



二零一五中期業績報告

2015 Interim Report

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code: 1117





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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. WU Jingshui

Independent Non-Executive Directors

Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. KANG Yan
Mr. ZOU Fei

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway (Chairman)
Mr. HUI Chi Kin, Max
Mr. ZOU Fei

REMUNERATION COMMITTEE

Mr. LI Shengli (Chairman)
Mr. WOLHARDT Julian Juul
Mr. ZOU Fei

NOMINATION COMMITTEE

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

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. LI Shengli (Chairman)
Ms. GAO Lina
Mr. WOLHARDT Julian Juul
Mr. ZOU Fei

AUTHORISED REPRESENTATIVES

Ms. GAO Lina
Mr. WONG Kai Hing

COMPANY SECRETARY

Mr. WONG Kai Hing

HEADQUARTERS

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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>

RESULTS

	For the six months ended 30 June		
	2015 RMB'000	2014 RMB'000	Changes %
Turnover	2,437,320	2,584,535	-5.7%
Earnings before finance costs and tax	672,040	686,867	-2.2%
Cash EBITDA*	857,934	966,690	-11.3%
Cash EBITDA margin	35.2%	37.4%	-2.2%
Net profit	507,314	545,377	-7.0%

FINANCIAL POSITION

	As at		
	30 June 2015 RMB'000	31 December 2014 RMB'000	Changes %
Biological assets	6,762,218	6,530,814	3.5%
Cash and cash equivalents	605,215	556,964	8.7%
Total assets	14,018,725	14,210,853	-1.4%
Total borrowing (includes short-term debenture)	5,534,427	5,787,848	-4.4%
Gearing ratio (Total borrowing/Total assets)	39.5%	40.7%	-1.2%

* It represents EBITDA before loss arising from changes in fair value less costs to sell of dairy cows, fair value loss from derivative financial liabilities, fair value gain from derivative financial assets, net loss on disposal of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

The Group is primarily engaged in two principal business segments: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products; and (ii) our own brand of liquid milk products business, under which we mainly produce and sell liquid milk products. China's dairy industry faces many new challenges and is undergoing a critical period of transformation and upgrading. The Group also grasped market trends to actively promote the healthy development of raw milk and our own brand of milk.

Directed by our cutting-edge operation design of "integration of forage grass planting, dairy farming and milk processing", the Group strives to integrate the whole industry chain. Analysing the interests of each party concerned in a systematic way the Group minimises the risk in each component to ensure product safety and better quality. With refined processing management, the Group is capable of producing "Two Hours milk (2小时活牛奶)", i.e. it takes no more than two hours to deliver qualified raw milk from our farm through sealed pipes directly to our workshop for processing into final products, which can significantly prevent milk from thermal injury.

As of 30 June 2015, the Group had 24 farms operating and 1 farm under construction in the PRC with approximately 197,833 dairy cows in total. In addition, we had 2 farms in operation invested through the joint ventures with approximately 16,166 dairy cows in total.

We strategically arrange our production base according to the development of dairy industry and market demand for dairy products, and the farms of our Group are currently located in eight provinces in the PRC, which lays a solid foundation for Modern Dairy to broaden the scope of fresh milk delivery and develop its nationwide brand of pasteurized milk. Milking at 2:00 a.m., processing completed by 4:00 a.m., and delivery to consumers' dining table at 9:00 a.m., our fresh pasteurized milk truly delivers a high quality of "purity, genuineness, freshness and vitality". Currently, the production and sales of fresh pasteurized milk has commenced in the Group's Saibei Farm located in Zhangjiakou.

In the first half of 2015, the sales of dairy products in domestic market slumped, coupled with significant impact to the imports of dairy products, the dairy industry is facing challenges. But the Group still recorded growth in liquid milk products business. For the six months ended 30 June 2015, sales of the Group's liquid milk products business amounted to RMB789.5 million, representing an increase of 177.4% comparing to the same period of 2014. The liquid milk products business accounted for 32.4% of the total revenue of the Group. The rapid growth of own brand of liquid milk has enriched the business portfolio, improved flexibility and increased profit and shareholder returns of the Group.

Management Discussion and Analysis



The sales of raw milk for the six months ended 30 June 2015 amounted to RMB1,647.8 million and accounted for 67.6% of the total revenue of the Group. We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China.

The Group's financial results are directly affected by our milk yield per cow, as the costs of production per unit of milk fluctuates with the milk yield per cow. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, heredity and feed mix. We have achieved an average annual milk yield per cow of 9.1 tons for the six months ended 30 June 2015, representing an increase of 1.1% from 9.0 tons for the first half of 2014. Turnover amounted to RMB2,437.3 million for the six months ended 30 June 2015, representing a decrease of 5.7% compared to RMB2,584.5 million for the six months ended 30 June 2014. Cash EBITDA⁽¹⁾ decreased by 11.3% from RMB966.7 million for the same period last year to RMB857.9 million for the six months ended 30 June 2015. The Group's cash EBITDA margin decreased to 35.2% for the six months ended 30 June 2015 from 37.4% for the same period in 2014, mainly due to the lower selling price of raw milk. Selling price of raw milk decreased by 11.7% to RMB4.54 per kg for the six months ended 30 June 2015 from RMB5.14 per kg for the same period last year.

During the reporting period, the Group conducted active marketing activities to enhance its brand and to further increase sales of its own brand of milk. The Group first established its brand slogan of "Our milk is different (我們的牛奶與眾不同)" and applied it in domestic sales channels. Subsequently, the Group sponsored the "Jingji Winter Joy" 《京冀冬樂圖》 scroll creation, a public activity in support of Beijing's bid to host the 2022 Winter Olympics, and launched a series of consumer experience activities, which attracted extensive concern in the market. In addition, in the first half of 2015, many national ministries, the National People's Congress and provincial leaders visited the farms of Modern Dairy for survey and study, and highly recognized Modern Dairy's production model of "zero-distance integration of forage grass planting, cow breeding and milk processing

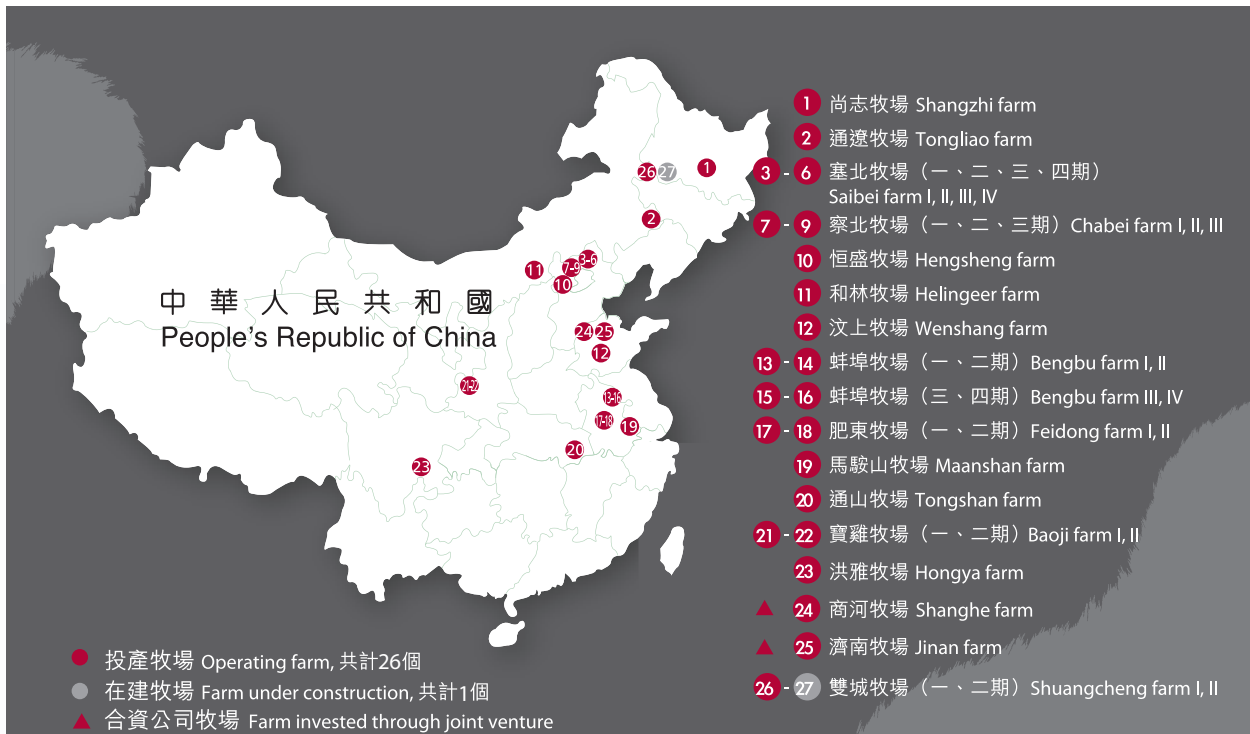
Note 1: It represents EBITDA before loss arising from changes in fair value less costs to sell of dairy cows, fair value gain from derivative financial assets, fair value loss from derivative financial liabilities, net loss on disposal of property, plant and equipment.

within two hours (種養加一體化零距離2小時)”, indicating that Modern Dairy’s production model is one of the main production models. Meanwhile, media-based public relations work is also under way. The Group gradually forms a system of social media marketing, with more and more followers on WeChat forming a powerful support for Modern Dairy brand.

