China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code: 1117

ANNUAL REPORT 2016

二零一六年年報

MODERN FARMING (GROUP) CO.,LTD
现代牧业

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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)

Non-Executive Directors

Mr. YU Xubo (Chairman)
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. ZHANG Ping
Mr. SUN Yugang

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. LI Kwok Fat

COMPANY SECRETARY

Mr. LI Kwok Fat

HEADQUARTERS

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

REGISTERED OFFICE

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HONG KONG OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Finance Limited
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Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

As to Hong Kong Law

Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to PRC Law

Commerce & Finance Law Offices

As to Cayman Islands Law

Maples and Calder

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 1117

WEBSITE

http://www.moderndairyir.com

CEO's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Modern Dairy Holdings Ltd. ("Modern Dairy" or the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present the annual results of Modern Dairy for the year ended 31 December 2016 (the "year under review") to each of our shareholders (the "Shareholders").

BUSINESS REVIEW

For the year ended 31 December 2016, the Group recorded a total revenue of RMB4,862.3 million. For the year ended 31 December 2016, dairy farming business remained the backbone business of the Group and accounted for 69.59% of the total revenue of the Group. We are the largest dairy farming company and the largest producer of raw milk in China in terms of herd size. During the year ended 31 December 2016, the Group has operated 26 farms in China with approximately 229,200 dairy cows in total. Our farms are spread across seven provinces in China, each being close to renowned downstream dairy product processing plants and with adequate feed supply. Total external sales volume of raw milk for the Group amounted to 855,353 tons for the year ended 31 December 2016.

Leveraging on its distinct edge of scale, the Group produces high quality raw milk in line with standards of safety and quality, and proactively develops downstream market and its own brands. For the year ended 31 December 2016, total sales of the Group's liquid milk under its own brands amounted to RMB1.48 billion, representing 30.41% of the share of total revenue of the Group. For the year ended 31 December 2016, the proportion of raw milk used in the production of the Group's liquid milk under its own brands over our total internal and external sales volume of raw milk amounted to 14.95%. The continual growth of liquid milk under the Group's own brands has contributed to the diversification and flexibility of the Group's business.

For the year ended 31 December 2016, Cash EBITDA of the Group was RMB829.4 million. For the year ended 31 December 2016, Cash EBITDA margin of the Group was 17.06%.

On the backdrop of challenges ahead in respect of the current transformation of dairy farming industry in China, the Group, as a pioneer in domestic large-scale farming and who initiated the cutting-edge business model of "integration of forage grass planting, dairy farming and milk processing", has won a widespread recognition both at domestic and abroad. At the Monde Selection 2016 held by the International Institute for Quality Selections in Budapest, Hungary, in the afternoon on May 30, 2016, the Company was awarded the Gold Prize in Food Category by Monde Selection for the third consecutive year. Moreover, the Company was also awarded a special trophy, the International High Quality Trophy, and became a big winner at the conference of this year. The International High Quality Trophy received by the Company was a special trophy from Monde Selection, which was only awarded to products winning Special Gold Prize or Gold Prize for three consecutive years. The winning products must have fulfilled stringent quality standards and have long-term, stable and reliable quality assurance. The trophy represents a recognition of the enterprise's long-term persistent efforts in pursuit of quality, the winning products will be authorized to use the trophy for promotional publicity free-of-charge for a term of three years. The award of this honor to the Company indicates that the quality of milk products in China has already reached international top-notch level. On 12 July, Institutional Investor issued the "Institutional Investor 2016 Asian Management Team Survey (機構投資者•2016年全亞洲管理團隊調查報告)", which was a comprehensive reflection of opinions of 1394 professional investors, and Modern Dairy won a number of high ranks in the category of consumer products and necessities shares and won the honor of "Most Respected Asian Enterprise". On 22 October 2016, furosine contents in the Group's "pasteurized milk and UHT sterilized milk" remained below12mg/100g protein and 190mg/100g protein, respectively, and passed acceptance of "quality milk project (優質乳工程)". The Group was honored to be the first enterprise that passed double acceptance of pasteurized milk and UHT sterilized milk. On 8 November, Modern Dairy participated in the Fourteenth China International Agricultural Products Fair and the Twelfth International Agriculture Expo (第十四屆中國國際農產品交易會暨第十二屆國際農業博覽會) jointly organized by the Ministry of Agriculture and the People's Government of Yunnan Province, and was awarded "Agricultural Product Gold Prize of China International Agricultural Products Fair (中國國際農產品交易會農產品金獎)". On 19 November, National Dairy Industry Technology Innovation Union (國家奶業科技創新聯盟) was established, and Modern Dairy was invited to participate in and become one of the first batch of 75 council members of the Union. On 26 December, Modern Dairy was licensed by National Dairy Industry Technology Innovation Union to become a vice-director unit. Modern Dairy will insist on undertaking its mission of "revitalizing national dairy industry, making Chinese family healthy and benefiting future generations".

