in working capital amounted to RMB604.3 million, as compared to RMB256.8 million in the corresponding period last year.

As at 31 December 2013, the Group's available and un-utilised banking facilities amounted to approximately RMB3,668.1 million (30 June 2013: RMB2,216.9 million). The Group's management are of the opinion that the working capital available to the Group is sufficient for its present needs.

The table below sets forth our short-term and long-term borrowings as at 31 December 2013.

	As at 31 December 2013 RMB'000 (Audited)	As at 30 June 2013 RMB'000 (Audited)
Bank borrowings	3,748,666	3,528,349
Other borrowings	—	50,692
	3,748,666	3,579,041
Unsecured borrowings	1,533,139	1,387,044
Secured borrowings	1,964,527	2,105,707
Guaranteed borrowings	251,000	86,290
	3,748,666	3,579,041
Carrying amount repayable:		
Within one year	1,788,799	1,330,959
Between one to two years	1,042,337	1,035,927
Between two to five years	917,530	1,212,155
	3,748,666	3,579,041
Less: Amounts due within one year shown under current liabilities	(1,788,799)	(1,330,959)
	1,959,867	2,248,082

As at 31 December 2013, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 39.6% (30 June 2013: 38.3%). The annual interest rate of the banks and other borrowings for the financial year ended 31 December 2013 varied from 2.0% to 7.05% (30 June 2013: 2.0%-7.05%). As at 31 December 2013, all borrowings were denominated in Renminbi and US$.

PLEDGE OF ASSETS

As at 31 December 2013, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.2 million (30 June 2013: RMB10.3 million), RMB59.2 million (30 June 2013: RMB61.5 million) and RMB4,087.5 million (30 June 2013: RMB4,014.2 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2013, the Group has capital commitments of RMB199.2 million relating to the acquisition of property, plant and equipment and capital contribution to a joint venture.

The Group did not have any significant contingent liabilities as at 31 December 2013.

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 its operational and investment needs.

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 5,288 employees (30 June 2013: 4,955; 31 December 2012: 4,378) in the PRC and Hong Kong as at 31 December 2013. Total staff costs for the six months ended 31 December 2013 (excluding directors' fees) were approximately RMB113.1 million (six months ended 31 December 2012: RMB76.0 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.

DIVIDEND

The Board do not recommend the payment of a final dividend for the six months ended 31 December 2013 (30 June: 2013: Nil).

BUSINESS STRATEGIES

Further broaden our customer base

We will further strengthen our strategic partnership with Mengniu, also further develop strategic relationship with new customers and continuously increase the market share of the Group's own-brand dairy products. Currently the Company has entered into co-operation agreements with a number of renowned dairy manufacturers in the PRC such as Nestle, Shanxi Yinqiao, New Hope and Jule.

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

We have been improving our operations since the commencement of business, and this has resulted in rising average annual milk yield. Currently, our average annual milk yield per milkable cow is among the highest among all dairy companies in the PRC. We believe that the yield and raw milk quality of our milkable cows will continue to rise as we improve the genetic mix of our herd across generations, increase the ratio of milkable cows to non-milkable cows among our herd and optimize 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 agricultural institutes to conduct 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 an aim to reduce the cost of transporting feed while maintaining the quality, nutritional content and stable supply of feed.

Continue to enhance the sales of branded milk

We will continue to expand our sales regions and widen the sales channels of our branded milk, which in turn will increase the Group's profitability as a whole. The Company plans to gradually expand into most parts of China during the year, beginning to sell its products to other parts of China in addition to existing eastern China and northern China. As more customers recognize its product quality, the Company believes it will record even higher revenue in the future.

EXECUTIVE DIRECTORS

Ms. GAO Lina (高麗娜), aged 57, is an executive Director, Chief Executive Officer and Deputy Chairman of the Company. Ms. Gao is one of the founders of our Group and is currently a director of Modern Farm and 24 other subsidiaries of the Company. Ms. Gao has significant experience in cross-border trading, resource integration and administrative management. Prior to joining the Group in August 2005, Ms. Gao was the general manager of Taian Foreign General Trade Corporation (泰安市外貿總公司) between October 1993 to June 2005. Ms. Gao was the director general of Tai'an Municipal Trade Promotion Bureau (泰安市招商局) between October 2003 and June 2005. Ms. Gao developed her experience in managing dairy farms since joining our Group and she was appointed as an executive Director of the Company on 14 November 2008.

She was awarded "Tai'an City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao was awarded the "Scientific and Technological Progress Award (Class 1 of Promotion Category) (科學技術進步獎推廣類一等獎)" by the Ministry of Education of the PRC (中國教育部) in January 2013. Ms. Gao completed an undergraduate course at Tai'an Municipal CPC Party School (中共泰安市委黨校) majoring in economic management in December 1999. Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd. ("**Jinmu**").

Mr. HAN Chunlin (韓春林), aged 41, is an executive Director and the Chief Operating Officer of the Company. Mr. Han is also a director of Modern Farm and Helingeer Modern Farming Co., Ltd. ("Helingeer Modern Farm"). Mr. Han has more than 15 years of experience in food and beverage industry in China. Prior to joining the Group in September 2008 and his appointment as an executive Director of the Company on 14 November 2008, Mr. Han worked as the marketing vice general manager of Nowara Shinnosuke (Fujian) Food Industry Company from February 2006 to July 2008. From January 1999 to September 2004, he served at the Liquid Milk Department of Mengniu (Inner Mongolia) as marketing manager. Prior to that, Mr. Han was a branch-plant manager at the Milk Powder Department of Inner Mongolia Yili Industrial Group Company Limited from July 1994 to January 1999. Mr. Han received a bachelor's degree in biology from Inner Mongolia University in July 1994.

Mr. Sun Yugang (孫玉剛), aged 33, is an executive Director and the Chief Financial Officer of the Company. Mr. Sun is also a director of Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd, a supervisor of 22 other subsidiaries of the Company and a director of one of other subsidiaries. Prior to joining the Company in March 2007, Mr. Sun was a manager of the Finance and Investment Department of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. from May 2002 to March 2007. Mr. Sun graduated from Inner Mongolia Finance and Economics College in December 2003.

NON-EXECUTIVE DIRECTORS

Mr. Yu Xubo (于旭波), aged 48, is a non-executive Director and Chairman of the Company. He was appointed as the Chairman of the Company with effect from 28 June 2013. Mr. Yu is currently the president of COFCO Corporation ("**COFCO**"), a director of COFCO (Hong Kong) Limited, COFCO Meat Investment Company Limited and COFCO Coca-Cola Beverages Limited. Mr. Yu is an executive director and the chairman of China Agri-Industries Holdings Limited (stock code: 606) and a non-executive director and the chairman of China Foods Limited (stock code: 506), both companies are listed in Hong Kong. Mr. Yu also serves as a non-executive director and vice-chairman of China Mengniu Dairy Company Limited ("**Mengniu**") (stock code: 2319), a company listed in Hong Kong and a substantial shareholder of the Company. Mr. Yu holds a Bachelor's degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration degree from China Europe International Business School.

Mr. WOLHARDT Julian Juul, aged 40, is a non-executive Director of the Company and a director of Modern Farm. Mr. Wolhardt was the Chairman of the Company from 17 September 2012 to 28 June 2013. Mr. Wolhardt is currently a partner of KKR Asia Limited focusing on private equity transactions in the Greater China region. He has been actively involved in advising on investments in Yageo Corporation, a company listed on the Taiwan Stock Exchange (stock code: 2327), Tianrui Group Cement Company Limited and International Far Eastern Leasing Company Limited since he joined KKR Asia Limited in 2006. Before joining KKR Asia Limited, Mr. Wolhardt was with Morgan Stanley Private Equity from 1998 to 2006 and was responsible for its private equity business in China. While at Morgan Stanley Private Equity, Mr. Wolhardt advised on investments in a number of highly successful companies in China, several of which, such as China Dongxiang (Group) Company Limited (stock code: 3818), Hengan International Group Company Limited (stock code: 1044), Mengniu, China Shanshui Cement Group Limited (stock code: 691) and Ping An Insurance (Group) Company of China, Limited (stock code: 2318), have been listed on the Main Board of the Stock Exchange. He is also a non-executive director of Mengniu and Novo Holdco Limited. He is independent non-executive director of China Cord Blood Corporation, a company listed on New York Stock Exchange (Stock code: CO). Mr. Wolhardt is a Certified Public Accountant and Certified Management Accountant. He received a bachelor's degree in accounting from the University of Illinois (Urbana-Champaign) in 1995. He joined our Group in July 2008 and was appointed as a non-executive Director of the Company on 30 July 2008, and has been involved in the corporate development and strategic planning of our Group.

Mr. HUI Chi Kin Max (許志堅), aged 40, is a non-executive Director of the Company and a director of Modern Farm. Mr. Hui is currently the Chief Executive Officer and a managing director of CDH Investment Advisory Private Limited. From 1999 to 2003, he worked with the private equity division of Morgan Stanley Asia Limited in Hong Kong and the investment banking department of Schroders & Co in New York. Prior to working in the financial industry, Mr. Hui was an engineer at the oil and gas pipeline division of Bechtel Corporation in San Francisco from 1997 to 1998. Mr. Hui graduated from the University of California, Berkeley in 1996 with a bachelor's degree in chemical engineering and received a master's degree of engineering from Princeton University in 1999. He joined our Group in February 2009 and was appointed as a non-executive Director of the Company on 23 February 2009, and has been involved in the corporate development and strategic planning of our Group.

Mr. Ding Sheng (丁聖), aged 45, is a non-executive Director of the Company. Mr. Ding graduated from Inner Mongolia Light Industry Institute majoring in dairy products techniques and is a senior engineer. Mr. Ding joined Inner Mongolia Mengniu Dairy (Group) Company Limited ("**Inner Mongolia Mengniu**") in 2003. Mr. Ding was elected as a "Labour Model (Advanced Staff) of Inner Mongolia Autonomous Region" in 2010. Mr. Ding currently serves as a member of the Chinese Institute of Food Science and Technology and the vice-chairman of the lactic acid bacteria branch of the Chinese Institute of Food Science and Technology. Since March 2010, Mr. Ding is also the vice president of Inner Mongolia Mengniu. Mr. Ding is currently non-executive Director of Yashili International Holdings Ltd (stock code: 1230).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Shengli (李勝利), aged 48, is an independent non-executive Director of the Company. Mr. Li graduated from Shihezi Agricultural College (石河子農學院) with a bachelor's degree in animal husbandry and veterinary science in July 1987. He then obtained his doctorate degree in animal nutrition science from China Agricultural University in July 1996. Since 2003, Mr. Li has been with China Agricultural University, working at various times as an assistant professor and professor. Mr. Li is currently vice-director (Animal Nutrition) of the State Key Laboratories, Director of the council of the directors' association of the Sino-US Dairy Research Center, Director of the Sino-Dutch Dairy Development Center, chief scientist in national dairy products industry technology system (國家奶牛產業技術體系), an advisor to the China School Milk Programme (國家學生飲用奶計劃) and a specialist in the Cattle and Poultry Research Centre of Beijing Sanyuan Breeding Technology Co,. Ltd. (北京三元種業科技股份有限公司畜牧研究院). Mr. Li is a member of the Eighth Committee of the Technology Committee of the Ministry of Agriculture (第8屆農業部科技委員會) and an advisor to the Beijing Municipal Government in the development of agricultural sciences and technologies and the Working Committee of National Dairy Herd Improvement Programme (DHI) (全國奶牛生產性能測定工作委員會) of the Dairy Association of China (中國奶業協會)) and the chairman of China Institute of Animal Husbandry and Veterinary Cattle Chapter (中國畜牧獸醫學會養牛分會). In 2007, Mr. Li obtained a patent on Rubeili (乳倍利), a type of high-energy and high-protein supplementary feed for dairy cows. Mr. Li was awarded the Second Prize and a Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2007 respectively, and was recognized by the Beijing Municipal Government as "Top 10 Scientists with Contribution to the Economic Development in Rural Villages of Beijing" (對北京農村經濟發展作出貢獻的「十佳」科學家) in 2009 and received the first prize for advancement in science and technology awarded by the Education Department (教育部科技進步一等獎) in 2012 and the first prize for Chinese Agricultural Science awarded by the Ministry of Agriculture (農業部中華農業科技獎一等獎) in 2013. Mr. Li was appointed as an independent director of Modern Farm in October 2006 and resigned in June 2009. He has been appointed as an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司) a company listed on China Venture Exchange (stock code: 300106) since July 2009.

Mr. LEE Kong Wai Conway (李港衛), aged 59, is an independent non-executive Director of the Company. Mr. Lee graduated from Kingston University (formerly known as Kingston Polytechnic) in London with a bachelor's degree in business studies in July 1980 and further obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young and held key leadership positions in the development of his firm in China. Mr. Lee is currently an independent non-executive director of West China Cement Limited (stock code: 2233), Chaowei Power Holdings Limited (stock code: 951), GOME Electrical Appliances Holding Limited (stock code: 493), Tibet 5100 Water Resources Holdings Ltd (stock code: 1115), NVC Lighting Holding Limited (stock code: 2222), Yashili International Holdings Limited (stock code: 1230), companies listed on the Main Board of the Stock Exchange, and CITIC Securities Company Limited, a company listed on the Stock Exchange (stock code: 6030) and Shanghai Stock Exchange (stock code: 600030). Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Since 2008, Mr. Lee has been a member of Chinese People's Political Consultative Conference of Hunan Province.