During the reporting period, the Group received various honors at home and abroad. On 9 January 2015, “Efficient Application of Cow Feeds and the Development and Application of Precise Feeding Technology” (奶牛飼料高效利用及精準飼養技術創建與應用), a collaborative research project jointly conducted by the Group and several institutions including China Agricultural University, won the second prize in the State Science and Technology Awards (國家科學技術獎勵二等獎), and was the only project relating to dairy industry that have won such award. Such recognition of the Group from national authorities also has positive effect on the PRC dairy industry. On 25 January 2015, the Group was recognized as one of the Top 10 Innovative PRC Enterprises (中國經濟十大創新企業) at the China Economic Summit Forum 2014 & the 12th Annual Meeting of China Economic Characters, and our CEO, Ms. GAO Lina, was recognized as one of the Top 10 Business Leaders in China. The Group is the only enterprise that has received both enterprise and individual awards at the meeting, which indicates the recognition of the Group’s business model and brings confidence and driving force for the Group’s future development. On 9 June 2015, the Group was once again awarded gold prize in the food category by Monde Selection, the International Institute for Quality Selections, indicating that the quality of the Group’s dairy products has met the international top tier standards, and representing recognition to our creative “zero-distance integration” (零距離一體化) production model. Further, it means the quality and safety of Chinese milk is approaching the international standards, with ability to provide high quality dairy products of our own brand with purity, nutrition, hygiene and safety to consumers. The Group will take the opportunities under this new stage to achieve new great-leap-forward development of the PRC dairy industry and to bring the PRC dairy industry to global dairy market with its high quality.

On 6 July 2015, the Company entered into a share purchase agreement with Success Dairy, JV Company I and JV Company II, pursuant to which the Company has agreed to purchase 82% shareholding in the two joint ventured farms established with Success Dairy (the “Acquisition”). The transaction was completed on 20 July 2015. Immediately after the completion, 100% of the total issued share capital (i.e. the entire equity interests of the two farms) in each of JV Company I and JV Company II was owned by the Company, which in turn will be owned as to 9% of its enlarged equity interests by KKR, a private equity fund, and CDH. As of 2 July 2015, there were 16,268 cattle in the two farms, representing 8.2% of the herd size of the Company. The Directors believe that the Acquisition would strengthen the Group’s market position as a leading dairy farming company and raw milk producer in the PRC for the following reasons: (i) the Acquisition would drive the future growth of the Company as JV Company I and JV Company II are both in the phase of fast ramp-up and dairy herd expansion; (ii) the Acquisition would be able to create synergy effects with the Group’s overall businesses and increase the Group’s productivity and the Acquisition would acquire a first-class management team and facilitate integrated planning of the Group’s business, enhance management efficiency and improve overall operational performance of the Group; (iii) the Acquisition would allow the Group to improve its gearing ratio and enhance capability for bank financing to fund further business expansion, as both JV Company I and JV Company II are debt-free and (iv) it can improve the Group’s production of raw milk in Shandong, and will safeguard the establishment of brand milk production lines in such area in the future with the brand milk workshops reserved by such joint ventured farms.

Our Farms



As of 30 June 2015, the Group had 24 farms self-operating and 1 farm under construction in the PRC with approximately 197,833 dairy cows in own farms in total. The Group had 2 joint ventured farms in operation with approximately 16,166 dairy cows in total.



Herd size

	As at	
	30 June 2015 Head	31 December 2014 Head
Dairy cows		
Milkable cows	102,593	107,578
Heifers and calves	95,240	93,929
Total dairy cows	197,833	201,507

As at 30 June 2015, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. As at 30 June 2015, the current herd size is 197,833 compared to 201,507 as at 31 December 2014.

Milk Yield

Our results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 9.1 tons for the six months ended 30 June 2015, representing an increase of 1.1% from 9.0 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation.



Management Discussion and Analysis

Financial Overview

Revenue

The table sets out the breakdown of our consolidated revenue by our two operating segments for the six months ended 30 June 2015 and 30 June 2014:

	Six months ended 30 June					
	2015			2014		
	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000
Sales of raw milk business	1,647,827	383,364	2,031,191	2,250,575	169,746	2,420,321
Sales of liquid milk products business	789,493	—	789,493	284,639	—	284,639
Sales of dairy cows business	—	—	—	49,321	—	49,321
Consolidated revenue	2,437,320	383,364	2,820,684	2,584,535	169,746	2,754,281

Our revenue decreased by 5.7% from RMB2,584.5 million for the six months ended 30 June 2014 to RMB2,437.3 million for the six months ended 30 June 2015 primarily due to the lower selling price of raw milk.

- *Dairy farming business*

Revenue from our dairy farming business decreased primarily due to decrease in average selling price of our quality raw milk as a result of the decrease in selling price of raw milk in the PRC.

The following table sets out the sales amount, sales volume and average selling price (ASP) per tonne of our raw milk for the periods indicated:

	For the six months ended 30 June					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG
Raw Milk						
External Sales	1,647,827	363,271	4.54	2,250,575	438,142	5.14
Internal Supplies	383,364	87,537	4.38	169,746	31,387	5.41
Subtotal	2,031,191	450,808	4.51	2,420,321	469,529	5.15



Revenue attributable to the internal use of raw milk increased substantially due to strong growth of our liquid milk business.

	2015			2014		
	Sales Amount RMB'000	Sales Volume Head	ASP RMB'000/ Head	Sales Amount RMB'000	Sales Volume Head	ASP RMB'000/ Head
Daily Cows	—	—	—	49,321	2,549	19.3

- Liquid milk products business*

Revenue from our liquid milk products business increased by 177.4% from RMB284.6 million for the six months ended 30 June 2014 to RMB789.5 million for the six months ended 30 June 2015, which accounted for 32.4% and 11.0% of our consolidated turnover for the six months ended 30 June 2015 and 2014, respectively.

The strong growth of our liquid milk products business was a result of strong market demand for our liquid milk products. The total volume of liquid milk sold increased by 220.4% from 25,850 tonnes for the six months ended 30 June 2014 to 82,818 tonnes for the six months ended 30 June 2015. The following table sets out the breakdown of sales amount, sales volume and average selling price per tonne of our liquid milk products for the periods indicated:

	For the six months ended 30 June					
	2015			2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/KG
Liquid Milk Products	789,493	82,818	9.53	284,639	25,850	11.01

Management Discussion and Analysis

Cost of sales before biological fair value adjustment

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

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

	For the six months ended 30 June			
	2015		2014	
	RMB'000	%	RMB'000	%
Costs of sales before biological fair value adjustment of dairy farming business:				
Feeds cost	1,070,667	78.4%	1,152,786	78.0%
Labor cost	67,958	5.0%	80,890	5.5%
Utilities	29,347	2.2%	34,996	2.4%
Depreciation	89,170	6.5%	84,447	5.7%
Other costs of farms	107,821	7.9%	125,404	8.4%
Subtotal of costs of sales before biological fair value adjustment of dairy farming business	1,364,963	100%	1,478,523	100%
Inter-segment cost	(380,803)		(165,137)	
Costs of sales before biological fair value adjustment of dairy farming business, net	984,160		1,313,386	
Dairy farming business	—		49,321	
Total cost of sales of dairy farming business	984,160		1,362,707	

With decrease in the number of milkable cows and in the price of feeds, total feed costs (before eliminating the internal relative costs of sales of the supply of raw milk) for the six months ended 30 June 2015 decreased to RMB1,070.7 million from RMB1,152.8 million for the same period last year, representing a decrease of 7.1%.

Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before offsetting the internal relative costs of sales of the supply of raw milk) decreased by 4.7% from RMB2,969 for the same period last year to RMB2,830 for the six months ended 30 June 2015, mainly due to the increase in the annual milk yield per cow and the decrease in the price of feeds.