Mr. Liu Fuchun (劉福春), aged 67, is an independent non-executive Director of the Company. Mr. Liu graduated from the Beijing Foreign Trade Institute and is a senior commerce specialist. Prior to his retirement in 2007, Mr. Liu acted as an executive director and president of COFCO. He served in various departments in COFCO, including the finance department, business planning department, general office and oils and fats department of COFCO, the representative office of COFCO in the United States and Top Glory (London) Limited, a subsidiary of COFCO in the United Kingdom. Mr. Liu was the deputy consulate of the Chinese Consulate-General in Vancouver. Currently, Mr. Liu serves as an independent non-executive director of Mengniu (stock code: 2319) (a substantial shareholder of the Company) and DaChan Food (Asia) Limited (stock code: 3999), both being companies listed in Hong Kong.

Mr. Kang Yan (康龑), aged 38, is an independent non-executive Director of the Company. Mr. Kang graduated from the Renmin University of China in 1998. Mr. Kang is a qualified practicing attorney in China and is currently a partner of Haiwen & Partners. He joined Beijing Commerce & Finance Law Offices in 2002 and was promoted to a partner in 2008. Mr. Kang has over 10 years of experience in legal corporate advisory on mergers and acquisitions and initial public offerings.

SENIOR MANAGEMENT

Mr. Hai Tu (海濤), aged 44, is the assistant to the Chief Executive Officer of the Group. Mr. Hai joined the Group in October 2008 and has since been responsible for the planning and management of the farm. Prior to joining the Group, Mr. Hai worked as a deputy general manager for Shenzhen True Color Industrial Co., Ltd.（深圳色彩實業有限公司）from August 2001 to September 2008. Prior to that, Mr. Hai was the customer representative for the Beijing region of Shanghai Sangon Biological Engineering Technology & Services Company（上海生工生物工程技術服務公司）between September 1998 and June 2001. Mr. Hai served as a member of the Epidemic Division of the Daxing Anling Hygiene and Prevention Quarantine of Disease from August 1994 to May 1998. Mr. Hai graduated from Inner Mongolia University in July 1994, majoring in biology.

Mr. WANG Chun Jiang (王春江), aged 31, is the assistant to Chief Executive Officer of the Group. Mr. Wang joined the Group in May 2009 and has since been responsible for cattle breeding. Prior to joining the Group, Mr. Wang worked for Inner Mongolia Mengniu AustAsian Model Dairy Farm Co., Ltd. from August 2004 to May 2009, and has served as head of farms since March 2008. Mr. Wang graduated from Inner Mongolia Agricultural University in July 2004, and has graduated with a postgraduate course for student under employment at Inner Mongolia Agricultural University in December 2013.

Mr. MA Man You (馬滿有), aged 47, is the assistant to Chief Executive Officer of the Group. Mr. Ma joined the Group in June 2008 and has since been responsible for project planning and construction. Prior to joining the Group, Mr. Ma served as project manager of the engineering service centre of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. from 2002 to 2008. Prior to that, Mr. Ma worked as an engineer of the engineering project department of Inner Mongolia Yili Industrial Group Company Limited from 1999 to 2002. Mr. Ma graduated from China University of Geosciences in July 2006.

Corporate Governance Report

Our Directors and management are committed to upholding a high standard of corporate governance to safeguard the interests of Shareholders and the Company as a whole.

CORPORATE GOVERNANCE PRACTICES

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 Listing Rules. The Company has, throughout six months ended 31 December 2013 complied with the code provisions set out in the CG Code except for the deviations from code provisions A.6.7.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. One executive Director, one non-executive Director and one independent non-executive Director were not able to attend the annual general meeting of the Company held on 28 October 2013 due to other personal business engagements.

THE BOARD

Role of Directors

The Board is accountable to the Shareholders for managing the Company in a responsible and effective manner. Every Director is committed to act in the best interest of the Company and to contribute their expertise and knowledge to the Company. The Board decides on overall strategies and monitors the Group's performance on behalf of the Shareholders.

The Board determines the objectives, strategies and policies of the Group. In addition, the Board monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. The day-to-day management of the Group's business is delegated to the Chief Executive Officer and the management of the Group under the supervision of the executive directors of the Company. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, financial objectives, dividend policy, changes in accounting policies, material acquisition and disposal of assets, investments and capital projects, banking facilities, provision of guarantees and indemnities, determination and adoption of documents (including the publication of announcements, reports and statements to shareholders) that are required by the Company's constitutional documents, statutes and other applicable regulations and monitoring the compliance with corporate governance practices and applicable laws and regulations as well as the financial covenants imposed by banks.

During the period under review, the key non-routine matters addressed by the Board included investment in joint venture company to design, construct and operate the dairy farm and change of financial year end date.

Composition

The Board, which currently comprises eleven Directors, is responsible for supervising the management of the Group. It currently comprises three executive Directors, four non-executive Directors and four independent non-executive Directors. The biographical details of the Board members are set out on pages 19 to 22 of this annual report. Each of the Directors signed a formal letter of appointment setting out the key terms and conditions of his appointment in compliance with code provision of D1.4 of the CG Code. A list containing the names of all Directors and their roles and functions was published on the respective websites of the Stock Exchange and the Company pursuant to code provision A3.2 of the CG Code.

The diversified expertise and experience of the non-executive Directors contribute significantly in advising management on strategy and policy development. The non-executive Directors also serve to ensure that high standards in financial and other mandatory reporting are maintained and to provide adequate checks and balances for safeguarding the interests of the Shareholders and the Company as a whole. Having considered the functions of non-executive Directors, particularly their roles in respect to providing the checks and balances for the Company, it is considered that there is a reasonable balance between the executive and non-executive Directors on the Board.

To the best knowledge to the Directors, the Board is not aware of any financial, business, family or other material/relevant relationships among Board members.

The Company has in force appropriate insurance coverage on director's and officer's liabilities arising from the Group's business. Management reviews the insurance coverage on an annual basis.

Non-executive Directors

Each of the non-executive Directors is appointed for a specific term of 3 years, subject to retirement by rotation under the Articles of Association of the Company.

Independent Non-executive Directors

Each of the independent non-executive Directors is appointed for a specific term of 3 years, subject to retirement by rotation under the Articles of Association of the Company. Mr. LEE Kong Wai, Conway, one of the independent non-executive Directors, has the appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent. The number of its independent non-executive Directors is four and one-third of the board as required under Rule 3.10(1) and 3.10A of the Listing Rules.

Appointment, Re-election of Directors

In accordance with the CG Code and the Company's Articles of Association, all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. The composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Corporate Governance Functions

The Company has not established a Corporate Governance Committee. The Audit Committee is responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 of Corporate Governance Code and Corporate Governance Report. The primary duties of corporate governance function are to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; review and monitor the training and continuous professional development of directors and senior management; review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and review the issuer's compliance with the code and disclosure in the Corporate Governance Report.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are currently held by Mr. Yu Xubo and Ms. GAO Lina, respectively. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. He also steers the Board and the Company towards its corporate goals. The Chief Executive Officer is responsible for the effective implementation of the overall strategies and initiatives adopted by the Board as well as the daily operation of the Group.

With the support of the Chief Executive Officer and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and that they receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

Directors' Duties

The Directors are continuously updated with the regulatory requirements, business activities and development of the Company that would facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Board process

During six months ended 31 December 2013, the Board has held three board meetings to discuss the overall strategy as well as the operations and financial performance of the Group. The Directors participated in person or through electronic means of communication. The attendance of each Director is set out as follows:

	Number of Board meetings, Board Committee meetings and general meetings attended/held				
Name of Director	Annual General Meeting	Board[1]	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	1/1	3/3	N/A	N/A	N/A
Mr. HAN Chunlin (Chief Operation Officer)	0/1	3/3	N/A	N/A	N/A
Mr. SUN Yugang (Chief Financial Officer)	1/1	3/3	N/A	N/A	N/A
Non-executive Directors					
Mr. YU Xubo (Chairman)	1/1	3/3	N/A	N/A	N/A
Mr. WOLHARDT Julian Juul	1/1	2/3	N/A	1/1	N/A
Mr. HUI Chi Kin, Max	1/1	3/3	1/1	N/A	N/A
Mr. DING Sheng	0/1	3/3	N/A	N/A	N/A
Mr. LEI Yongsheng (resigned on 11 December 2013)	1/1	2/3	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. LI Shengli	1/1	3/3	N/A	1/1	1/1
Mr. LEE Kong Wai, Conway	1/1	2/3	1/1	N/A	1/1
Mr. LIU Fuchun	0/1	2/3	1/1	1/1	N/A
Mr. KANG Yan	1/1	3/3	N/A	N/A	1/1

Note:

(1) During the period, the Company held two quarterly meetings and one other meeting to handle operation-level matters.

Our Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and may make inquiries if necessary. Directors of the Company who considers it necessary to seek independent professional advice in order to perform his/her duties as a Director of the Company may convene, or request the Company Secretary to convene, a meeting of the Board to approve the consultation of independent legal or other professional advisor for advice. For regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors at least three days before the proposed date of a meeting. Additional Board meetings, if necessary, are arranged and held as and when required.

Every Director is entitled to access the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are open for inspection by any Director during normal office hours with reasonable advance notice. Matters considered and decisions reached at Board and Committee meetings are recorded with sufficient detail in the meeting minutes. Draft and final versions of minutes of Board meetings have been sent to all Directors for their comments and record within a reasonable time after the relevant meeting was held.

If the Board considers a substantial Shareholder or a Director has a conflict of interest in a matter, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company shall be responsible for arranging suitable training for all Directors at the Company's expense. The Group continuously updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. A summary of training received by Directors during the period from 1 July 2013 up to 31 December 2013 according to the records provided by the Directors is as follows:

Directors	Type of trainings
Executive Directors	
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	A, B, C, D
Mr. HAN Chunlin (Chief Operation Officer)	A, B, C, D
Mr. SUN Yugang (Chief Financial Officer)	A, B, C, D
Non-executive Directors	
Mr. YU Xubo (Chairman)	B, C
Mr. WOLHARDT Julian Juul	B, C
Mr. HUI Chi Kin, Max	B, C
Mr. DING Sheng	B, C
Mr. LEI Yongsheng (resigned on 11 December 2013)	B, C
Independent Non-executive Directors	B, C, D
Mr. LI Shengli	B, C, D
Mr. LEE Kong Wai, Conway	B, C
Mr. LIU Fuchun	B, C
Mr. KANG Yan	

A: site visiting dairy farms in foreign countries

B: reading materials, journals and updates relating to the business and industry development

C: reading materials relevant to the latest development of the Listing Rules and other applicable regulatory requirement

D: Attending seminars and/or conferences and/or forums

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the members of the senior management by band for the six months ended 31 December 2013 is set out below:

	Number of members	
	For the 6 months ended 31 December 2013	For the 12 months ended 30 June 2013
Emolument bands		
Nil to RMB$1,000,000	2	1

Further particulars regarding Directors' emoluments and the 5 highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 13 and 14 to the financial statements.

BOARD COMMITTEES

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with the defined terms of reference in line with the CG Code. The term of reference are published on the respective websites of the Stock Exchange and the Company. The Board Committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice in appropriate circumstances upon request. Details of these Board committees including their composition, major responsibilities and functions and worked performed are as follows:

Remuneration Committee

The Chairman of the Remuneration Committee is Mr. LI Shengli and other members are Mr. WOLHARDT Julian Juul and Mr. LIU Fuchun. The Remuneration Committee is chaired by independent non-executive Director and the majority being independent non-executive Directors of the Company.

The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for non-executive Directors, mainly comprising Directors' fees, is subject to annual assessment with reference to the market standard. Individual Directors and senior management would not be involved in deciding their own remuneration. The Remuneration Committee has been provided with sufficient resources to discharge its duties.

During the six months ended 31 December 2013, the Remuneration Committee reviewed, discussed and/or approved the remuneration for the Directors and senior management and reviewed the remuneration policy and made recommendation to the Board for its approval.

Audit Committee

The Chairman of the Audit Committee is Mr. LEE Kong Wai, Conway and other members are Mr. HUI Chi Kin, Max and Mr. LIU Fuchun, the majority being independent non-executive Directors of the Company. The Audit committee is chaired by an independent non-executive director. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard. The Audit Committee has been provided with sufficient resources to discharge its duties.

At the meeting, the Audit Committee reviewed the consolidated financial statements and annual report before submission to the Board for approval. It reviewed the external auditor's letter to the management and ensured the Board provided timely responses to the issues raised therein. The Audit Committee had also reviewed the Group's accounting policies and practices, Listing Rules and statutory compliance, internal controls, financial reporting matters and continuing connected transactions of the Group.

Nomination Committee

This Committee currently consists of three members, including Mr. KANG Yan (Chairman of the Committee), Mr. LI Shengli and Mr. LEE Kong Wai, Conway, all being independent non-executive Directors of the Company.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assess the independence of independent non-executive directors; and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. The Nomination Committee has been provided with sufficient resources to discharge its duties.

At the meeting, the Nomination Committee reviewed and recommended the structure, size and composition (including skills, knowledge and experience) of the Board. It also reviewed the independence of the independent non-executive Directors.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the six months ended 31 December 2013, the remuneration to the auditor of the Company was approximately RMB2.76 million for audit services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The management provides the explanations and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. In preparing the financial statements for the six months ended 31 December 2013, the requirements of the International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") issued by the International Accounting Standards Board and the applicable laws were complied with.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as going concern. The Board has prepared the financial statements on a going concern basis.

The reporting responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report".

Pursuant to code provision C1.2 of the CG Code, the management of the Company should provide all members with monthly updates giving a fair and understandable assessment of the Company's performance, financial position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge his duties under Rule 3.08 and Chapter 13 of the Listing Rules. Monthly Updates such as condensed monthly managements accounts and updated information has been provided to all members of the Board for the financial period.

INTERNAL CONTROL

The Board is responsible for reviewing the effectiveness of the internal control system of the Group. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risk management functions. Such annual review also considers the adequacy of resources, qualifications and experience of the staff of the Company in relation to its accounting and financial reporting function, and their training programmes and budget. Regular internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved scope.

During the period, management has conducted regular reviews on the effectiveness of the internal control system covering all material controls in area of financial and compliance controls and various functions for risk management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management function for the six months ended 31 December 2013. The Audit Committee is satisfied that the internal control system maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and proper accounting records are properly maintained.

The Group will continue to enhance the system to cope with the changes in the business environment.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Mr. Liu Fuchun, our non-executive Director, ("Mr. Liu") was informed by his wife, Ms. Xiao Lanying, on 23 January 2014 that she had acquired an aggregate of 170,000 Shares between 25 November 2013 and 21 January 2014 in the open market on the Stock Exchange at a price range between HK$3.69 and HK$4.06 per Share. Immediately after becoming aware of the above dealings, Mr. Liu notified Mr. Wong Kai Hing, the company secretary of the Company, and made the relevant notifications to the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance. Save for the above, confirmations have been sought from all Directors that they have complied with the required standards set out in the Model Code throughout the six months ended 31 December 2013. The Company have reminded all the Directors of the rules and prohibitions as set out under the Model Code and the relevant procedures each Director shall follow before dealing in the Shares.

COMPANY SECRETARY

The Company Secretary of the Company has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge for the six months ended 31 December 2013.

COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Company discloses relevant information to Shareholders through the Company's annual report and financial statements, the interim report, as well as the annual general meeting ("AGM"). The section under "Chairman's Statement" and "Management Discussion and Analysis" of the annual report facilitate the Shareholders' understanding of the Company's activities. The AGM allows the Directors to meet and communicate with Shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

To manage its relationship with the investment community, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations.

To further promote effective communication, the corporate website is maintained to disseminate Company announcements and other relevant financial and non-financial information electronically on a timely basis.

Procedure for shareholders to convene an extraordinary general meeting

Pursuant to the Articles of Association, any one or more Shareholders holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary either via personal delivery or mail (Attn: Board of Directors/ Company Secretary, at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong) or via email (info@moderndairyir.com). The Board shall proceed duly within 21 days from the date of deposit of the requisition to convene a general meeting to be held within a further 21 days.

Procedures for sending enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board.

Procedures for making proposals at shareholder's meeting

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at general meetings. Proposals shall be sent to the Board pursuant to the following address via personal delivery, mail or courier to: Attention: Shareholder Communication, Board of Directors, Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong

The Board may, in its sole discretion, consider if such proposals are appropriate and shall be put forward to the Shareholders for approval at next annual general meeting or at an extraordinary general meeting to be convened by the Board, as appropriate.

Voting by way of poll

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the AGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to article 76 of the Articles of Association. The relevant details of the proposed resolutions, including biographies of each Director standing for re-election, will be included in the circular to Shareholders dispatched together with the annual report. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

INVESTOR RELATIONS

During the six months ended 31 December 2013, there had been no change in the Company's constitutional documents. An up-to-date consolidated version of the Memorandum and Articles of Association of the Company is published on the websites of the Group and the Stock Exchange.

The Board of Directors presents its annual report together with the audited financial statements for the six months ended 31 December 2013.

PRINCIPAL PLACE OF BUSINESS

China Modern Dairy Holdings Ltd is a company incorporated in the Cayman Islands and has its registered office at 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 PRC.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the production and sale of raw milk in the PRC.

The particulars of the subsidiaries are set out in note 39 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the six months ended 31 December 2013 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 43 to 104.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 32 to the financial statements.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the six months ended 31 December 2013.

RESULTS AND RESERVES

The results of the Group for the six months ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 of the annual report. The movements in reserves are in the consolidated statement of changes in equity on page 48 of the annual report.

The Directors do not recommend the payment of a final dividend for the six months ended 31 December 2013 (30 June 2013: Nil).

DISTRIBUTABLE RESERVES

In addition to the retained profits of the Company, the share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid in accordance with the Companies Law of the Cayman Islands.

As at 31 December 2013, the Company's distributable reserve was RMB 3,662.9 million (30 June 2013: 3,711.9 million).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 103 to 104 of the annual report.

PROPERTY, PLANT AND MACHINERY

Details of the movements in fixed assets of the Group are set out in note 17 to the financial statements.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2013 are set out in note 28 and 29 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the Group's primary customer, Mengniu accounted for approximately 70.8% (12 months ended 30 June 2013: 79.1%) of the Group's total turnover for the six months ended 31 December 2013. The Group's five largest customers contributed in aggregate 84.7% (12 months ended 30 June 2013: 90.6%) of the Group's total turnover for the six months ended 31 December 2013.

During the six months ended 31 December 2013, the five largest suppliers of the Group in aggregate represented 17.72% (12 months ended 30 June 2013: 15.0%) of the Group's total purchases. Purchases from the largest supplier accounted for approximately 4.8% (12 months ended 30 June 2013: 5.8%) of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTION" and note 38 to the Financial Statement, none of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

The Directors during the financial period were:

Executive Directors

Ms. GAO Lina *(Deputy Chairman & Chief Executive Officer)*
Mr. HAN Chunlin *(Chief Operation Officer)*
Mr. SUN Yugang *(Chief Financial Officer)*

Non-executive Directors

Mr. YU Xubo *(Chairman)*
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. DING Sheng
Mr. LEI Yongsheng *(resigned as non-executive Director on 11 December 2013)*

Independent Non-executive Directors

Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. LIU Fuchun
Mr. KANG Yan

In accordance with Article 17.18 of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

None of the Directors being proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The Company received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 19 to 22 of this annual report.

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

At 31 December 2013, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Ms. GAO Lina(1)	Interest in controlled corporation	218,157,733	4.52%
	Beneficial owner	32,276,916(2)	0.67%
Mr. HAN Chunlin	Beneficial owner	23,554,583(2)	0.49%
Mr. SUN Yugang	Beneficial owner	11,064,990(2)	0.23%
Mr. LIU Fu Chun	Spouse	2,000	0.00%

(1) Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd. ("Jinmu"). Ms. Gao is deemed to be interested in the 218,157,733 shares held by Jinmu under the SFO.

(2) These represent interest in underlying shares of the management options (the "Management Options") and share options granted by the Company, details of which are set out in the section "Management Options" and "Share Option Scheme" below.

Saved as disclosed above, as at 31 December 2013, none of the Directors and the chief executives of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and the related party transactions are set out on pages 97 to 98 of this annual report respectively. Save for the above, no other contract of significance to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the six months ended 31 December 2013 or at any time during the period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the period.

MANAGEMENT OPTIONS

The Company granted the management options on 31 October 2010 to Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang. The following share options were outstanding during the year:

		Number of underlying shares which may be issued pursuant to the management option				
Name of grantee	Date of grant	As at 1 July 2013	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2013
Ms. GAO Lina	31 October 2010	29,276,916	—	—	—	29,276,916
Mr. HAN Chunlin	31 October 2010	26,153,916	—	(4,500,000)	—	21,653,916
Mr. SUN Yugang	31 October 2010	13,445,942	—	(4,303,018)	—	9,142,924
		68,876,774	—	(8,803,018)	—	60,073,756

These options are exercisable during the period commencing from the Listing Date 26 November 2010 until 10 years from the date of offer.

As at 31 December 2013, the number of shares to be issued upon the exercise of the outstanding options is 60,073,756 shares, representing 1.24% of the issued share capital of the Company as at that date.

SHARE OPTION SCHEME

The Company unconditionally adopted a share option scheme (the "Share Option Scheme") on 17 November 2011, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme

The Share Option Scheme seeks to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(b) Qualified Participants

The Board may at its discretion grant options to: any executive director, or employee (whether full time or part time) of the Company, any Subsidiary or any Invested Entity. The basis of eligibility of any Qualified Participants to the grant of the Options shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

(c) Maximum number of shares available for issue under the Share Option Scheme

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not exceed 40,000,000 as approved by shareholders at 2011 AGM. As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 33,627,773 shares, representing approximately 0.69% of the total number of shares in issue of the Company.

(d) Maximum entitlement of each Qualified Participant under the Share Option Scheme

Unless approved by the shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may not grant options to any Qualified Participants if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total number of shares in issue of the Company at the time.

(e) Timing for exercise of options

In respect of an Option, the option period shall be notified by the Board to each Grantee, which the Board may in its absolute discretion determine, save that such period must expire not more than 3 years from the Offer Date.

The vested Options must be exercised within 5 years on the day when they become vested and after such period the vested Options will automatically lapse.

(f) Performance targets and vesting of option

Once the Options are granted to the relevant Qualified Participant (the "Granted Options"), the Granted Options will be deemed to be divided into three tranches, each of which will consist of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). Such Performance Target will be determined at the Board's discretion and specified in the offer letter when the Options are granted. The financial period for the first tranche will be the financial year of the Company in which the Options are first granted to the relevant Qualified Participant (the "First year"), the financial period for the second tranche will be the financial year of the Company immediately following the First Year (the "Second Year") and the financial period for the third tranche will be the financial year of the Company immediately following the Second Year (the "Third Year"). The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.

(g) Payment for acceptance of option

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as a consideration for the grant.

(h) Basis of determining the exercise price

The exercise price shall be a price determined by the Board but in any event shall not be lower than the highest of: (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date on which the option is offered to a Qualified Participant (the "Offer Date"); (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; (iii) the nominal value of the shares; and (iv) the initial public offer price of the Shares.

(i) Period of the Share Option Scheme

Subject to earlier termination by the Company at a general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of three years from 17 November 2011.

The following share options were outstanding under the Share Option during the period:

Name or category of participant	As at 1 July 2013	Granted during the period	Exercised during the period	Cancelled and lapsed during the period	As at 31 December 2013	Option period
	Number of shares which may be issued pursuant to the share options scheme					
Directors						
Ms. GAO Lina	2,879,600	—	—	—	2,879,600	12.12.2012-30.6.2020
Mr. HAN Chunlin	1,900,667	—	—	—	1,900,667	12.12.2012-30.6.2020
Mr. SUN Yugang	1,922,066	—	—	—	1,922,066	12.12.2012-30.6.2020
Subtotal	6,702,333	—	—	—	6,702,333	
Other employees						
In aggregate	29,407,652	—	—	(2,482,212)	26,925,440	12.12.2012-30.6.2020
Total	36,109,985	—	—	(2,482,212)	33,627,773	

Notes:

1) All the share option were granted on 12 December 2012 and the exercise price is HK$2.89.

2) the share options granted to each Grantee (the "Granted Options") are deemed to be divided into three tranches, each of which consists of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). The Performance Target has been determined by the Board and specified in the offer letter to each Grantee. The financial period for the first tranche will be the financial year ending 30 June 2013; the financial period for the second tranche will be the financial year ending 30 June 2014; and the financial period for the third tranche will be the financial year ending 30 June 2015. The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.

3) The Granted Options accrued in accordance with the above paragraph shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 30 June 2015. Any Granted Options not accrued as a result of non-fulfillment of any Performance Target shall automatically lapse.

4) The share options represent personal interest held by the relevant Directors as beneficial owners.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the section headed "Management Option" and "Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to have any right to subscribe for securities of the Company or any or its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporate.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2013, the interests or short positions of substantial Shareholders, other than the Directors or the chief executive of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
China Mengniu Dairy Company Ltd	Beneficial interest	1,347,903,000	27.92%
Xinmu Holdings Co Ltd.	Beneficial interest	671,021,025	13.90%
Yinmu Holdings Co Ltd.	Beneficial interest	446,465,419	9.25%

Note:

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company or as recorded in the register required to be maintained under Section 336 of the SFO as at 31 December 2013.