Costs of sales of liquid milk product business

	For the six months ended 30 June			
	2015		2014	
	RMB'000	%	RMB'000	%
Raw materials	497,302	88.1%	189,630	87.6%
Labor cost	14,424	2.6%	6,891	3.2%
Depreciation	21,802	3.9%	9,095	4.2%
Utilities	12,601	2.2%	4,447	2.1%
Other processing costs	18,137	3.2%	6,415	2.9%
	564,266	100%	216,478	100%

With the increase in sales volume of liquid milk products, raw material cost for the six months ended 30 June 2015 increased from RMB189.6 million for the same period last year to RMB497.3 million, representing an increase of 162.2%. Sales of liquid milk increased by 177.4% to RMB789.5 million for the six months ended 30 June 2015 from RMB284.6 million for the same period last year.

Cost (excluding depreciation) per ton of liquid milk sold decreased from RMB8,023 for the same period last year to RMB6,550 for the six months ended 30 June 2015, representing a decrease of 18.4%. It was mainly due to a 19.0% decrease of internal prices of raw milk and 20.6% decrease of other cash costs (including labor cost, utilities and other processing cost).

Gross profit and gross margin

The following table sets forth the breakdown of our gross profit by our two operating segments as well as their respective gross margin, for the periods indicated:

	For the six months ended 30 June			
	2015		2014	
	Gross Profit RMB'000	Gross Margin	Gross Profit RMB'000	Gross Margin
Dairy farming business				
Before elimination	666,228	32.8%	941,798	38.1%
After elimination	663,667	40.3%	937,189	40.7%
Liquid milk products business	225,227	28.5%	68,161	23.9%

Management Discussion and Analysis

- *Dairy farming business*

Gross profit of our daily farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased by 29.3% from RMB941.8 million for the six months ended 30 June 2014 to RMB666.2 million for the six months ended 30 June 2015. The decrease above was primarily due to the decrease in selling price of raw milk.

Gross margin of our dairy farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased from 38.1% for the six months ended 30 June 2014 to 32.8% for the six months ended 30 June 2015, primarily due to the decrease in selling price of raw milk.

- *Liquid milk products business*

Gross profit of our liquid milk products business increased by 230.4% from RMB68.2 million for the six months ended 30 June 2014 to RMB225.2 million for the six months ended 30 June 2015. The increase was primarily due to the increase in sales volume of our branded milk products.

Gross margin of our liquid milk products business increased from 23.9% for the six months ended 30 June 2014 to 28.5% for the six months ended 30 June 2015, mainly due to the decrease in selling price of raw milk and the enhanced effects of economies of scale.

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

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2015 while the value of the Group's dairy cows at 31 December 2014 has been arrived at on the basis of a valuation carried out by JLL. Loss arising from changes in the fair value of biological assets was RMB199.3 million for the six months ended 30 June 2015 (six months ended 30 June 2014: loss arising from changes in the fair value of biological assets was RMB84.6 million), mainly attributable to the decrease in selling price of raw milk.

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

Our gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 29.5% to RMB 636.9 million for the six months end 30 June 2015 from RMB 903.7 million for the six months end 30 June 2014, mainly due to the decrease in the selling price of raw milk.

IFRSs required that raw milk gained was initially measured at fair value of market and the profit or loss was recognised on the differences between the fair value of market and the actually costs, and meanwhile the raw milk consumed will be initially recognised at the fair value of market and recognised as cost of sales in profit or loss.



Other income

For the six months ended 30 June 2015, other income amounted to RMB14.7 million (six months ended 30 June 2014: RMB19.9 million). Other income mainly consisted of government grants and interest income, among others, interest income for the six months ended 30 June 2015 amounted to RMB7.9 million (for the six months ended 30 June 2014: RMB11.3 million), in which government grants for the six months ended 30 June 2015 amounted to RMB6.8 million (for the six months ended 30 June 2014: RMB6.3 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the six months ended 30 June,	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Selling and distribution costs	67,688	49,217
Administrative expenses	111,485	106,806
Total operating expenses	179,173	156,023

Our operating expenses increased from RMB156.0 million for the six months ended 30 June 2014 to RMB179.2 million for the six months ended 30 June 2015. Selling and distribution costs mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among others, transportation costs was increased from RMB44.0 million for the six months ended 30 June 2014 to RMB54.4 million for the six months ended 30 June 2015, mainly due to increase in sales volume of liquid milk products.

Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, etc., among others, salaries (excluding equity-based share option expenses) of management was decreased from RMB42.8 million for the six months ended 30 June 2014 to RMB42.5 million for the six months ended 30 June 2015.

During the six months ended 30 June 2015, equity-based share option expenses included in the administrative expenses amounted to RMB17.1 million as compared to RMB17.0 million for the six months ended 30 June 2014.

Other Gains and Losses

Gains arising from other gains and losses amounted to RMB148.7 million (for the six months ended 30 June 2014: losses arising from other gains and losses amounted to RMB99.6 million). This is mainly due to a gain of RMB147.1 million (for the six months ended 30 June 2014: loss of RMB84.7 million) arising from net effect of fair value measurement of the put options and call options as assessed during the period. Those two types options were the put options granted to Success Dairy II Limited by the Company and the call options 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 two joint venture companies on 23 September 2013.

Management Discussion and Analysis

Finance costs

Finance costs increased from RMB134.9 million for the last corresponding period to RMB150.1 million for the six months ended 30 June 2015. This was mainly attributable to the increase in bank loans and lower amount of capitalised interest.

Profit attributable to the owners of the Company

Taking into account of all the above factors, the profit attributable to the owners of the Company was RMB477.0 million for the six months ended 30 June 2015. This represents a decrease of 8.8% from RMB523.2 million for the six months ended 30 June 2014.

Basic earnings per share were approximately RMB9.88 cents (2014: RMB10.84 cents).

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2015, the Group's cash flow from operating activities amounted to RMB769.6 million, as compared to RMB1,037.1 million for the six months ended 30 June 2014.

As at 30 June 2015, the Group's available and unutilised banking facilities amounted to approximately RMB9,419.5 million (31 December 2014: RMB8,089.6 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 well as short-term debentures and medium-term notes as at the dates indicated below.

	As at	
	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Bank borrowings	5,034,427	4,687,848
Short-term debentures	300,000	1,100,000
Medium-term notes	200,000	—
Total borrowings	5,534,427	5,787,848
Unsecured bank borrowings	1,545,432	885,818
Secured bank borrowings	2,822,995	3,335,030
Guaranteed bank borrowings	666,000	467,000
	5,034,427	4,687,848
Carrying amount repayable:		
Within one year	2,309,257	2,958,398
Between one to two years	1,245,976	792,538
Between two to five years	1,979,194	2,036,912
	5,534,427	5,787,848

As at 30 June 2015, the gearing ratio, being the ratio of total borrowings (including short-term debenture and medium-term notes) to total assets was 39.5% (31 December 2014: 40.7%). The annual interest rate of the banks and other borrowings for the six months ended 30 June 2015 varied from 0.86% to 7.05% (six months ended 30 June 2014: 1.73% to 7.05%). As at 30 June 2015, all borrowings were denominated in Renminbi and United States Dollar (“US\$”). Interest-bearing debts due within one year accounted for 41.7% of the total borrowings for the six months ended 30 June 2015, compared with 51.1% over the same period last year.

PLEDGE OF ASSETS

As at 30 June 2015, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.8 million (31 December 2014: RMB9.9 million), RMB52.3 million (31 December 2014: RMB54.6 million) and RMB3,497.4 million (31 December 2014: RMB3,316.2 million), respectively, and 100% shares in Advanced Dairy Company (Luxemburg) Limited were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 30 June 2015, the Group has capital commitment of RMB129.4 million related to acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 30 June 2015.



FINANCIAL MANAGEMENT POLICIES

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

The Group's management 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 5,114 employees (31 December 2014: 5,417) in mainland China and Hong Kong as at 30 June 2015. Total staff costs (including staff compensation capitalised to un-matured dairy cows) for the six months ended 30 June 2015 were approximately RMB198.1 million (for the six months ended 30 June 2014: RMB199.3 million).

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

PROSPECTS

Looking ahead, with the increasing consumption standard and rising health awareness of PRC residents, coupled with constant significant growth of the demand for high-end premium raw milk, there remained a vast room for increase in the per capita milk consumption and, meanwhile, the PRC dairy industry will maintain a steady growth in the future. In light of the current situation, the Group will keep actively enlarging the market share of its downstream business, enabling the transformation of its own branded milk development. In all dairy farms of the Group throughout the country, production workshops have been reserved to ensure improvement of the production capacity of its terminal product in a rapid way and promotion of the sales of its branded milk.



Our own branded products have been highly recognized in the market, recording considerable sales growth. Currently, the sales network of our branded UHT milk has expanded to other cities from northern China, eastern China, southern China and Shanxi. As at 30 June 2015, the sales network of the Group has reached 28 provinces, 4 municipalities, 226 prefecture-level cities and 273 county-level cities, with an aggregate of more than 270,000 points of sales throughout China. With the continuous increase of the sales points, the retail market share of the Group's own branded UHT milk will be further enlarged. In the future, riding on the new development trend, the Group will optimize and upgrade its own production model through expanding its nationwide sales network in an effort to bring considerable revenue to the Group.