CONTINUING CONNECTED TRANSACTION

I NEW FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI

Given the supply from Qiushi Grass Industry Co. Ltd. ("Qiushi") from June 2012 has been stable and proven to meet the requirements of the Group, the Company intends to purchase a larger amount of Forage Grass from Qiushi for a longer period of time. The Board announces that Modern Farming (Group) Co., Ltd. ("Modern Farming") entered into the New Framework Supply Agreement with Qiushi on October 10, 2012 with the intention of replacing and substituting the Framework Supply Agreement.

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng Yuan, the child of Mr. Deng Jiuqiang, a former executive Director and former Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi.

The principal terms of the New Framework Supply Agreement are as follows:

Date:	October 10, 2012
Parties	(i) Modern Farm as the Buyer; and
	(ii) Qiushi as the Seller.
Duration:	For a term commencing from 30 November 2012 to June 30, 2015.
Nature of Transaction:	Sales and supply of Forage Grass by the Seller Group to the Buyer Group.
Caps:	The maximum aggregate purchase amount for each of the financial year ending 30 June 2013, 2014 and 2015 shall not exceed RMB357,800,000, RMB486,060,000 and RMB535,840,000.
Pricing:	(i) For alfafa and oat grass, the unit price = (base price + adjusted price) x 90%; and
	(ii) For silage corn and wheat straw, the unit price = (base price + adjusted price).

Details of the New Framework Supply Agreement have been disclosed in the Company's announcement dated 10 October 2012.

The aggregate purchase amount pursuant to the New Framework Supply Agreement during the six months ended 31 December 2013 amounted to approximately RMB99,471,000.

II OFF-TAKE AGREEMENT

The Company started to sell raw milk to Mengniu in 2006, and in October 24, 2008 following arm's length negotiations, Modern Farming entered into the Off-Take Agreement with) Inner Mongolia Mengniu Dairy (Group) Company Limited ("Mengniu (Inner Mongolia)"), pursuant to which the Company shall supply raw milk to Mengniu (Inner Mongolia).

Date:	October 24, 2008
Parties:	(i) Modern Farm, a non-wholly owned subsidiary of the Company
	(ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Nature of the Transaction:	Modern Farm shall supply raw milk to Mengniu (Inner Mongolia).
Committed Purchase:	Both parties shall start to discuss estimates of annual supply three months prior to the beginning of each calendar year. Should the parties fail to reach an agreed amount, Modern Farming shall be entitled to require Mengniu (Inner Mongolia) to purchase, subject to certain limitations, all of its raw milk production in the upcoming calendar year.
Right to sell to other parties:	Modern Farming may sell up to 30% of its raw milk produced daily at each dairy farm to third parties at its discretion, except to two of Mengniu's competitors. Other than the aforesaid, the Off-Take Agreement contains no other restrictions on Modern Farming's sales of raw milk to third parties or development of its own dairy products.

Pricing:	The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustment for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if the Modern Farming's farms are within an agreed proximity to Mengniu Group's dairy processing plants. The base price is based on the price which Mengniu Group at the relevant time offers to buy raw milk from other mid- to large-scale dairy farms (which can offer raw milk of comparable quality) or, if there are no such mid- to large-scale dairy farms in such region, other comparable dairy farms in nearby regions with adjustments (reflecting the prices in different regions). The base price and upward adjustment payable by Mengniu Group under the Off-Take Agreement shall not be lower than the base price and upward adjustment it pays respectively to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases). Mengniu (Inner Mongolia) also grants Modern Farming an option to sell to Mengniu (Inner Mongolia) the same amount of raw milk at the same terms and prices Mengniu (Inner Mongolia) offers to any third party suppliers.
Term:	The Off-Take Agreement shall be for an term of 10 years commencing from October 24, 2008 and will be automatically extend for another 10 years upon expiry in the absence of any force majeure or events of default.

Details of The Off-Take Agreement have been disclosed in the Company's announcement dated 23 May 2013.

The aggregate sales amount pursuant to the Off-take Agreement during the six months ended 31 December 2013 amounted to approximately RMB1,345,269,000.

III PROCESSING AGREEMENT

On April 25, 2013, Modern Farming (Feidong) Co., Ltd ("Feidong Modern Farm") and Mengniu (Inner Mongolia) entered into the Processing Agreement, pursuant to which Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its "Mengniu" liquid milk products.

Date:	April 25, 2013
Parties:	(i) Feidong Modern Farm , an indirect non-wholly owned subsidiary of the Company (ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Subject Matter :	Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its "Mengniu" liquid milk products.
Term:	From April 25, 2013 to December 31, 2013

Details of the Processing Agreement have been disclosed in the Company's announcement dated 23 May 2013.

The aggregate amount pursuant to the Processing Agreement during the six months ended 31 December 2013 amounted to approximately RMB854,000.

On 21 May 2013, the shareholding interest of Mengniu in the Company increased to 10% or more, meaning that Mengniu became a substantial shareholder the Company, and thus a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from 21 May 2013. As Mengniu (Inner Mongolia) is a non-wholly owned subsidiary of Mengniu, it also became a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from 21 May 2013. As a result, the transactions contemplated under the Off-Take Agreement and the Processing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules with effect from 21 May 2013.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions regarding the purchase of Forage grass from Qiushi, the sales of raw milk to Mengniu (Inner Mongolia) and the process of "Mengniu" liquid milk products have been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or on terms no less favourable than terms available from independent third parties; and
3. in accordance with the relevant agreements governing them and on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has engaged the auditors of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Save as disclosed above, there are no other transactions of the Company which require disclosure in the annual report in accordance with the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws in the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing Shareholders.

POST BALANCE SHEET EVENTS

There is no significant event subsequent to the balance sheet date as at 31 December 2013.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

Deloitte Touche Tohmatsu has retired and, is eligible to, offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board
Yu Xubo
Chairman

Hong Kong, 20 March 2014

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 102, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the period from 1 July 2013 to 31 December 2013, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the period from 1 July 2013 to 31 December 2013 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Period from 1 July 2013 to 31 December 2013

	Notes	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Sales of milk produced	5	**1,901,248**	2,480,561
Loss arising from changes in fair value less costs to sell of dairy cows	23	**(16,408)**	(38,599)
Other income	6	**15,902**	106,343
Farm operating expenses	7	**(1,132,588)**	(1,655,803)
Employee benefits expense	8	**(115,573)**	(170,847)
Depreciation		**(91,482)**	(135,472)
Share of (loss)/profit of an associate	20	**(872)**	3,371
Share of loss of a joint venture	21	**(287)**	—
Net foreign exchange gain		**4,855**	9,127
Other gains and losses	9	**(42,417)**	(2,400)
Other expenses		**(59,741)**	(92,555)
Profit before finance costs and tax	10	**462,637**	503,726
Finance costs	11	**(113,505)**	(153,679)
Profit before tax		**349,132**	350,047
Income tax expense	12	**(5,875)**	(8,051)
Profit and total comprehensive income for the period/year		**343,257**	341,996
Profit and total comprehensive income for the period/year attributable to:			
Owners of the Company		**327,487**	323,832
Non-controlling interests		**15,770**	18,164
		343,257	341,996
Earnings per share (RMB)	16		
Basic		**6.79 cents**	6.74 cents
Diluted		**6.72 cents**	6.67 cents

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	31/12/2013 RMB'000	30/6/2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	4,032,642	3,772,270
Land use rights	18	66,261	67,098
Goodwill	19	310,426	310,426
Interest in an associate	20	25,722	26,594
Interest in a joint venture	21	32,829	—
Biological assets	23	5,954,363	5,465,008
Other financial assets	22	34,517	—
		10,456,760	9,641,396
CURRENT ASSETS			
Inventories	24	691,108	342,140
Trade and other receivables	25	544,710	357,683
Land use rights	18	1,667	1,667
Pledged bank balances	26	430,535	442,747
Cash and bank balances	26	369,041	378,030
		2,037,061	1,522,267
CURRENT LIABILITIES			
Trade and other payables	27	1,386,430	1,190,785
Amount due to an associate	38(b)	87,820	63,116
Tax payable		9,161	4,785
Borrowings - due within one year	28	1,788,799	1,330,959
Short-term debenture	29	1,200,000	700,000
Deferred income	31	10,913	9,750
		4,483,123	3,299,395
NET CURRENT LIABILITIES		(2,446,062)	(1,777,128)
TOTAL ASSETS LESS CURRENT LIABILITIES		8,010,698	7,864,268

	Notes	31/12/2013 RMB'000	30/6/2013 RMB'000
CAPITAL AND RESERVES			
Share capital	32	415,261	414,564
Share premium and reserves		5,327,763	4,992,220
Equity attributable to owners of the Company		5,743,024	5,406,784
Non-controlling interests		117,710	101,940
		5,860,734	5,508,724
NON-CURRENT LIABILITIES			
Borrowings - due after one year	28	1,959,867	2,248,082
Deferred income	31	113,949	107,462
Other financial liabilities	30	76,148	—
		2,149,964	2,355,544
		8,010,698	7,864,268

The consolidated financial statements on pages 45 to 102 were approved and authorised for issue by the board of directors on 20 March 2014 and are signed on its behalf by:

GAO Lina	**HAN Chunlin**
Director	Director

Consolidated Statement of Changes In Equity

For the period from 1 July 2013 to 31 December 2013

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 July 2012	413,075	2,390,483	1,585,752	9,072	668,108	5,066,490	66,226	5,132,716
Profit and total comprehensive income for the year	—	—	—	—	323,832	323,832	18,164	341,996
Contributions from non-controlling interests	—	—	—	—	—	—	17,550	17,550
Recognition of equity-settled share-based payment (Note 33(a))	—	—	—	3,650	—	3,650	—	3,650
Exercise of share options (Note 33(b))	1,489	13,247	—	(1,924)	—	12,812	—	12,812
Balance at 30 June 2013	414,564	2,403,730	1,585,752	10,798	991,940	5,406,784	101,940	5,508,724
Profit and total comprehensive income for the period	—	—	—	—	327,487	327,487	15,770	343,257
Recognition of equity-settled share-based payment (Note 33(a))	—	—	—	2,764	—	2,764	—	2,764
Exercise of share options (Note 33(b))	697	6,206	—	(914)	—	5,989	—	5,989
Balance at 31 December 2013	415,261	2,409,936	1,585,752	12,648	1,319,427	5,743,024	117,710	5,860,734

Notes: Other reserve balance at 1 July 2012 represented the contribution from the owners of the Company for the operation of the Group.

Consolidated Statement of Cash Flows

For the period from 1 July 2013 to 31 December 2013

	Notes	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
OPERATING ACTIVITIES			
Profit before tax		349,132	350,047
Adjustments for:			
Depreciation of property, plant and equipment		91,482	135,472
Release of land use rights and long-term prepaid rental		837	1,715
Bank interest income	6	(8,255)	(10,044)
Government grant credited to income	6	(5,155)	(8,645)
Finance costs	11	113,505	153,679
Share of loss/(profit) of an associate	20	872	(3,371)
Share of loss of a joint venture	21	287	—
Other gains and loss	9	41,631	—
Loss on disposal of property, plant and equipment	9	786	2,400
Payables written off	6	(25)	(724)
Expense recognized in respect of equity-settled share-based payments	33(a)	2,764	3,650
Loss arising from changes in fair value less costs to sell of dairy cows	23	16,408	38,599
Operating cash flows before movements in working capital		604,269	662,778
Increase in inventories		(348,968)	(78,258)
Increase in trade and other receivables		(182,677)	(172,977)
Increase in trade and other payables		144,836	257,288
Cash generated from operations		217,460	668,831
Income taxes paid		(1,499)	(3,266)
NET CASH GENERATED FROM OPERATING ACTIVITIES		215,961	665,565
INVESTING ACTIVITIES			
Interest received		3,418	7,596
Purchases of property, plant and equipment		(357,659)	(853,747)
Addition in biological assets		(594,205)	(1,415,648)
Addition in pledged bank balances		(73,573)	(442,747)
Release of pledged bank balances		85,785	134,162
Purchases of land use rights		—	(1,142)
Proceeds on disposal of property, plant and equipment		925	282
Proceeds on disposal of dairy cows		167,584	235,147
Investment in an associate		—	(7,740)
Investment in a joint venture	21	(33,116)	—
Government grants received	31	12,805	26,666
NET CASH USED IN INVESTING ACTIVITIES		(788,036)	(2,317,171)

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
FINANCING ACTIVITIES		
Interest paid	(112,528)	(198,316)
New borrowings raised	1,623,289	2,149,361
Repayment of borrowings	(1,453,664)	(1,161,109)
Proceeds from issue of short-term debenture	500,000	700,000
Transaction costs attributable to issue of short-term debenture	—	(2,800)
Proceeds from issue of shares upon exercise of share options	5,989	12,812
Transaction costs attributable to issue of new shares	—	(6,139)
Contribution from non-controlling interests	—	17,550
NET CASH GENERATED FROM FINANCING ACTIVITIES	563,086	1,511,359
DECREASE IN CASH AND CASH EQUIVALENTS	(8,989)	(140,247)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	378,030	518,277
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by cash and bank balances	369,041	378,030

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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").

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

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

Basis of preparation

Pursuant to the Company's announcement dated 20 November 2013, the board of directors of the Company decided to change the financial year end date of the Company and the Group from 30 June to 31 December. As the PRC Subsidiaries are statutorily required to have their financial year end date set at 31 December, such change of financial year end date is to align the financial year end date of the Company with that of the PRC Subsidiaries. Accordingly, the consolidated financial statements for the current period cover a six-month period from 1 July 2013 to 31 December 2013. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a twelve-month period from 1 July 2012 to 30 June 2013 and therefore may not be comparable with amounts shown for the current period.

In preparing the consolidated financial statements for the period from 1 July 2013 to 31 December 2013, 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 RMB2,446,062,000 as at 31 December 2013 (30 June 2013: RMB1,777,128,000). Having considered the credit facilities of approximately RMB3,668,079,000 which remains unutilised as at 31 December 2013, 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 consolidated financial statements have been prepared on a going concern basis.

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

The Group has applied all the amendments to standards ("new and revised IFRSs") issued by the International Accounting Standards Board, which are mandatorily effective for the Group's financial year beginning on 1 July 2013.

Except as described below, the application of the new and revised IFRSs in the current period has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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 2013, with earlier application permitted. The application of the new standard results in application of the new fair value measurements on its biological assets and more extensive disclosures in the consolidated financial statements.

New and revised standards on consolidation, 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 (Revised 2011) and IAS 28 (Revised 2011).

Key requirements of these five standards that are relevant to the Group are described below.

IFRS 10 replaces the parts of IAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and SIC 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 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.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. The application of these five standards has no material impact on the results and financial position of the Group but results in more extensive disclosure.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures *(continued)*

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial liabilities[1]
Amendments to IAS 36	Recoverable Amount disclosures for Non-financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

Other than as further explained below, the directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

IFRS 9 Financial Instruments *(continued)*

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of IFRS 9 in the future would not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under the historical cost basis except for: (i) the biological assets, which are measured at fair value less costs to sell, (ii) financial assets at FVTPL and financial liabilities at FVTPL, which are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in an associate and a joint venture

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of an associate or a joint venture are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of an associate or a joint venture exceeds the Group's interest in that associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (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 or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition is accordance with IAS39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassified the gain or loss from equity to profit or loss (as a reclassified adjustment) when the equity method is discontinued.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in an associate and a joint venture *(continued)*

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassified to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of milk produced is recognised when the milk is delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases payments are recognised as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses, if any, are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the functional currency, i.e. RMB).

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contribution.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Grants relating to biological assets

An unconditional government grant related to a biological asset measured at its fair value less costs to sell is recognised in profit or loss when, and only when, the government grant becomes receivable. If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, the Group recognises the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Share-based payment transactions

Equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment (other than construction in progress) including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

Biological assets

Dairy cows

Dairy cows, including milkable cows, heifers and calves are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows is determined based on its present location and condition and is determined independently by professional valuer.

The feeding costs and other related costs including the depreciation charge, utilities cost and consumables incurred for raising of heifers and calves are capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognised at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the far value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets represent financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is either held for trading or it is designated as at FVTPL.

A financial assets is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial assets other than a financial assets held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investments strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 22.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 to 120 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed do not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 30.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Other Financial liabilities

Financial liabilities including borrowings, trade and other payables and amount due to an associate are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in Note 23.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of goodwill are RMB310,426,000 (30 June 2013: RMB310,426,000). Details of the recoverable amount calculation are disclosed in Note 19.

5. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced include sales of raw milk, which represented mainly the fair value of milk produced at the point of harvest and sales of processed milk, which is measured at the fair value of the consideration received or receivable.

Included in the sales of milk produced:

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Sales of raw milk	1,696,925	2,307,227
Sales of processed milk	204,323	173,334
	1,901,248	2,480,561

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 RMB1,345,269,000 during the period (from 1 July 2012 to 30 June 2013: RMB1,962,159,000) was to the Mengniu Group (defined in Note 38).

6. OTHER INCOME

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Government grant related to		
– Biological assets (Note i)	–	74,089
– Income (Note ii)	851	9,698
– Other assets (Note 31)	5,155	8,645
Bank interest income	8,255	10,044
Write-off of payables	25	724
Others	1,616	3,143
	15,902	106,343

Notes:

i. These government grants were 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.

7. FARM OPERATING EXPENSES

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Feeds	927,649	1,386,506
Utilities	38,422	56,609
Other farm operating expenses	166,517	212,688
Total farm operating expenses	1,132,588	1,655,803

8. EMPLOYEE BENEFITS EXPENSE

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Salaries, bonuses and allowances	94,709	148,007
Contributions to retirement benefit schemes	18,102	19,190
Equity-settled share-based payments	2,762	3,650
	115,573	170,847

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The Group also participates a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000 in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The cost charged to the profit or loss represented contribution payable to the MPF Scheme by the Group at the rates specified in the rules of the MPF Scheme.

9. OTHER GAINS AND LOSSES

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Loss on disposal of property, plant and equipment	786	2,400
Net loss arising on financial liabilities designated as at FVTPL	76,148	—
Net gain arising on financial assets designated as at FVTPL	(34,517)	—
	42,417	2,400

10. PROFIT BEFORE FINANCE COSTS AND TAX

Profit before finance costs and tax has been arrived at after charging:

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Auditors' remuneration	2,761	2,881
Release of land use rights	837	1,650

11. FINANCE COSTS

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	113,210	200,715
Other borrowings wholly repayable within five years	692	2,392
Short-term debenture repayable within five years	20,249	9,121
Total borrowing cost	134,151	212,228
Less: Capitalised amount	(20,646)	(58,549)
	113,505	153,679

From 1 July 2013 to 31 December 2013, the borrowing cost was capitalised based on the terms of the specific bank borrowings in respect of construction in progress.

From 1 July 2012 to 30 June2013, the borrowing cost was capitalised based on the terms of the specific bank borrowings and general bank borrowings in respect of construction in progress. The weighted average capitalisation rate on general borrowings is 5.98% per annum.

12. INCOME TAX EXPENSE

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	5,875	8,051

The tax charge for the period/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.

Since 2008, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises. In addition, qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

Dividend income of Acquitair (defined in Note 39) from Modern Farming (Group) Co., Ltd ("Modern Farm") is subject to Irish Income Tax at 25%. As at 31 December 2013, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm for which deferred tax liabilities have not been recognised was RMB1,609,717,000 (30 June 2013: RMB1,081,091,000). 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 entities of the Group which operates in agricultural business in the PRC are exempted from enterprise income tax and which are listed as below:

	From 1 July 2013 to 31 December 2013	From 1 July 2012 to 30 June 2013
Modern Farm	Exempted	Exempted
Helingeer Modern Farm Co., Ltd.	Exempted	Exempted
Zhangjiakou Saibei Modern Farm Co., Ltd.	Exempted	Exempted
Wenshang Modern Farm Co., Ltd.	Exempted	Exempted
Shangzhi Modern Farm Co., Ltd.	Exempted	Exempted
Hongya Modern Farm Co., Ltd.	Exempted	Exempted
Modern Farming (Chabei) Co., Ltd.	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd.	Exempted	Exempted
Modern Farm (Feidong) Co., Ltd.	Exempted	Exempted
Modern Farming (Tongshan) Co., Ltd.	Exempted	Exempted
Modern Farming (Tongliao) Co., Ltd.	Exempted	Exempted
Modern Farm (Chabei) Hengsheng Co., Ltd.	Exempted	Exempted
Modern Farm (Bengbu) Co., Ltd.	Exempted	Exempted

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong profits tax has been made as the Group has no assessable profit in Hong Kong.

12. INCOME TAX EXPENSE *(continued)*

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

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Profit before tax	349,132	350,047
Tax at applicable income tax rate at 25%	87,283	87,512
Effect of tax exemption granted to agricultural entities	(81,408)	(79,461)
Income tax expense	5,875	8,051

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the directors' and the chief executive's emoluments are as follows:

	From 1 July 2013 to 31 December 2013				
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms. Gao Lina	–	575	279	12	866
Mr. Han Chunlin	–	472	184	12	668
Mr. Sun Yugang	–	423	130	12	565
Non-executive directors					
Mr. Yu Xubo	–	–	–	–	–
Mr. Wolhardt Julian Juul	–	–	–	–	–
Mr. Hui Chi Kin Max	–	–	–	–	–
Mr. Ding Sheng	–	–	–	–	–
Mr. Lei Yongsheng (Note v)	–	–	–	–	–
Independent non-executive directors					
Professor Li Shengli	100	–	–	–	100
Mr. Lee Kong Wai Conway	100	–	–	–	100
Mr. Liu Fuchun	100	–	–	–	100
Mr. Kang Yan	100	–	–	–	100
	400	1,470	593	36	2,499

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	From 1 July 2012 to 30 June 2013				
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms. Gao Lina	—	1,056	303	25	1,384
Mr. Han Chunlin	—	838	200	25	1,063
Mr. Sun Yugang (Note iii)	—	631	202	25	858
Mr. Deng Jiuqiang (Note ii)	—	848	—	25	873
Non-executive directors					
Mr. Yu Xubo (Note iii)	—	—	—	—	—
Mr. Wolhardt Julian Juul	—	—	—	—	—
Mr. Hui Chi Kin Max	—	—	—	—	—
Mr. Lei Yongsheng	—	—	—	—	—
Mr. Ding Sheng (Note iii)	—	—	—	—	—
Independent non-executive directors					
Professor Li Shengli	90	—	—	—	90
Mr. Guo Lianheng (Note iv)	90	—	—	—	90
Mr. Lee Kong Wai Conway	90	—	—	—	90
Mr. Liu Fuchun (Note iii)	—	—	—	—	—
Mr. Kang Yan (Note iii)	—	—	—	—	—
	270	3,373	705	100	4,448

Ms. Gao Lina, Mr. Han Chunlin and Mr. Sun Yugang are also chief executives of the Company and their emoluments disclosed above include those for services rendered by them as chief executives.

Notes:

i. No directors waived or agreed to waive any emoluments during the period from 1 July 2013 to 31 December 2013 (from 1 July 2012 to 30 June 2013: nil).

ii. Pursuant to the Company's announcement dated 26 February 2013, Mr. Deng Jiuqiang, an executive director, resigned from his office with effect from 26 February 2013.

iii. Pursuant to the Company's announcement dated 2 July 2013, Mr. Yu Xubo and Mr. Ding Sheng have been appointed as non-executive directors, Mr. Liu Fuchun and Mr. Kang Yan have been appointed as independent non-executive directors, and Mr. Sun Yugang has been appointed as an executive director, all of which were with effect from 28 June 2013. The emoluments of Mr. Sun Yugang for the period from 1 July 2012 to 30 June 2013 disclosed above include emoluments paid/payable to him for his services to the Group prior to his director appointment.

iv. Pursuant to the Company's announcement dated 2 July 2013, Mr. Guo Lianheng, an independent non-executive director, resigned from his office with effect from 28 June 2013.

v. Pursuant to the Company's announcement dated 11 December 2013, Mr. Lei Yongsheng, a non-executive director, resigned from his office with effect from 11 December 2013.

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (from 1 July 2012 to 30 June 2013: four) are directors of the Company whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining two (from 1 July 2012 to 30 June 2013: one) individuals for the period are as follows:

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Salaries and allowances	529	607
Retirement benefits scheme contribution	17	12
Share-based payment	56	—
	602	619

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (from 1 July 2012 to 30 June 2013: nil).

The emoluments of the two (from 1 July 2012 to 30 June 2013: one) highest paid individuals (other than the Directors as disclosed in Note 13 above) fell within HK$1,000,000 during the current period.

15. DIVIDENDS

No dividends were paid, declared or proposed for current period and from 1 July 2012 to 30 June 2013. The directors of the Company do not recommend the payment of dividend for the period from 1 July 2013 to 31 December 2013.

16. 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:

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	327,487	323,832
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	4,820,592,960	4,804,337,058
Effect of share options issued by the Company	51,866,777	52,101,067
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,872,459,737	4,856,438,125

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
Balance at 1 July 2012	2,284,649	27,955	594,377	435,023	3,342,004
Additions	—	4,390	91,397	978,101	1,073,888
Transfer	920,523	—	216,648	(1,137,171)	—
Disposals	(407)	(426)	(10,268)	—	(11,101)
Balance at 30 June 2013	3,204,765	31,919	892,154	275,953	4,404,791
Additions	—	1,760	43,222	383,311	428,293
Transfer	451,652	—	106,247	(557,899)	—
Disposals	(53)	(698)	(4,580)	—	(5,331)
Balance at 31 December 2013	3,656,364	32,981	1,037,043	101,365	4,827,753
ACCUMULATED DEPRECIATION					
Balance at 1 July 2012	(241,617)	(6,579)	(129,223)	—	(377,419)
Charge for the year	(173,233)	(3,611)	(86,677)	—	(263,521)
Eliminated on disposals	77	402	7,940	—	8,419
Balance at 30 June 2013	(414,773)	(9,788)	(207,960)	—	(632,521)
Charge for the period	(108,252)	(1,947)	(56,011)	—	(166,210)
Eliminated on disposals	33	519	3,068		3,620
Balance at 31 December 2013	(522,992)	(11,216)	(260,903)	—	(795,111)
CARRYING AMOUNT					
Balance at 31 December 2013	3,133,372	21,765	776,140	101,365	4,032,642
Balance at 30 June 2013	2,789,992	22,131	684,194	275,953	3,772,270

Certain of the Group's buildings and plant and equipment with an aggregate carrying amount of RMB59,192,000 (30 June 2013: RMB61,482,000) have been pledged as security for bank and other borrowings of the Group (Note 28).