Meanwhile, the pasteurized milk has received more and more market attention and recognition due to, inter alia, its high nutrient composition. The inherent advantage of nationwide coverage of dairy farms of Modern Dairy enables the Group to develop its own branded pasteurized liquid milk and to penetrate deeper into consumer market proactively. The Group's pasteurized milk had successfully launched in more than 300 large-scale supermarkets as at 30 June 2015, and our products under the brand of "Two Hours" offer high quality for being fresh and nutritious. In the future, our expansion into pasteurized milk market will also go deeper to enrich the product portfolio of the Group's liquid milk business, and lay foundation for the Group to produce dairy products with integrated business model.

OTHER INFORMATION

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

As at 30 June 2015, the interests and short positions of the directors of the Company (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 (the "Model Code") 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	221,581,733	4.59%
	Beneficial owner	43,956,516 ⁽³⁾	0.91%
Mr. HAN Chunlin	Beneficial owner	28,554,583 ⁽²⁾	0.59%
Mr. SUN Yugang	Beneficial owner	16,064,990 ⁽²⁾	0.33%

(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 221,581,733 shares held by Jinmu under the SFO.

(2) These represent interest in underlying shares of 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.

(3) This represent 4,800,000 ordinary shares and 39,156,516 share options in underlying shares of the Management Options and share options.

Saved as disclosed above, as at 30 June 2015, none of the Directors and the chief executive of the Company and their respective associates had any interests or 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2015, 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	9.27%
The Capital Group Companies, Inc.	Interest in controlled corporation	246,924,000	5.12%

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 30 June 2015.

MANAGEMENT OPTIONS

The Company granted share options to certain Directors and chief executives for the purpose of providing incentives and rewards to their contributions to the success of the Group's operations. The following Management Options were outstanding during the period:

Name of grantee	Date of grant	Number of underlying shares which may be issued pursuant to the Management Options				
		As at 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2015
Ms. GAO Lina	31 October 2010	29,276,916	—	—	—	29,276,916
Mr. HAN Chunlin	31 October 2010	21,653,916	—	—	—	21,653,916
Mr. SUN Yugang	31 October 2010	9,142,924	—	—	—	9,142,924
		60,073,756	—	—	—	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 30 June 2015, 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 30 June 2015.

Other Information

SHARE OPTIONS

Share Option Scheme Adopted on 17 November 2011 (“Share Option Scheme I”)

The Company unconditionally adopted a share option scheme on 17 November 2011. The following share options were outstanding under the Share Option Scheme I during the Review Period:

Name or category of participant	Number of shares which may be issued pursuant to the Share Options Scheme I					As at 30 June 2015	Option period
	As at 1 January 2015	Granted during the period	Exercised during the period	Cancelled and lapsed during the period			
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	25,403,850	—	—	(1,476,307)	23,927,543	12.12.2012-30.6.2020	
Total	32,106,183	—	—	(1,476,307)	30,629,876		

Notes:

- 1) All the share options were granted on 12 December 2012 and the exercise price is HK\$2.89.
- 2) The share options granted (the “Scheme I Granted Options”) to each grantee under the Share Option Scheme I (the “Scheme I Grantee”) are deemed to be divided into three tranches, each of which consists of one third of the Scheme I Granted Options and will be associated with a performance target within a specific financial period (the “Scheme I Performance Target”). The Scheme I Performance Target has been determined by the board of directors of the Company (“Board”) and specified in the offer letter to each Scheme I Grantee. The financial period for the first tranche is the twelve months ended 30 June 2013; the financial period for the second tranche is the twelve months ended 30 June 2014; and the financial period for the third tranche is the twelve months ended 30 June 2015. The corresponding tranche will accrue if the Scheme I Performance Target set for the relevant financial period is met.
- 3) The Scheme I 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 six months ended 30 June 2015. Any Scheme I Granted Options not accrued as a result of non-fulfillment of any Scheme I Performance Target shall automatically lapse.
- 4) The share options represent personal interest held by the relevant Directors as beneficial owners.

Share Option Scheme Adopted on 5 June 2014 (“Share Option Scheme II”)

The Company unconditionally adopted a share option scheme on 5 June 2014. The following share options were outstanding under the Share Option Scheme II during the Review Period:

Name or category of participant	Number of shares which may be issued pursuant to the Share Options Scheme II					As at 30 June 2015	Option period
	As at 1 January 2015	Granted during the period	Exercised during the period	Cancelled and lapsed during the period	As at 30 June 2015		
Directors							
Ms. GAO Lina	7,000,000	—	—	—	7,000,000	6.6.2014-29.4.2022	
Mr. HAN Chunlin	5,000,000	—	—	—	5,000,000	6.6.2014-29.4.2022	
Mr. SUN Yugang	5,000,000	—	—	—	5,000,000	6.6.2014-29.4.2022	
Subtotal	17,000,000	—	—	—	17,000,000		
Other employees							
In aggregate	60,848,683	—	—	(3,750,000)	57,098,683	9.6.2014-29.4.2022	
Total	77,848,683	—	—	(3,750,000)	74,098,683		

Notes:

- All the share options were granted on 6 June 2014 and the exercise price is HK\$3.38.
- The share options granted (the “Scheme II Granted Options”) to each grantee under the Share Scheme II (the “Scheme II Grantees”) are deemed to be divided into three tranches, each of which consists of one third of the Scheme II Granted Options and will be associated with a performance target within a specific financial period (the “Scheme II Performance Target”). The Scheme II Performance Target has been determined by the Board and specified in the offer letter to each Scheme II Grantee. The financial period for the first tranche is the 2014 financial year; the financial period for the second tranche will be the 2015 financial year; and the financial period for the third tranche will be the 2016 financial year. The corresponding tranche will accrue if the Scheme II Performance Target set for the relevant financial period is met.
- The Scheme II 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 2016 financial year. Any Scheme II Granted Options not accrued as a result of non-fulfillment of any Scheme II Performance Target shall automatically lapse.
- The share options represent personal interest held by the relevant Directors as beneficial owners.

Other Information

Share Option Scheme Adopted on 17 June 2015 (“Share Option Scheme III”)

The Company unconditionally adopted a share option scheme on 17 June 2015. The following share options were outstanding under the Share Option Scheme III during the Review Period:

Number of shares which may be issued pursuant to the Share Options Scheme III

Name or category of participant	As at 1 January 2015	Granted during the period	Exercised during the period	Cancelled and lapsed during the period	As at 30 June 2015	Option period
Other employees						
In aggregate	—	10,966,673	—	—	10,966,673	17.6.2015-29.4.2022
Total	—	10,966,673	—	—	10,966,673	

Notes:

- 1) All the share options were granted on 17 June 2015 and the exercise price is HK\$2.83.
- 2) The share options granted (the “Scheme III Granted Options”) to each grantee under the Share Scheme III (the “Scheme III Grantees”) are deemed to be divided into three tranches, each of which consists of one third of the Scheme III Granted Options and will be associated with a performance target within a specific financial period (the “Scheme III Performance Target”). The Scheme III Performance Target has been determined by the Board and specified in the offer letter to each Scheme III Grantee. The financial period for the first tranche is the 2014 financial year; the financial period for the second tranche will be the 2015 financial year; and the financial period for the third tranche will be the 2016 financial year. The corresponding tranche will accrue if the Scheme III Performance Target set for the relevant financial period is met.
- 3) The Scheme III 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 2016 financial year. Any Scheme III Granted Options not accrued as a result of non-fulfillment of any Scheme III Performance Target shall automatically lapse.
- 4) The share options represent personal interest held by the relevant Directors as beneficial owners.

For more details of the share option schemes adopted by the Company, please refer to Note 19 to the Condensed Consolidated Financial Statements.

Save as disclosed above, during the Review Period, the Company or any of its subsidiaries was not a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save for those disclosed above, during the six months ended June 30, 2015, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). The Company has, throughout the six months ended 30 June 2015 complied with the code provisions set out in the CG Code, except for the deviations from code provision A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides, among other things, that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. Mr. Han Chunlin, the executive Director, Mr. WOLHARDT Julian Juul, Mr. Hui Chi Kin Max and Mr. Wu Jingshui, the non-executive Directors and Mr. Zou Fei, the independent non-executive Director, were not able to attend the annual general meeting of the Company held on 5 June 2015 due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding securities transactions by Directors. Following specific enquiring by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2015.