As at 31 December 2013, the Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB3,070,624,000 (30 June 2013: RMB2,727,130,000).

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimated residual value, as follows:

Buildings	10 - 20 years
Motor vehicles	5 years
Plant and equipment	5 - 10 years

During the period from 1 July 2013 to 31 December 2013, depreciation charge amounting to RMB 74,728,000 (from 1 July 2012 to 30 June 2013: RMB128,049,000) have been capitalised in biological assets.

18. LAND USE RIGHTS

	RMB'000
Balance at 1 July 2012	69,273
Additions	1,142
Release to profit or loss	(1,650)
Balance at 30 June 2013	68,765
Release to profit or loss	(837)
Balance at 31 December 2013	67,928

	31/12/2013 RMB'000	30/6/2013 RMB'000
Analysed for reporting purpose as:		
– Current assets	1,667	1,667
– Non-current assets	66,261	67,098
	67,928	68,765

The amount represents the payment for land use rights situated in the PRC. The leasehold interests in land have lease terms ranging from 20 to 50 years.

As at 31 December 2013 land use rights with carrying amount of RMB 10,165,000 (30 June 2013: RMB10,287,000) were pledged against certain bank for facilities granted to the Group (Note 28).

19. GOODWILL

	RMB'000
Cost	
Balance at 30 June 2013 and 31 December 2013	310,426

As explained in Note 5, the information reported to the Chairman for the purpose of resource allocation and assessment of performance is based on the overall operation of farms, which is the only operating segment reported internally. Accordingly, for the purposes of impairment testing, goodwill has been allocated to the single cash generating unit ("CGU").

As at the end of the reporting period, management of the Group determined that there is no impairment of its CGU containing goodwill.

19. GOODWILL *(continued)*

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 12.48% (30 June 2013: 12.02%). Cash flows beyond the budgeted period are extrapolated using a 4.00% (30 June 2013: 6.00%) growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of its CGU.

20. INTEREST IN AN ASSOCIATE

	31/12/2013 RMB'000	30/6/2013 RMB'000
Cost of investment in an associate	21,240	21,240
Share of post-acquisition profits	4,482	5,354
	25,722	26,594

Details of the Group's interest in an associate are as follows.

Name of company	Place of establishment	Registered and paid-up capital		Proportion of ownership interest		Principal activities
		As at 31 December 2013	As at 30 June 2013	Group's effective interest %	Held by a subsidiary %	
Qiushi Grass Industry Co., Ltd. ("Qiushi")	The PRC	RMB118,000,000	RMB118,000,000	18	18	Planting and sale of forage grass

Qiushi was established on 30 September 2011 as a limited liability company, and was formed by Ms. Deng Yuan and Mr. Qi Xiaohang who are family members of Mr. Deng Jiuqiang, an ex-executive director of the Company who resigned from his office with effect from 26 February 2013 (Note 13), and Ms. Gao Lina, a director of the Company, and two independent third party individuals.

Although the Group holds less than 20% of the equity interest of Qiushi, and it has less than 20% of voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint one out of three directors to the board of directors of Qiushi.

20. INTEREST IN AN ASSOCIATE *(continued)*

The summarised financial information in respect of the associate is set out as below:

	31/12/2013 RMB'000	30/6/2013 RMB'000
Total assets	483,186	347,489
Total liabilities	(340,288)	(199,744)
Net assets	142,898	147,745
Group's share of net assets of associate	25,722	26,594

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Revenue	132,290	152,512
(Loss)/profit and other comprehensive income for the period/year	(4,847)	18,726
Group's share of (loss)/profit and other comprehensive (expense)/income of associate for the period/year	(872)	3,371

21. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture at the end of the reporting period are as follows:

Name of company	Place of establishment	Registered and paid-up capital		Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activities
		As at 31 December 2013	As at 30 June 2013	%	%	
Asia Dairy Holdings (the "JV Company")	Cayman Island	USD10	—	18	18	Investment holding

21. INTEREST IN A JOINT VENTURE *(continued)*

On 23 September 2013, the Company entered into an agreement (the "JV Agreement I") with Success Dairy II Limited ("Success Dairy"). Pursuant to the JV Agreement I, the Company and Success Dairy established Asia Dairy Holdings (the "JV Company"), an investment holding company incorporated in the Cayman Islands which indirectly owns a PRC subsidiary, Modern Farm Shuanhe Ltd. ("現代牧業(商河)有限公司"). The principal activities of Asia Dairy Holdings and its subsidiaries include to design, construct and operate a dairy farm ("Dairy Farm") in the PRC for the purpose of, amongst others, breeding, raising and sale of dairy cattle, production, processing and sale of raw milk, production of processed milk under OEM contracts for other processors and the sale of fertilizers. The Group owns 18% equity interest and Success Dairy owns the remaining 82% equity interest of the JV Company.

As at 31 December 2013, the Company and Success Dairy contributed initial capital contributions in cash in accordance with their respective ownership ratios, being US$5.4 million (approximately RMB33,116,000) by the Company and US$24.6 million (approximately to RMB150,860,000) by Success Dairy.

Pursuant to the JV Agreement I, the JV Company will purchase approximately 6,600 dairy cows from the Company at a price with reference to the fair value of dairy cows as at 30 June 2013 pursuant to the valuation procedures performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Prior to the purchase of dairy cows by the JV Company and subject to the terms and conditions of the JV Agreement I, the Company and Success Dairy shall make further capital contributions in an aggregate amount of US$40 million in accordance with their respective ownership ratios, being US$7.2 million to be paid by the Company and US$32.8 million to be paid by Success Dairy.

Although the Company holds 18% equity interests of Asia Dairy Holdings, and it has less than 20% of voting power at director meetings, decisions on those reserved matters as defined under the JV Agreement I (the "Reserved Matters") of the JV Company requires unanimous consent of the directors as nominated by each of the Success Dairy and the Company present and voting. The directors of the Company consider the Reserved Matters to be the relevant activities as defined under IFRS 10 and the Group has joint control over the JV Company.

The summarised financial information in respect of the joint venture:

	31/12/2013 RMB'000	30/6/2013 RMB'000
Current assets	182,012	—
Non-current assets	439	—
Current liabilities	(67)	—

21. INTEREST IN A JOINT VENTURE *(continued)*

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Revenue	—	—
Loss and other comprehensive expense for the period/year	1,592	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31/12/2013 RMB'000	30/6/2013 RMB'000
Net assets of the joint venture	182,384	—
Proportion of the Group's ownership interest in the joint venture	18%	—
Carrying amount of the Group's interest in the joint venture	32,829	—

In addition, on 23 September 2013, the Company entered into the Joint Venture Agreement II with Success Dairy to invest in another joint venture entity to design, construct and operate a second dairy farm substantially similar to the Dairy Farm. Closing of the Joint Venture Agreement II is subject to customary conditions and will take place at the end of the 12th month after the date of the Joint Venture Agreement II, or such other date as the parties may agree in writing. The terms and conditions of Joint Venture Agreement II are otherwise on substantially the same terms as the Joint Venture Agreement I.

22. OTHER FINANCIAL ASSETS

	31/12/2013 RMB'000	30/6/2013 RMB'000
Financial assets carried at fair value through profit or loss (FVTPL)		
Held for trading derivatives not designated in hedge accounting relationship	34,517	—

The amount represented fair value of the Call Option (as defined below) of the Company at the reporting date. The fair value of the Call Option was independently valued by Jones Lang LaSalle Corporate Appraisal And Advisory Limited (the "JLL"), a firm of independent qualified professional valuers.

Pursuant to JV Agreement I as set out in Note 21 to the consolidated financial statements, the Company has granted Success Dairy a put option (the "Put Option") and Success Dairy has granted the Company a call option (the "Call Option"). Under the Put Option, Success Dairy is entitled to require the Company to purchase up to all its shares in the JV Company and all loans or borrowings owed by the JV Company to Success Dairy. Under the Call Option, the Company is entitled to require Success Dairy to sell up to all its shares in the JV Company and all loans or borrowings owed by the JV Company to Success Dairy.

The Put Option and the Call Option may be exercised anytime between three to seven years after the first day on which the Dairy Farm produces milk for sale. The exercise price for the Put Option and the Call Option shall be calculated in a manner specified in the JV Agreement I and the Company's announcement dated 24 September 2013.

23. BIOLOGICAL ASSETS

A - Nature of activities

The entities comprising the Group are mainly milk production companies that principally engaged in production and sales of milk. Dairy cows are primarily held to produce milk.

The quantity of dairy cows owned by the Group at end of the reporting period is shown below. The Group's dairy cows are primarily milkable cows held for milk production. Heifers and calves are those dairy cows that have not reached the age that can produce milk.

	31/12/2013 head	30/6/2013 head
Dairy cows		
Milkable cows	98,791	86,710
Heifers and calves	88,047	91,211
Total dairy cows	186,838	177,921

	From 1 July 2013 to 31 December 2013 KG	From 1 July 2012 to 30 June 2013 KG
Volume of sales of milk produced	372,646,757	567,021,016

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the directors of the Company are of the view that there is no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately nine month pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 340 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

23. BIOLOGICAL ASSETS *(continued)*

B - Value of dairy cows

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

	31/12/2013 RMB'000	30/6/2013 RMB'000
Dairy cows	5,954,363	5,465,008

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance at 1 July 2012	1,977,900	2,207,700	4,185,600
Increases due to purchase	233,096	7,947	241,043
Increase due to raising (feeding cost and others)	1,311,678	—	1,311,678
Transfer	(1,628,225)	1,628,225	—
Decrease due to sales	(26,903)	(207,811)	(234,714)
Gains/(loss) arising from changes in fair value less costs to sell	499,754	(538,353)	(38,599)
Balance at 30 June 2013	2,367,300	3,097,708	5,465,008
Increase due to raising (feeding cost and others)	668,933	—	668,933
Transfer	(1,057,541)	1,057,541	—
Decrease due to sales	(25,363)	(137,807)	(163,170)
Gains/(loss) arising from changes in fair value less costs to sell	220,171	(236,579)	(16,408)
Balance at 31 December 2013	2,173,500	3,780,863	5,954,363

The Group's dairy cows in the PRC were independently valued by JLL, a firm of independent qualified professional valuers, who has appropriate qualifications and recent experiences in valuation of biological assets. The fair value less costs to sell of the 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. Due to the fact that the market-determined prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less cost to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 10%, 15%, 25%, 35%, 60% and 100% (30 June 2013: 10%, 15%, 25%, 35%, 60% and 100%) for milkable cows in the first to the sixth lactation cycles. These rates are based on the current available breeding data of the Group and future operating plans.
- The quantities of cows will increase as calves are born.
- The expected average prices of milk during the projected period of six lactations are estimated after taking into account certain percentage growth, future demand and inflation in the PRC for each projected year.

23. BIOLOGICAL ASSETS *(continued)*

B - Value of dairy cows *(continued)*

- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture.
- Costs are average costs based on historical cost information.
- The discount rate used is 12.48% at 31 December 2013 (30 June 2013: 12.02%).

As at 31 December 2013, the Group has pledged dairy cows with carrying amount of RMB4,087,534,000 (30 June 2013: RMB4,014,172,000) to banks to secure the general banking facilities granted to the Group (Note 28).

The aggregate gain or loss arising during the period ended 31 December 2013 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analysed as follows:

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Fair value of milk produced less costs to sell*	1,874,218	2,444,610
Loss arising from changes in fair value less costs to sell of dairy cows	(16,408)	(38,599)
	1,857,810	2,406,011

* Representing fair value of milk produced of RMB1, 901,248,000 (from 1 July 2012 to 30 June 2013:RMB2,480,561,000), less costs to sell of RMB 27,030,000.00 (from 1 July 2012 to 30 June 2013:RMB35,951,000.00), which included in the other expenses line item.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data. (unobservable inputs)

	Leve1 RMB'000	Leve2 RMB'000	Leve3 RMB'000	Total RMB'000
As at 30 June 2013	—	—	5,465,008	5,465,008
As at 31 December 2013	—	—	5,954,363	5,954,363

24. INVENTORIES

	31/12/2013 RMB'000	30/6/2013 RMB'000
Feeds	642,913	295,137
Others	48,195	47,003
	691,108	342,140

25. TRADE AND OTHER RECEIVABLES

The Group allows credit period of 60 to 120 days to its trade customers.

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

	31/12/2013 RMB'000	30/6/2013 RMB'000
Trade receivables		
– within 120 days based on invoice date	462,775	273,250
Advances to suppliers	69,464	76,952
Others	12,471	7,481
	544,710	357,683

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

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables were RMB110,000,000 as at 31 December 2013 (30 June 2013: RMB110,000,000) pledged to a bank to secure the bank borrowings granted to the Group (Note 28).

26. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

Pledged bank balances

The pledged bank balances as at 31 December 2013 represented deposits pledged for bank borrowings. The pledged bank balances carried interest at prevailing market saving rates ranging from 0.35% to 3.75% (30 June 2013: 0.35% to 4.10%) per annum.

26. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES *(continued)*

Cash and bank balances

Cash and bank balances comprised cash and short-term deposits with an original maturity of three months or less which were held with banks and carry interest at prevailing market saving rates ranging from 0.35% to 3.00% (30 June 2013: 0.35% to 3.25%) per annum at 31 December 2013.

Cash and bank balances at 31 December 2013 were denominated in United States Dollar ("US$"), Euro ("EUR"), Hong Kong Dollar ("HK$") and RMB. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Certain pledged bank balances, cash and bank balances that are denominated in currencies other than the functional currency of the relevant entities are set out below:

	31/12/2013 RMB'000	30/6/2013 RMB'000
US$	79,052	78,774
EUR	675	350
HK$	4,901	11,191

27. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchases is 60 days. The following is an aged analysis of trade and bills payables at the end of the reporting period:

	31/12/2013 RMB'000	30/6/2013 RMB'000
Trade and bills payables		
Within 60 days based on invoice date	682,985	493,106
Over 60 days based on invoice date	42,379	93,155
	725,364	586,261
Payable for acquisition of property, plant and equipment	479,318	429,330
Accrued staff costs	45,321	31,767
Advance payment from customers	55,949	94,246
Interest payable	35,447	14,311
Others	45,031	34,870
	661,066	604,524
	1,386,430	1,190,785

28. BORROWINGS

	31/12/2013 RMB'000	30/6/2013 RMB'000
Bank borrowings	3,748,666	3,528,349
Other borrowings (Note i)	—	50,692
	3,748,666	3,579,041
Unsecured borrowings	1,533,139	1,387,044
Secured borrowings (Note ii)	1,964,527	2,105,707
Guaranteed borrowings (Note iii)	251,000	86,290
	3,748,666	3,579,041
Carrying amount repayable:		
Within one year	1,788,799	1,330,959
Between one to two years	1,042,337	1,035,927
Between two to five years	917,530	1,212,155
	3,748,666	3,579,041
Less: Amounts due within one year shown under current liabilities	(1,788,799)	(1,330,959)
	1,959,867	2,248,082

The bank and other borrowings comprise:

	31/12/2013 RMB'000	30/6/2013 RMB'000
Fixed-rate borrowings	1,343,185	809,039
Variable-rate borrowings	2,405,481	2,770,002
	3,748,666	3,579,041

The effective interest rates, which are also equal to contracted interest rates, per annum at the end of the reporting period, are as follows:

	From 1 July 2013 to 31 December 2013	From 1 July 2012 to 30 June 2013
Fixed-rate borrowings	2.00%-6.90%	2.00%-6.90%
Variable-rate borrowings	2.15%-7.05%	2.15%-7.05%

28. BORROWINGS *(continued)*

As at 31 December 2013, bank and other borrowings denominated in RMB and US$ are approximately RMB3,263,273,000 (30 June 2013: RMB3,198,942,000) and RMB485,393,000 (30 June 2013: RMB380,099,000) respectively. Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China and the London Interbank Offered Rate.

Notes:

i. Included in the amount was a borrowing of RMB50,000,000 from AVIC Trust Co., Ltd, with maturity of one year. The loan beared a fixed effective interest rate of 6.00% per annum, and was repaid before 31 December 2013 upon maturity.

ii. The loans were secured by

   1) certain property, plant and equipment, land use rights, dairy cows, trade receivables and bank deposits owned by the Group as set out in Notes 17, 18, 23, 25 and 26, respectively; and

   2) 100% equity interest in Zhangjiakou Saibei Modern Farm Co.,Ltd. and Shangzhi Modern Farm Co., Ltd.

iii. The balances were guaranteed by the Company's subsidiaries.

29. SHORT-TERM DEBENTURE

	31/12/2013 RMB'000	30/6/2013 RMB'000
Short term debenture - unsecured (Note i and ii)	1,200,000	700,000

Notes:

i. On 27 March 2013, the Company issued short-term debenture with a principal amount of RMB700,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of one year. The short term debenture bears a fixed interest rate of 4.99% per annum and its effective interest rate is 5.41% per annum after considering the effect of issue costs.

ii. On 6 December 2013, the Company issued short-term debenture with a principal amount of RMB500,000,000 through China Construction Bank Co., Ltd., the leading underwriter, with maturity of six months. The short term debenture bears a fixed interest rate of 6.90% per annum.

30. OTHER FINANCIAL LIABILITIES

	31/12/2013 RMB'000	30/6/2013 RMB'000
Financial liabilities carried at fair value through profit or loss (FVTPL)		
Held for trading derivative not designated in hedge accounting relationship (Note 22)	(76,148)	—

The amount represented fair value of the Put Option at the reporting date. The fair value of the Put Option was independently valued by JLL.

31. DEFERRED INCOME

	Arising from government grants RMB'000
Balance at 1 July 2012	99,191
Addition	26,666
Released to income	(8,645)
Balance at 30 June 2013	117,212
Addition	12,805
Released to income	(5,155)
Balance at 31 December 2013	124,862

	31/12/2013 RMB'000	30/6/2013 RMB'000
Analysed for reporting purpose as:		
– Current portion	10,913	9,750
– Non-current portion	113,949	107,462
	124,862	117,212

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment. Government grant is included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a systematic basis over the useful lives of the related assets.

32. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
At 1 July 2012	4,800,000	480,000
Issue of ordinary shares by way of exercise of share options (Note 33(b))	18,536	1,854
At 30 June 2013	4,818,536	481,854
Issue of ordinary shares by way of exercise of share options (Note 33(b))	8,803	880
At 31 December 2013	4,827,339	482,734

	31/12/2013 RMB'000	30/6/2013 RMB'000
Presented as	415,261	414,564

33. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Company's Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 17 November 2011 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Rules Governing the Listing of Securities on the Stock Exchange, the board of directors of the Company (the "Board") shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

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

The Share Options shall entitle the Grantees to subscribe for an aggregate of 40,000,000 new shares upon the exercise of the Share Options in full at an exercise price of HK$2.89 per share. Out of the aggregate of 40,000,000 Share Options, 3,000,000 and 2,000,000 Share Options were granted to Ms. Gao Lina and Mr. Han Chunlin, directors of the Company, respectively. 2,000,000 Share Options were granted to Mr. Sun Yugang, who was appointed as a director of the Company with effect on 28 June 2013.

Pursuant to the rules of the Share Option Scheme, the Share Options granted to each of the Grantees (the "Granted Options") are deemed to be divided into three tranches, each of which consists of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). The non-market based Performance Target has been determined by the Board and specified in the offer letter to each of the Grantees. The financial period for the first tranche is the financial year ended 30 June 2013; the financial period for the second tranche will be the financial year ending 30 June 2014; and the financial period for the third tranche will be the financial year ending 30 June 2015. Each tranche of the Granted Options after meeting the respective Target Performance shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 30 June 2015. Any of the Granted Options not vested as a result of non-fulfillment of the Performance Target at the end of the respective specific financial period shall automatically lapse.

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

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

Other information of the Granted Options is set out below:

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

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

Category	Outstanding as at 1 July 2013	Granted during the period	Exercised during the period	Lapsed* during the period	Cancelled** during the period	Outstanding as at 31 December 2013
Share Option A	4,780,267	—	—	—	—	4,780,267
Share Option B	31,329,718	—	—	—	(2,482,212)	28,847,506
	36,109,985	—	—	—	(2,482,212)	33,627,773

Category	Outstanding as at 1 July 2012	Granted during the year	Exercised during the year	Lapsed* during the year	Cancelled** during the year	Outstanding as at 30 June 2013
Share Option A	—	5,000,000	—	(219,733)	—	4,780,267
Share Option B	—	35,000,000	—	(503,615)	(3,166,667)	31,329,718
	—	40,000,000	—	(723,348)	(3,166,667)	36,109,985

* Share Options lapsed due to non-fulfillment of the Performance Target during the related period.

** Share Options were cancelled due to the relevant Grantees' resignation from the Group.

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

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

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

The fair values of Share Option A and Share Option B determined at the dates of grant using the Binomial Model option pricing model were HK$3,322,000 (equivalent to RMB2,696,000) and HK$21,626,000 (equivalent to RMB17,547,000) respectively.

The following assumptions were used to calculate the fair values of share options:

	Share Options A	Share Options B
Grant date share price	HK$1.97	HK$1.97
Exercise price	HK$2.89	HK$2.89
Expected volatility	41.79%	41.79%
Option life	Five years	Five years
Dividend yield	—	—
Risk-free interest rate	0.4%	0.4%
Sub-optional factor	2.8	2.2

The Binomial Model option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the Share Options.

The Company recognised a share option expense of RMB2,764,000 during the current period (from 1 July 2012 to 30 June 2013: RMB3,650,000). None of the Share Options was exercisable as at 31 December 2013.

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

(b) Modern Farm Option Scheme

The option scheme of Modern Farming Group Co., Ltd. ("Modern Farm") (the " Modern Farm Scheme") was adopted pursuant to agreement dated 9 June 2009 for the primary purpose of providing incentives to directors and eligible employees of Modern Farm and its subsidiaries, and will expire on 8 June 2019. Under the Modern Farm Scheme, Modern Farm granted options to two directors and one top management of Modern Farm (the "MF Grantees") to subscribe for a total of RMB10,821,069 paid-in capital (the "MF Options") and each MF option has an exercise price of RMB5.9883 per RMB1 paid-in capital on 17 June 2009.

At 30 June 2010, the amount of paid-in capital in respect of which MF Grantees can subscribe for and remained outstanding under the Modern Farm Scheme was RMB10,821,069, representing 2.09% of the paid-in capital of Modern Farm at that date.

On 31 October 2010, the Company granted to the MF Grantees a total of 87,412,507 share options of the Company for nil consideration and each with an exercise price of HK$0.86 (HK$1 = RMB0.74) per share (the "Management Options") to replace the MF Options which lapsed and ceased to have effect at the same time. The Company's management considers that the Management Options granted is a replacement of the MF Options granted and the incremental fair value caused by the replacement of the MF Options with the Management Options is insignificant. The following table discloses movements of the Management Options during the current year:

Category	Outstanding as at 1 July 2013	Granted during the period	Exercised* during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 31 December 2013
Management Options	68,876,774	—	(8,803,018)	—	—	60,073,756

* 8,803,018 share options of the Management Options were exercised during the current period (from 1 July 2012 to 30 June 2013: 18,535,733). Share options reserve of RMB914,000 (from 1 July 2012 to 30 June 2013: RMB1,924,000) in relation to the 8,803,018 share options was reclassified to share premium as a result of the exercise.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, and short-term debenture as disclosed in Note 28 and Note 29 respectively, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through injection of capital and as well as the issue of new debt or the redemption of existing debt.

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31/12/2013 RMB'000	30/6/2013 RMB'000
Financial assets:		
Loans and receivables(including cash and bank balances)	1,274,822	1,101,508
Other financial assets	34,517	—
Financial liabilities:		
Amortised cost	6,366,967	5,438,696
Other financial liabilities	76,148	—

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, pledged bank balances, cash and bank balances, other financial assets, trade and other payables, amount due to an associate, borrowings, short-term debenture, other financial liabilities. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged from prior year.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds of the Group is limited because the counterparties are authorised banks in the PRC.

The Group has concentration of credit risk as over 46.54% of total trade receivables as at 31 December 2013 (30 June 2013: 54.22%), was due from, the Mengniu Group (defined in Note 38), the Group's largest customer and a substantial shareholder of the Company.

35. FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank balances and bank borrowings which carry interest at variable interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings and short-term debenture. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of loan interest rate published by the People's Bank of China and the London Interbank Offered Rate.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to loan interest rates for non-derivative instruments at the end of the reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings were outstanding for the whole period/year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the current period would decrease/increase by RMB8,527,000 (from 1 July 2012 to 30 June 2013: RMB10,040,000); and the Group's construction in progress for the current period would increase/decrease by RMB 3,501,000 (from 1 July 2012 to 30 June 2013: RMB3,810,000) for interest capitalisation.

Liquidity risk

The Group had net current liabilities of approximately RMB2,446,062,000 as at 31 December 2013 (30 June 2013: RMB1,777,128,000). The directors of the Company closely monitor the cash flows of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, when necessary, to ensure the Group has sufficient operating cash flows and to enable the Group to meet its financial obligations. In addition, the secured credit facilities of the Group amounted to approximately RMB3,668,079,000 which remains unutilised as at 31 December 2013. In view of the above, the directors of the Company consider the Group's liquidity risk is significantly reduced.