CHANGE OF DIRECTOR AND CHANGES OF DIRECTOR’S INFORMATION

Pursuant to rule 13.51B(1) of the Listing Rules, the change of directors’ information of the Company since the date of the 2014 Annual Report are as follows:

Mr. Yu Xubo was appointed as a non-executive director of Noble Group Limited (SGX:NZI), commencing from 24 June 2015.

Mr. Kang Yan is a partner of Fangda Partners, commencing from 1 July 2015.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2015.

THE BOARD’S DIVERSITY POLICY

The Board has adopted the Diversity Policy, which sets out the approach to diversity of Board members. In determining the Board composition, the Company considers a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board’s diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

Other Information

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements of the Group for the six months ended 30 June 2015 have been reviewed by the Group's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and the audit committee of the Company (the "Audit Committee").

The Audit Committee comprises Mr. LEE Kong Wai, Conway, Mr. HUI Chi Kin, Max and Mr. ZOU Fei.

On behalf of the Board

China Modern Dairy Holdings Ltd.

Ms. GAO Lina

Deputy Chairman, Chief Executive Officer and Executive Director

Hong Kong, 24 August 2015

Deloitte. **德勤**

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Modern Dairy Holdings Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 29 to 57, which comprise the condensed consolidated statement of financial position as of 30 June 2015 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements for the six months ended 30 June 2015 are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	NOTES	Six months ended 30 June	
		2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Revenue	4	2,437,320	2,584,535
Cost of sales before biological fair value adjustments		(1,548,426)	(1,579,185)
Biological fair value adjustments included in cost of sales		(636,944)	(903,699)
Loss arising from changes in fair value less costs to sell of dairy cows	13	(199,269)	(84,559)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		636,944	903,699
Other income	5	14,708	19,925
Selling and distribution expenses		(67,688)	(49,217)
Administrative expenses		(111,485)	(106,806)
Share of profit of an associate		1,432	2,796
Share of profit of joint ventures		2,569	1,943
Other gains and losses	6	148,733	(99,641)
Other expenses		(5,854)	(2,924)
Profit before finance costs and tax	6	672,040	686,867
Finance costs	7	(150,126)	(134,892)
Profit before tax		521,914	551,975
Income tax charge	8	(14,600)	(6,598)
Profit and total comprehensive income for the period		507,314	545,377
Profit and total comprehensive income attributable to:			
Owners of the Company		476,952	523,163
Non-controlling interests		30,362	22,214
		507,314	545,377
Earnings per share (RMB)	10		
Basic		9.88 cents	10.84 cents
Diluted		9.80 cents	10.72 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	NOTES	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	4,484,901	4,457,970
Land use rights		69,937	64,868
Goodwill		310,426	310,426
Interest in an associate		20,363	18,931
Interest in joint ventures		165,444	95,208
Biological assets	13	6,762,218	6,530,814
Other financial assets	12	—	93,743
		11,813,289	11,571,960
CURRENT ASSETS			
Inventories		463,247	640,581
Trade and other receivables	14	1,006,381	826,772
Land use rights		1,830	1,667
Pledged bank balances		128,763	612,909
Bank balances and cash		605,215	556,964
		2,205,436	2,638,893
CURRENT LIABILITIES			
Trade and other payables	15	1,220,429	1,403,003
Tax payable		5,014	2,787
Borrowings - due within one year	16	2,009,257	1,858,398
Short-term debenture	17	300,000	1,100,000
Deferred income		12,351	11,493
		3,547,051	4,375,681
NET CURRENT LIABILITIES		(1,341,615)	(1,736,788)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,471,674	9,835,172

Condensed Consolidated Statement of Financial Position

As at 30 June 2015

	NOTES	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		415,261	415,261
Reserves		6,539,992	6,094,978
Equity attributable to owners of the Company		6,955,253	6,510,239
Non-controlling interests		176,075	145,713
		7,131,328	6,655,952
NON-CURRENT LIABILITIES			
Borrowings - due after one year	16	3,025,170	2,829,450
Medium-term notes	18	200,000	—
Deferred income		115,176	108,928
Other financial liabilities	12	—	240,842
		3,340,346	3,179,220
		10,471,674	9,835,172

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company							Total RMB'000
	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	
Balance at 1 January 2014 (audited)	415,261	2,409,936	1,585,752	12,648	1,319,427	5,743,024	117,710	5,860,734
Profit and total comprehensive income for the period	—	—	—	—	523,163	523,163	22,214	545,377
Recognition of equity-settled share-based payment (note 19(a) (b))	—	—	—	16,968	—	16,968	—	16,968
Balance at 30 June 2014 (unaudited)	415,261	2,409,936	1,585,752	29,616	1,842,590	6,283,155	139,924	6,423,079
Balance at 1 January 2015 (audited)	415,261	2,409,936	1,585,752	44,546	2,054,744	6,510,239	145,713	6,655,952
Profit and total comprehensive income for the period	—	—	—	—	476,952	476,952	30,362	507,314
Recognition of equity-settled share-based payment (note 19(a) (b) (c))	—	—	—	17,065	—	17,065	—	17,065
Dividends recognised as distribution	—	(49,003)	—	—	—	(49,003)	—	(49,003)
Balance at 30 June 2015 (unaudited)	415,261	2,360,933	1,585,752	61,611	2,531,696	6,955,253	176,075	7,131,328

Note: Other reserve balance represented the contribution from the owners for the operation of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Net cash generated from operating activities	769,637	1,037,102
Net cash used in investing activities		
Purchases of property, plant and equipment	(314,630)	(375,837)
Additions in biological assets	(590,103)	(551,168)
Additions in pledged bank balances	(50,586)	(302,843)
Release of pledged bank balances	534,732	176,231
Proceeds on disposal of dairy cows	223,437	141,854
Investment in joint ventures	(67,667)	(55,375)
Interest received	28,502	3,292
Government grants received	13,875	7,096
Purchases of land use rights	(6,500)	—
Proceeds from disposal of property, plant and equipment	3,245	2,151
	(225,695)	(954,599)
Net cash (used in) generated from financing activities		
Interest paid	(192,267)	(166,318)
New bank borrowings raised	1,332,077	1,874,341
Repayment of bank borrowings	(985,498)	(1,597,730)
Proceeds from issue of short-term debenture	300,000	1,100,000
Repayment of short-term debenture	(1,100,000)	(1,200,000)
Proceeds from issue of medium-term notes	200,000	—
Dividends paid to owners of the Company	(49,003)	—
Other financing cash flows	(1,000)	(4,000)
	(495,691)	6,293
Net increase in cash and cash equivalents	48,251	88,796
Cash and cash equivalents at 1 January	556,964	369,041
Cash and cash equivalents at 30 June, represented by bank balances and cash	605,215	457,837

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the "Company") is a limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Uglund 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 condensed consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the "functional currency").

2. BASIS OF PREPARATION

In preparing the condensed consolidated financial statements for the six months ended 30 June 2015, 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 RMB1,341,615,000 as at 30 June 2015 (31 December 2014: net current liabilities of RMB1,736,788,000). Having considered the secured credit facilities of approximately RMB9,419,460,000 which remains unutilised as at 30 June 2015, 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 condensed consolidated financial statements have been prepared on a going concern basis.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for (i) the biological assets, which are measured at fair value less costs to sell; and (ii) other financial assets and other financial liabilities (derivative financial instruments), which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") that are mandatorily effective for the current interim period.

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

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For the six months ended 30 June 2015

4. SEGMENT INFORMATION

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

	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
For the six months ended 30 June 2015 (unaudited)			
Segment revenue	2,031,191	789,493	2,820,684
Less: Inter-segment revenue	(383,364)	—	(383,364)
Net external revenue	1,647,827	789,493	2,437,320
Segment cost of sales before biological fair value adjustment	1,364,963	564,266	1,929,229
Less: Inter-segment cost of sales	(380,803)	—	(380,803)
Net external cost of sales	984,160	564,266	1,548,426
Reportable segment profit	439,891	171,281	611,172
Elimination of inter-segment results			(2,561)
Loss arising from changes in fair value less costs to sell of dairy cows			(199,269)
Share of profit of an associate			1,432
Share of profit of joint ventures			2,569
Unallocated other income			7,644
Unallocated other gains and losses			150,491
Unallocated expense			(49,564)
Profit before tax			521,914
As at 30 June 2015 (unaudited)			
Segment assets	12,029,249	1,198,159	13,227,408
Elimination of inter-segment balances			(366,698)
Unallocated assets			1,158,015
Consolidated assets			14,018,725
Segment liabilities	6,760,975	462,877	7,223,852
Elimination of inter-segment balances			(359,536)
Unallocated liabilities			23,081
Consolidated liabilities			6,887,397

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4. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities

	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
For the six months ended 30 June 2014 (unaudited)			
Segment revenue	2,469,642	284,639	2,754,281
Less: Inter-segment revenue	(169,746)	—	(169,746)
Net external revenue	2,299,896	284,639	2,584,535
Segment cost of sales before biological fair value adjustment	1,527,844	216,478	1,744,322
Less: Inter-segment cost of sales	(165,137)	—	(165,137)
Net external cost of sales	1,362,707	216,478	1,579,185
Reportable segment profit	726,726	47,079	773,805
Elimination of inter-segment results			(4,609)
Loss arising from changes in fair value less costs to sell of dairy cows			(84,559)
Share of loss of an associate			2,796
Share of profit of joint ventures			1,943
Unallocated other income			2,684
Unallocated other gains and losses			(84,952)
Unallocated expenses			(55,133)
Profit before tax			551,975
As at 31 December 2014 (audited)			
Segment assets	12,207,104	937,065	13,144,169
Elimination of inter-segment balances			(560,024)
Unallocated assets			1,626,708
Consolidated assets			14,210,853
Segment liabilities	7,137,792	676,946	7,814,738
Elimination of inter-segment balances			(555,423)
Unallocated liabilities			295,586
Consolidated liabilities			7,554,901

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

4. SEGMENT INFORMATION *(continued)*

Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and all the non-current assets are obtained and located in mainland China while all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, there is no information separated by different geographical locations within mainland China provided to the Group's management.

5. OTHER INCOME

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Government grants related to		
– Other assets	5,895	5,689
– Income (note)	875	656
Bank interest income	7,881	11,317
Others	57	2,263
	14,708	19,925

Note: These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving financial support to the Group's operation.

6. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Cost of sales before biological fair value adjustments		
Breeding costs to produce raw milk	984,160	1,313,386
Production costs for liquid milk products	564,266	216,478
Cost of sales of dairy cows	—	49,321
	1,548,426	1,579,185
Other gains and losses:		
Fair value loss (gain) from derivative financial assets	93,743	(58,305)
Fair value (gain) loss from derivative financial liabilities	(240,842)	143,025
	(147,099)	84,720
Net foreign exchange (gain) loss	(2,850)	12,009
Loss on disposal of property, plant and equipment, net	1,276	2,912
Others	(60)	—
Other gains and losses	(148,733)	99,641
Depreciation of property, plant and equipment	132,448	107,632
Employee benefits expenses	147,466	149,804
Auditor's remuneration	700	600
Release of land use rights	1,268	766

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For the six months ended 30 June 2015

7. FINANCE COSTS

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	122,641	119,529
Short-term debentures repayable within five years	26,490	30,366
Medium-term notes repayable within five years	5,233	—
Total borrowing cost	154,364	149,895
Less: capitalised amount for construction of property, plant and equipment	(4,238)	(15,003)
	150,126	134,892

The borrowing costs were capitalised based on the terms of the specific bank borrowings in respect of construction in progress.

8. INCOME TAX CHARGE

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	14,600	6,598

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

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

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB1,288,307,000 (31 December 2014: RMB1,018,615,000) as at 30 June 2015. As at 30 June 2015, 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.

9. DIVIDEND

During the current interim period, a final dividend of RMB0.01 (equivalent to Hong Kong dollar ("HK\$") 0.012481) per share in respect of the year ended 31 December 2014 (the six months ended 30 June 2014: nil) was declared and paid to the shareholders of the Company through the Company's share premium account. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB49,003,000 (equivalent to HK\$61,162,000).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	476,952	523,163

	Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,827,338,751	4,827,338,751
Effect of share options issued by the Company	41,807,458	51,903,704
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,869,146,209	4,879,242,455

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group acquired property, plant and equipment amounted to RMB260,943,000 (the six months ended 30 June 2014: RMB268,308,000) in order to increase its production capacity.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

12. OTHER FINANCIAL ASSETS AND LIABILITIES

	30 June 2015 RMB'000 (unaudited) RMB'000	31 December 2014 RMB'000 (audited) RMB'000
Financial assets carried at FVTPL		
Derivative financial instruments	—	93,743
Financial liabilities carried at FVTPL		
Derivative financial instruments	—	240,842

Financial assets carried at FVTPL represent fair value of the Call Option (as defined below) granted to the Company at the reporting date. Financial liabilities carried at FVTPL represent fair value of the Put Option (as defined below) granted by the Company to a joint venture investor at the reporting date. The fair value of the Call Option and the Put Option was independently valued by Jones Lang LaSalle Corporate Appraisal And Advisory Limited (“JLL”), a firm of independent qualified professional valuers.

On 23 September 2013, the Company entered into two agreements (the “JV Agreement I” and the “JV Agreement II”) with Success Dairy II Limited (“Success Dairy”), a third party investor, to incorporate Asia Dairy Holdings (the “JV Company I”) and Asia Dairy Holdings II (the “JV Company II”). The JV Company I and the JV Company II respectively owns a PRC subsidiary, Modern Farm (Shanghe) Co., Ltd. (現代牧業(商河)有限公司 “Modern Farm Shanghe”) and Modern Farm (Jinan) Co., Ltd. (現代牧業(濟南)有限公司) (“Modern Farm Jinan”). The principal activities of the JV Company I, the JV Company II and their 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 original equipment manufacturing (“OEM”) contracts for other processors and the sale of fertilizers. The Company owns as to 18% equity interests and Success Dairy owns as to the remaining 82% equity interests in the JV Company I and the JV Company II, respectively.

Pursuant to the JV Agreement I and the JV Agreement II, the Company has granted a put option (the “Put Option”) to Success Dairy, exercisable at any time between the third year to the seventh year after the first day on which the Dairy Farm produces milk for sales (the “Commencement of Operation”). Success Dairy is entitled to require the Company to purchase back up to all of its equity interests in the JV Company I and the JV Company II and all loans or borrowings owed by the JV Company I and the JV Company II to Success Dairy at the Put Option exercise price determined in accordance with the JV Agreement I and the JV Agreement II, respectively.

Pursuant to the JV Agreement I and the JV Agreement II, Success Dairy has granted the Company a call option (the “Call Option”), exercisable at any time between the third to the seventh year after the Commencement of Operation. The Company is entitled to require Success Dairy to sell up to all of its equity interests in the JV Company I and the JV Company II and all loans or borrowings owed by the JV Company I and the JV Company II to Success Dairy at the Call Option exercise price determined in accordance with the JV Agreement I and the JV Agreement II, respectively.

On 25 June 2015, the Company decided to exercise the Call Option (the “Exercise”) by entering into a memorandum (the “Memorandum”) with Success Dairy pursuant to which the Company shall purchase the 82% equity interests in the JV Company I and the JV Company II owned by Success Dairy, respectively, together with all outstanding loans or borrowings owed to Success Dairy of each of JV Company I and the JV Company II, by issuing 477,429,132 ordinary shares (the “Consideration Shares”) to Success Dairy. Upon the Exercise, the fair value of the Call Option and the Put Option has reduced to nil on the basis of a valuation carried out by JLL.

12. OTHER FINANCIAL ASSETS AND LIABILITIES *(continued)*

Subsequent to the end of the current reporting period, on 6 July 2015, a share purchase agreement (the "Share Purchase Agreement") was entered into by the Company, Success Dairy, the JV Company I and the JV Company II and such agreement was completed on 20 July 2015. Upon completion, the Company, Success Dairy, the JV Company I and the JV Company II shall release and discharge each party from all its rights, obligations and liabilities under the respective joint venture agreement and the Joint Venture Agreement I and the Joint Venture Agreement II shall be terminated accordingly.

Sale, transfer or other disposals of the Consideration Shares is subject to a lock-up undertaking provided by Success Dairy to the Company during the three years (the "Lock-up Period") from the closing of the sales and purchase of equity interests in the JV Company I and the JV Company II.

Upon expiry of the Lock-up Period:

- (1) In the event that the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares of the Company for a period of forty five trading days immediately preceding the date of expiry of the Lock-up Period (the "Weighted Consideration Shares Value") is less than United States dollar ("US\$") 308 million, the Company shall pay Success Dairy in additional ordinary shares of the Company or cash at a valuation equal, on a per ordinary share basis, to the difference between the Weighted Consideration Shares Value and US\$308 million;
- (2) In the event that the Weighted Consideration Shares Value is more than US\$363 million, Success Dairy shall pay the Company in cash or shall transfer such number of Shares then held by Success Dairy at a valuation equal, on a per ordinary share basis, to 20% of the difference between the Weighted Consideration Shares Value and US\$363 million.

13. BIOLOGICAL ASSETS

The Group's dairy cows were fair valued by the directors of the Company at 30 June 2015 while the fair value of the Group's dairy cows at 31 December 2014 has been arrived at on the basis of a valuation carried out by JLL, an independent qualified professional valuer. As at 30 June 2015, the fair value less costs to sell of heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices for milkable cows are not available, the directors of the Company have applied net present value approach to calculate the fair value less cost to sell of these items. The resulting loss arising from changes in fair value less costs to sell of dairy cows of RMB199,269,000 (the six months ended 30 June 2014: loss of RMB84,559,000) has been recognised directly in profit or loss for the six months ended 30 June 2015.