The Group finances their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The directors of the Company monitor the liquidity position of the Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilised facilities and renewal of facilities subsequent to the end of the reporting period, the directors of the Company consider the liquidity and source of capital for the daily operation are sufficient.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

35. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rates %	Within 180 days RMB'000	181 days to 365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2013							
Non-interest bearing	—	1,418,301	—	—	—	1,418,301	1,418,301
Fixed interest rate borrowings	4.78	1,552,647	766,065	291,848	—	2,610,560	2,543,185
Variable interest rate borrowings	6.24	394,214	470,201	868,789	1,032,128	2,765,332	2,405,481
Other financial liabilities	—	—	—	—	—	—	76,148
		3,365,162	1,236,266	1,160,637	1,032,128	6,794,193	6,443,115
As at 30 June 2013							
Non-interest bearing		1,159,655	—	—	—	1,159,655	1,159,655
Fixed interest rate borrowings	4.88	404,634	839,309	309,080	—	1,553,023	1,509,039
Variable interest rate borrowings	6.45	587,820	391,334	867,169	1,368,467	3,214,790	2,770,002
		2,152,109	1,230,643	1,176,249	1,368,467	5,927,468	5,438,696

The amounts included above for variable interest rate borrowings are subject to change if changes in variable interest rates differ from these estimates of interest rates determined at the end of the reporting period.

Foreign currency risk

The Group collects the sales of milk produced in RMB and incurs most of the expenditures as well as capital expenditures in RMB.

The major asset denominated in foreign currency is cash and bank balances disclosed in Note 26. The major liability denominated in foreign currency is borrowings disclosed in Note 28.

The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Foreign currency sensitivity analysis

2% (30 June 2013: 2%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

At the end of the reporting period, if the exchange rate had been strengthen/weaken in RMB against US$, EUR and HK$ by 2% (30 June 2013: 2%), and all other variables were held constant, the Group's profit for the current period would increase/decrease by RMB8,015,300 (from 1 July 2012 to 30 June 2013: RMB5,796,000).

35. FINANCIAL INSTRUMENTS *(continued)*

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities which recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis is set out below:

Financial assets/ financial liabilities	Fair value as at 31/12/2013	Fair value as at 30/6/2013	Fair value hierarchy	Valuation techniques and key inputs
Call option	34,517	—	level 2	Discounted cash flow at a discount rate of 1.309%
Put option	(76,148)	—	level 2	Discounted cash flow at a discount rate of 1.309%

36. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	31/12/2013 RMB'000	30/6/2013 RMB'000
Within one year	579	873
In the second to fifth year inclusive	364	365
Over five years	748	793
	1,691	2,031

Operating lease payments represent rentals payable by the Group for certain of its plant and vehicles which are negotiated for an average term of five years and rentals are fixed for an average of five years.

The minimum lease payments paid under operating lease during the current period are approximately RMB8,451,000 (from 1 July 2012 to 30 June 2013: RMB8,953,000).

37. CAPITAL COMMITMENTS

	31/12/2013 RMB'000	30/6/2013 RMB'000
Capital expenditure contracted but not provided for,		
in respect of acquisition of property, plant and equipment	78,527	190,488
in respect of capital contribution of a joint venture	120,719	—
	199,246	190,488

38. RELATED PARTY TRANSACTIONS

a. Names and relationship with related parties are as follows:

Name	Relationship
Qiushi	An associate of the Group
Mengniu Company*	A shareholder with significant influence over the Company
Inner Mongolia Mengniu Dairy (Group) Company Limited **	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy Taian Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Maanshan) Co., Ltd. **	A subsidiary of Mengniu Company
Hubei Frealth Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Shangzhi) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Chabei) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Baoji) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy Meishan Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Saibei Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Suqian) Co., Ltd. **	A subsidiary of Mengniu Company
Shijiazhuang Junlebao Dairy Co., Ltd. **	A subsidiary of Mengniu Company

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

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

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

Amount due from the Mengniu Group

	31/12/2013 RMB'000	30/6/2013 RMB'000
Trade and other receivable		
Within 120 days based on invoice date	215,356	148,152

38. RELATED PARTY TRANSACTIONS *(continued)*

b. At the end of the reporting period, the Group had the following balances with a related parties: (continued)

	31/12/2013 RMB'000	30/6/2013 RMB'000
Amount due to an associate		
Trade payable		
Within 60 days based on invoice date	37,820	40,783
Over 60 days based on invoice date	50,000	22,333
	87,820	63,116

During the reporting period, the Group entered into the following transactions with related parties:

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Sales of raw milk to the Mengniu Group	1,345,269	237,479
Processing liquid milk products for the Mengniu Group	854	1,169
	1,346,123	238,648
Purchase of forage grass from Qiushi	99,471	150,580

c. Compensation of key management personnel

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

	From 1 July 2013 to 31 December 2013 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000
Short-term employees benefits	2,622	5,389
Recognition of equity-settled share-based payment	706	902
Post-employment benefits	67	201
	3,395	6,492

39. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2013 and 30 June 2013 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Place of operation	Principal activities
			31 December 2013		30 June 2013			
			Directly %	Indirectly %	Directly %	Indirectly %		
Advanced Dairy Company (Luxemburg) Limited ("Lux")	Luxemburg	US$138,500,000	100	–	100	—	Luxemburg	Investment holding
Aquitair Holdings Limited ("Aquitair")	Republic of Ireland	US$472,307,046	–	100.00	—	100.00	Republic of Ireland	Investment holding
Modern Farm*	PRC	RMB563,301,046	–	97.87	—	97.87	PRC	Production of milk
Shandong Mengniu International Trading Co., Ltd.#	PRC	RMB20,000,000	–	97.87	—	97.87	PRC	Import and export agency services
Helingeer Modern Farming Co., Ltd. #	PRC	RMB93,670,447	–	97.87	—	97.87	PRC	Production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. #	PRC	RMB90,000,000	–	97.87	—	97.87	PRC	Production of milk
Wenshang Modern Farm Co., Ltd. #	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Production of milk
Shangzhi Modern Farm Co., Ltd. #	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Production of milk
Hongya Modern Farm Co., Ltd. #	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Chabei) Co., Ltd. #	PRC	RMB8,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming (Baoji) Co., Ltd. #	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of milk
Maanshan Modern Farming Feedstock Co., Ltd.#	PRC	RMB18,000,000	–	97.87	—	97.87	PRC	Sales of feeds
Modern Farm (Feidong) Co., Ltd. #	PRC	RMB50,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd.	PRC	RMB3,000,000	–	54.81	—	54.81	PRC	Sales of milk
Feidong Sijibao Organic Fertiliser Co., Ltd. (Note i) #	PRC	N/A	–	N/A	—	97.87	PRC	Production of fertilisers
Baoji Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Hongya Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Shangzhi Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Wenshang Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers

39. SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Place of operation	Principal activities
			31 December 2013		30 June 2013			
			Directly %	Indirectly %	Directly %	Indirectly %		
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Tongshan) Co., Ltd. #	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming (Tongliao) Co., Ltd. #	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd. #	PRC	RMB5,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Bengbu) Co., Ltd. #	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Anhui) Dairy Product Sales Co., Ltd.	PRC	RMB45,000,000	–	53.83	—	53.83	PRC	Sales of milk
Tongshan Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Tongliao Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers

These entities were established in PRC as domestic company and wholly owned by Modern Farm.

* The entity was established in PRC and became a sino-foreign enterprise from November 2009.

Notes:

i. Feidong Sijibao Organic Fertiliser Co., Ltd was liquidated at 15 March 2013.

None of the subsidiaries have issued any debt securities at 31 December 2013 and 30 June 2013 or at any time during the period/year.

40. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY

Information about the financial position of the Company at the end of the reporting period includes

	31/12/2013 RMB'000	30/6/2013 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	3,185,082	3,185,082
Investment in a joint venture	32,829	—
Amount due from a subsidiary	896,357	929,513
Other financial assets	34,517	—
	4,148,785	4,114,595
CURRENT ASSETS		
Other receivables	368	236
Cash and bank balances	11,789	17,808
	12,157	18,044
CURRENT LIABILITIES		
Other payable	6,677	6,136
	6,677	6,136
NET CURRENT ASSETS	5,480	11,908
TOTAL ASSETS LESS CURRENT LIABILITIES	4,154,265	4,126,503
CAPITAL AND RESERVES		
Share capital	415,261	414,564
Reserves	3,662,856	3,711,939
	4,078,117	4,126,503
NON-CURRENT LIABILITIES		
Other financial liabilities	76,148	—
	76,148	—
	4,154,265	4,126,503

40. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY *(continued)*

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 July 2012	413,075	2,390,483	1,382,199	9,072	(61,766)	4,133,063
Loss and total comprehensive expense for the year	—	—	—	—	(23,022)	(23,022)
Recognition of equity-settled share-based payment (Note 33(a))	—	—	—	3,650	—	3,650
Exercise of share options (Note 33(b))	1,489	13,247	—	(1,924)	—	12,812
Balance at 30 June 2013	414,564	2,403,730	1,382,199	10,798	(84,788)	4,126,503
Loss and total comprehensive expense for the period	—	—	—	—	(57,139)	(57,139)
Recognition of equity-settled share-based payment (Note 33(a))	—	—	—	2,764	—	2,764
Exercise of share options (Note 33(b))	697	6,206	—	(914)	—	5,989
Balance at 31 December 2013	415,261	2,409,936	1,382,199	12,648	(141,927)	4,078,117

Notes: Other reserve represented the contribution from the owners of the Company for the operation of the Group.

Five-year Summary

	From 1 July 2013 to 31 December 2014 RMB'000	From 1 July 2012 to 30 June 2013 RMB'000	From 1 July 2011 to 30 June 2012 RMB'000	From 1 July 2010 to 30 June 2011 RMB'000	From 1 July 2009 to 30 June 2010 RMB'000
Results					
Sales of milk produced	1,901,248	2,480,561	1,677,615	1,113,354	589,775
(Loss)/gain arising from changes in fair value less costs to sell of dairy cows	(16,408)	(38,599)	131,481	55,538	60,620
Other income	15,902	106,343	116,551	101,850	65,371
Farm operating expenses	(1,132,588)	(1,655,803)	(1,148,697)	(730,307)	(437,616)
Employee benefits expenses	(115,573)	(170,847)	(127,989)	(89,649)	(66,695)
Depreciation	(91,482)	(135,472)	(94,798)	(67,304)	(44,174)
Share of (loss)/profit of an associate	(872)	3,371	1,983	—	—
Share of loss of a joint venture	(287)	—	—	—	—
Net foreign exchange gain/(loss)	4,855	9,127	(4,335)	(17,367)	(1,174)
Other gains and losses	(42,417)	(2,400)	(1,052)	(1,197)	561
Other expenses	(59,741)	(92,555)	(71,985)	(61,871)	(29,474)
Profit before finance costs and tax	462,637	503,726	478,774	303,047	137,194
Finance costs	(113,505)	(153,679)	(71,323)	(59,141)	(29,765)
Profit before tax	349,132	350,047	407,451	243,906	107,429
Income tax expense	(5,875)	(8,051)	(143)	(8)	(73)
Profit and total comprehensive income for the period/year	343,257	341,996	407,308	243,898	107,356
Attributable to:					
Equity shareholders of the Company	327,487	323,832	398,482	224,605	53,132
Minority interests	15,770	18,164	8,826	19,293	54,224
Profit and total comprehensive income for the period/year	343,257	341,996	407,308	243,898	107,356

	31/12/2013 RMB'000	30/6/2013 RMB'000	30/6/2012 RMB'000	30/6/2011 RMB'000	30/6/2010 RMB'000
Assets and liabilities					
Property, plant and equipment	4,032,642	3,772,270	2,964,585	2,221,265	1,578,395
Land use rights	66,261	67,098	67,577	62,863	63,616
Goodwill	310,426	310,426	310,426	310,426	301,354
Interest in an associate	25,722	26,594	15,483	—	—
Interest in a joint venture	32,829	—	—	—	—
Long-term prepaid rentals	–	—	65	130	194
Deposit for acquisition of biological assets	–	—	9,024	1,094	13,028
Biological assets	5,954,363	5,465,008	4,185,600	2,651,407	1,742,891
Other financial assets	34,517	—	—	—	—
Net current (liabilities) assets	(2,446,062)	(1,777,128)	(402,045)	868,197	(237,389)
Total assets less current liabilities	8,010,698	7,864,268	7,150,715	6,115,382	3,462,089
Non-current liabilities	(2,149,964)	(2,355,544)	(2,017,999)	(1,392,674)	(892,350)
NET ASSETS	5,860,734	5,508,724	5,132,716	4,722,708	2,569,739
Capital and reserves					
Share capital	415,261	414,564	413,075	413,075	272
Reserves	5,327,763	4,992,220	4,653,415	4,254,933	1,436,462
Total equity attributable to equity shareholders of the Company	5,743,024	5,406,784	5,066,490	4,668,008	1,436,734
Minority interests	117,710	101,940	66,226	54,700	1,133,005
	5,860,734	5,508,724	5,132,716	4,722,708	2,569,739
Earnings per share (RMB)					
Basic (cents)	6.79	6.74	8.30	5.20	2.59
Diluted (cents)	6.72	6.67	8.22	5.15	2.54