The principal valuation assumptions affecting the estimation of the fair value of dairy cows by applying the net present value approach are the same as those set out in note 32 of Group's consolidated financial statements for the year ended 31 December 2014.

For the fair value measurements of the Group's calves, heifers and milkable cows, any change in the significant unobservable inputs might result in a significantly higher or lower fair value measurement.

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14. 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 at the end of respective reporting period:

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Trade receivables		
– within 120 days based on invoice date	812,065	636,715
– over 120 days based on invoice date	2,392	—
	814,457	636,715
Advances to suppliers	115,874	126,425
Receivable in respect of sales of self-reproduced dairy cows	59,073	27,469
Input value added tax recoverable	11,003	7,888
Interest receivables	2,229	22,850
Others	3,745	5,425
	1,006,381	826,772

15. 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:

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Trade and bills payables		
– within 60 days based on invoice date	584,552	696,563
– over 60 days based on invoice date	78,462	40,786
Bill payables (note)	99,501	104,827
	762,515	842,176
Payable for acquisition of property, plant and equipment	324,480	382,405
Accrued staff costs	49,899	56,960
Advance payment from customers	21,933	28,941
Interest payable	18,577	56,480
Others	43,025	36,041
	1,220,429	1,403,003

Note: Bill payables are bank accepted notes and mature within six months from the respective issuance dates.

16. BORROWINGS

During the current period, the Group obtained new bank borrowings amounting to RMB1,332,077,000 (the six months ended 30 June 2014: RMB1,874,341,000) and repaid RMB985,498,000 (six months ended 30 June 2014: RMB1,597,730,000).

The annual interest rate of the bank borrowings during the period ranged from 0.86% to 7.05% (the six months ended 30 June 2014: 1.73% to 7.05%). As at 30 June 2015, the Group's interest-bearing bank borrowings were denominated in RMB and US\$.

17. SHORT-TERM DEBENTURE

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Short term debenture - unsecured (notes)	300,000	1,100,000

Notes:

- i. On 20 May 2015, Modern Farm issued short-term debenture with a principal amount of RMB300,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of four months. The short term debenture bears a fixed interest rate of 4.20% per annum and its effective interest rate is 5.52% per annum after considering the effect of issue costs.
- ii. On 25 April 2014, Modern Farm 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 born a fixed interest rate of 6.00% per annum and was discounted at effective interest rate of 6.42% per annum after taking into account the effect of issue costs. It was repaid on 24 April 2015.
- iii. On 23 May 2014, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through CITIC Securities Co., Ltd., the leading underwriter, with maturity of one year. The short term debenture born a fixed interest rate of 6.30% per annum and was discounted at effective interest rate of 6.62% per annum after taking into account the effect of issue costs. It was repaid on 22 May 2015.

18. MEDIUM TERM NOTES

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Medium term notes (notes)	200,000	—

Note: On 11 February 2015, Modern Farming Group Co., Ltd. (现代牧业(集团)有限公司) ("Modern Farm"), a subsidiary of the Company incorporated in the PRC, issued the first tranche of medium-term notes with an aggregate principal amount of RMB200,000,000 which will expire after three years. The medium term notes bears a fixed interest rate of 6.00% per annum and its effective interest rate is 6.11% per annum taking into account the effect of issue costs.

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19. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Share Option Scheme I

The Company's share option scheme I (the "Share Option Scheme I") 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 I and other share option schemes shall not exceed 20% 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 "Listing Rules"), 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 I") 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 referred to as the "Scheme I Grantees"), subject to acceptance of the Scheme I Grantees, under the Share Option Scheme I adopted by the Company on 17 November 2011.

The Share Options I shall entitle the Scheme I Grantees to subscribe for an aggregate of 40,000,000 new shares upon the exercise of the Share Options I in full at an exercise price of HK\$2.89 per share.

Pursuant to the rules of the Share Option Scheme I, the Share Options I granted to each of the Scheme I Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options I and will be associated with a performance target within a specific financial period (the "Performance Target I"). The non-market based Performance Target I has been determined by the Board and specified in the offer letter to each of the Scheme I Grantees. The financial period for the first tranche is the 12 months ended 30 June 2013; the financial period for the second tranche is the 12 months ended 30 June 2014; and the financial period for the third tranche is the 12 months ended 30 June 2015. Each tranche of the Share Options I after meeting the respective Performance Target I shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the six months ended 30 June 2015. Any of the Share Options I not vested as a result of non-fulfilment of the Performance Target I at the end of the respective specific financial period shall automatically lapse.

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

Other information of the Share Options I is set out below:

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

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

(a) The Share Option Scheme I *(continued)*

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

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled* during the period	Outstanding as at 30 June 2015
Share Option A	4,780,267	—	—	—	—	4,780,267
Share Option B	27,325,916	—	—	—	(1,476,307)	25,849,609
	32,106,183	—	—	—	(1,476,307)	30,629,876

Category	Outstanding as at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled* during the period	Outstanding as at 30 June 2014
Share Option A	4,780,267	—	—	—	—	4,780,267
Share Option B	28,847,506	—	—	—	(598,718)	28,248,788
	33,627,773	—	—	—	(598,718)	33,029,055

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

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

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

(a) The Share Option Scheme I *(continued)*

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 variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company. Changes in variables and assumptions may result in changes in the fair value of the Share Options I.

The Company recognised a share option expense of RMB1,750,000 in respect of the Share Options I during the current period (the six months ended 30 June 2014: RMB3,584,000). None of the Share Options I was exercisable as at 30 June 2015.

(b) The Share Option Scheme II

The Company's share option scheme II (the "Share Option Scheme II") was adopted pursuant to a resolution passed on 5 June 2014 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 II and other share option schemes shall not exceed 20% of the number of issued shares of the Company as at the date of 5 June 2014. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, 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.

(i) The Share Options II-i

On 6 June 2014, the Company announced that a total of 80,000,000 share options (the "Share Options II-i") to subscribe for the Shares were granted by the Company to three directors and 148 eligible employees of the Company (collectively referred to as the "Scheme II-i Grantees"), subject to acceptance of the Scheme II-i Grantees, under the Share Option Scheme II adopted by the Company on 5 June 2014.

The Share Options II-i shall entitle the Scheme II-i Grantees to subscribe for an aggregate of 80,000,000 new shares upon the exercise of the Share Options II-i in full at an exercise price of HK\$3.38 per share.

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

(b) The Share Option Scheme II *(continued)*

(i) The Share Options II-i *(continued)*

Pursuant to the rules of the Share Option Scheme II, the Share Options II-i granted to each of the Scheme II-i Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options II-i and will be associated with a performance target within a specific financial period (the "Performance Target II-i"). The non-market based Performance Target II-i has been determined by the Board and specified in the offer letter to each of the Scheme II-i Grantees. The financial period for the first tranche is the financial year ended 31 December 2014; the financial period for the second tranche will be the financial year ending 31 December 2015; and the financial period for the third tranche will be the financial year ending 31 December 2016. Each tranche of the Share Options II-i after meeting the respective Performance Target II-i shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 31 December 2016. Any of the Share Options II-i not vested as a result of non-fulfilment of the Performance Target II-i at the end of the respective specific financial period shall automatically lapse.

Out of the aggregate of 80,000,000 Share Options II-i, 17,000,000 Share Options II-i were granted to three directors of the Company (the "Share Option C") and the remaining Share Options II-i were granted to 148 eligible employees (the "Share Option D"), respectively.

Other information of the Share Options II-i is set out below:

Exercise price of the Share Options II-i:	HK\$3.38
Closing price of the Shares on the date of grant:	HK\$3.38
Validity period of the Share Options II-i:	Five (5) years on the date when the Share Options II-i became vested

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

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Lapsed* during the period	Cancelled* during the period	Outstanding as at 30 June 2015
Share Option C	17,000,000	—	—	—	—	17,000,000
Share Option D	60,848,683	—	—	—	(3,750,000)	57,098,683
	77,848,683	—	—	—	(3,750,000)	74,098,683

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

(b) The Share Option Scheme II *(continued)*

(i) The Share Options II-i *(continued)*

Category	Outstanding as at 1 January 2014	Granted during the period	Exercised during the period	Lapsed* during the period	Cancelled* during the period	Outstanding as at 30 June 2014
Share Option C	—	17,000,000	—	—	—	17,000,000
Share Option D	—	63,000,000	—	—	—	63,000,000
	—	80,000,000	—	—	—	80,000,000

* The Share Options II-i were cancelled due to the relevant Scheme II-i Grantees' resignation from the Group.

The fair values of the Share Option C and the Share Option D determined at the dates of grant using the Binomial Option Pricing Model were HK\$25,827,000 (equivalent to RMB20,530,000) and HK\$83,969,000 (equivalent to RMB66,747,000), respectively.

The following assumptions were used to calculate the fair values of the Share Options II-i:

	Share Options C	Share Options D
Grant date share price	HK\$3.38	HK\$3.38
Exercise price	HK\$3.38	HK\$3.38
Expected volatility	43.55%	43.55%
Option life	Five years	Five years
Dividend yield	—	—
Risk-free interest rate	1.75%	1.75%
Sub-optimal factor	2.2	1.6

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-i.

The Company recognised a share option expense of RMB11,203,000 in respect of the Share Option Scheme II-i during the current period (the six months ended 30 June 2014: RMB13,384,000). None of the Share Options II-i was exercisable as at 30 June 2015.

(ii) The Share Options II-ii

On 17 June 2015, the Company announced that a total of 10,966,673 share options (the "Share Options II-ii") to subscribe for the Shares were granted by the Company to one executive and 31 eligible employees of the Company (collectively referred to as the "Scheme II-ii Grantees"), subject to acceptance of the Scheme II-ii Grantees, under the Share Option Scheme II adopted by the Company on 5 June 2014.

The Share Options II-ii shall entitle the Scheme II-ii Grantees to subscribe for an aggregate of 10,966,673 new shares upon the exercise of the Share Options II-ii in full at an exercise price of HK\$2.83 per share.

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

(b) The Share Option Scheme II *(continued)*

(ii) The Share Options II-ii *(continued)*

Pursuant to the rules of the Share Option Scheme II, the Share Options II-ii granted to each of the Scheme II-ii Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options II-ii and will be associated with a performance target within a specific financial period (the "Performance Target II-ii"). The non-market based Performance Target II-ii has been determined by the Board and specified in the offer letter to each of the Scheme II-ii Grantees. The financial period for the first tranche is the financial year ended 31 December 2014; the financial period for the second tranche will be the financial year ending 31 December 2015; and the financial period for the third tranche will be the financial year ending 31 December 2016. Each tranche of the Share Options II-ii after meeting the respective Performance Target II-ii shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 31 December 2016. Any of the Share Options II-ii not vested as a result of non-fulfilment of the Performance Target II-ii at the end of the respective specific financial period shall automatically lapse.

Out of the aggregate of 10,966,673 Share Options II-ii, 3,333,333 Share Options II-ii were granted to an executive of the Company (the "Share Option E") and the remaining Share Options II-ii were granted to 31 eligible employees (the "Share Option F"), respectively.

Other information of the Share Options II-ii is set out below:

Exercise price of the Share Options II-ii:	HK\$2.83
Closing price of the Shares on the date of grant:	HK\$2.72
Validity period of the Share Options II-ii:	Five (5) years on the date when the Share Options II-ii became vested

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

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 30 June 2015
Share Option E	—	3,333,333	—	—	—	3,333,333
Share Option F	—	7,633,340	—	—	—	7,633,340
	—	10,966,673	—	—	—	10,966,673

The fair values of the Share Option E and the Share Option F determined at the dates of grant using the Binomial Option Pricing Model were HK\$3,722,000 (equivalent to RMB2,975,000) and HK\$7,389,000 (equivalent to RMB5,827,000) respectively.

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

(b) The Share Option Scheme II *(continued)*

(ii) The Share Options II-ii *(continued)*

The following assumptions were used to calculate the fair values of the Share Options II-ii:

	Share Options E	Share Options F
Grant date share price	HK\$2.72	HK\$2.72
Exercise price	HK\$2.83	HK\$2.83
Expected volatility	45.97%	45.97%
Option life	Five years	Five years
Dividend yield	0.45%	0.45%
Risk-free interest rate	1.44%	1.44%
Sub-optimal factor	2.2	1.6

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-ii.

The Company recognised a share option expense of RMB4,112,000 in respect of the Share Options II-ii during the current period (the six months ended 30 June 2014: nil). None of the Share Options II-ii was exercisable as at 30 June 2015.

(c) The Modern Farm Scheme

The option scheme of Modern Farm (the "Modern Farm Scheme") was adopted pursuant to the 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 the 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.

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

(c) The Modern Farm Scheme *(continued)*

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 period:

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 30 June 2015
Management Options	60,073,756	—	—	—	—	60,073,756

Category	Outstanding as at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 30 June 2014
Management Options	60,073,756	—	—	—	—	60,073,756

None of the Management Options was exercised during the period ended 30 June 2015.

20. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Within one year	1,240	1,197
In the second to fifth year inclusive	783	729
	2,023	1,926

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21. CAPITAL COMMITMENTS

Capital expenditure contracted but not provided for,
in respect of acquisition of property, plant and equipment
in respect of capital contribution to joint ventures

30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
129,445	139,351
—	66,085
129,445	205,436

22. RELATED PARTY TRANSACTIONS

a. Name and relationship with a related party is as follows:

Name	Relationship
Qiushi Grass Co., Ltd. ("Qiushi")	An associate of the Group
Modern Farm Shanghe *	A subsidiary of a joint venture
Modern Farm Jinan *	A subsidiary of a joint venture
China Mengniu Dairy Co., Ltd. ("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 Dairy (Wuhan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Tongliao) Co., Ltd. ***	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Hi-tech Dairy Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu HiTech Dairy (Maanshan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Jiaozuo) Co., Ltd. ***	A subsidiary of Mengniu Company
China Mengniu Dairy Company ***	A subsidiary of Mengniu Company

22. RELATED PARTY TRANSACTIONS *(continued)*

a. Name and relationship with a related party is as follows: *(continued)*

* As disclosed in note 12, upon the completion of the Share Purchase Agreement on 20 July 2015, these two entities became subsidiaries of the Company.

** Mengniu Company has become a substantial shareholder of the Company and was able to exercise significant influence over the Group since 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 "Mengniu Group").

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

Amount due from

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Mengniu Group		
Trade receivable		
Within 120 days based on invoice date	173,750	197,657
Modern Farm Shanghe		
Other receivables	—	27,571
Modern Farm Jinan		
Other receivable	—	236

Amount due to

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Qiushi		
Trade payable		
Within 60 days based on invoice date	19,505	81,142
Mengniu Group		
Advance from customer	16,730	22,661
Modern Farm Shanghe		
Other payables	—	12,208
Modern Farm Jinan		
Other payables	12,984	—

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22. RELATED PARTY TRANSACTIONS *(continued)*

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

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

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Sales of raw milk to Mengniu Group	1,217,819	1,623,312
Disposal of dairy cows to Modern Farm Shanghe	15,807	49,321
Purchase of raw material from Qiushi	70,931	135,537

c. **Remuneration of key managements personnel**

The remuneration of directors of the Company and other members of key management during the period were as follows:

	Six months ended 30 June	
	2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Salaries and other benefits	3,658	3,707
Recognition of equity-settled share-based payment	13,311	4,970
Retirement benefits scheme contributions	101	81
	17,070	8,758

23. FAIR VALUE MEASUREMENTS

Fair value of the Group's assets and liabilities that are measured at fair value on a recurring basis

The Group's biological assets, other financial assets and other financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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)

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

Assets/(liabilities)	Fair value as at 30 June 2015	Fair value as at 31 December 2014	Fair value hierarchy	Valuation techniques and key inputs
Other financial assets	—	93,743	Level 3	Refer to note 12
Other financial liabilities	—	240,842	Level 3	Refer to note 12
Biological assets	6,762,218	6,530,814	Level 3	Refer to note 13

The directors of the Company consider that the carrying amounts of financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	Call Option RMB'000 (unaudited)	Put Option RMB'000 (unaudited)
At 1 January 2015	93,743	(240,842)
Gain (loss) in profit or loss	(93,743)	240,842
At 30 June 2015	—	—
	Call Option RMB'000 (unaudited)	Put Option RMB'000 (unaudited)
At 1 January 2014	34,517	(76,148)
Gain (loss) in profit or loss	58,305	(143,025)
At 30 June 2014	92,822	(219,173)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

23. FAIR VALUE MEASUREMENTS *(continued)*

Reconciliation of Level 3 fair value measurements of derivative financial instruments *(continued)*

The gain (loss) for the period in the profit or loss related to derivative financial instruments held at the end of the reporting period. Fair value losses on the derivative financial instruments are presented as “other gain and loss” in condensed consolidated statement of profit or loss.

Fair value measurements and valuation processes

The management has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers or use internal resources to perform the valuation depending on the complexity and significance of the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model as appropriate. The Chief Financial Officer reports the valuation committee’s findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

24. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 12, there is no other significant events after the reporting period.