On January 25, 2017, the Group completed the acquisition of the remaining 45% of the shares of Modern Farm (Anhui) Dairy Product Sales Co. Ltd.. The acquisition will help us sort out the downstream business structure of the Company and lay an important foundation for the effective management of sales channels and distribution network.

At the beginning of 2017, China Mengniu Dairy Company Limited ("Mengniu") acquired additional equity interests of the Company and up to the date of this report, Mengniu and its concert party owned 61.3% of the issued share capital of the Company. Mengniu is a leading enterprise in Chinese dairy industry and establishing a closer connection with Mengniu can provide a healthy and stable output channel of high quality raw milk for the Group. Meanwhile, the Group can also use Mengniu's strong sales network to deliver our high-quality milk of "purity, genuineness, freshness and vitality" to more consumers.

PROSPECTS

As the prospect of economy in China looks good, and per-capita consumption level keeps rising resulting from increasing demand in the market, Chinese dairy industry has gradually moved to a healthy and sustainable development track, and the modern dairy industry pattern has taken initial shape. The Ministry of Agriculture, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce and the Food and Drug Administration have jointly organized and established *National Dairy Industry Development Plan (2016-2020)* (《全國奶業發展規劃(2016-2020)》), which has been officially released as a five-year development planning outline for the dairy industry and it is a great boost to the Chinese dairy industry. In the Plan, "four key points" have been established as the development principles, i.e. planting good forage grass, raise good diary cows, producing good milk and promoting integration, and the development goals of achieving a milk self-sufficiency rate of not lower than 70% and the proportion of large-scale livestock farming of not lower than 70% in China by 2020 have been established. The green development and circular economy model of "zero-distance integration of forage grass planting, cow breeding and milk processing within two hours (零距離2小時,種養加一體化)" first created by Modern Dairy has a high degree of consistency with the core guiding philosophy of the "Thirteenth Five-year" Plan for the dairy industry.

Along with the recovery in global milk prices and reduction in raw milk output caused by a decline in domestic dairy herd size, signs of gradual improvement in the oversupply of raw milk in China was noted. Domestic milk prices is expected to show a moderately rising trend in the second half of 2017. The upstream farming industry is expected leaving the bottom of depression, and the overall dairy industry in China is facing a new industrial cycle of golden era. We believe, being the largest dairy farming enterprise in China, we are well-positioned to capture the opportunities, by following the trend and improving performance results, more benefits will be brought to customers and shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express our gratitude to all our staff for their dedicated service and contribution over the years, and also extend our thanks to our Shareholders, customers and business partners for their trust and support.

Going forward, the Group will continue to adhere to its principles of "establishing the best dairy farms and producing the highest quality milk in China for harmonious development of human and nature". The Group will strictly comply with the quality assurance requirements of making product safety and quality its top priorities, while developing and implementing comprehensive modern scientific breeding and feeding know-how to improve milk yield and quality continuously, to further consolidate and strengthen the Group's leading position in large-scale dairy farming industry. The Group will continue to expand our business by leveraging on the trend of rapid economic growth and rising market demand for dairy products in China so as to bring desirable returns to Shareholders and our customers and business partners.

GAO Lina
Chief Executive Officer

Hong Kong, 28 March 2017

Management Discussion and Analysis

INDUSTRY OVERVIEW

During the reporting period, the consumer market in China remained sluggish, together with the impact from imported liquid milk and large inflows of reconstituted milk, the rise in raw milk prices in China was suppressed, and the dairy farming industry in China was facing in-depth adjustments. According to industry data, total quantity of imported liquid milk and imported bulk milk powder in China reached 630,000 tons and 600,000 tons, respectively, representing an increase of 38% and 11%. A large number of small-scale farms exited from the market, while large-scale farms were also faced with reducing operating profit and resulted in a slowdown in investment pace and an increase in eliminations.

As the herd size of dairy cows in China decreased rapidly, the condition of oversupply in raw milk was improved, together with a general increase in the auction prices of international milk powder on several occasions recently, domestic raw milk prices showed recovery signs during the second half of 2016. Dairy industry is the landmark sector in the modern agriculture and food industry, as well as an industry which is highly concerned by the community, the quality and safety of dairy products even represent the achievement in and the gap for food safety enhancement. On 26 December 2016, the "National Dairy Industry Development Plan (2016-2020)" jointly promulgated by the Ministry of Agriculture, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce and China Food and Drug Administration was published formally as the outline plan of the dairy industry for a five-year development period and injected a strong momentum into the dairy industry of China. The Plan focused on "4 highlights" as development principles, including good grass plantation, good dairy cows, quality milk production and promotion of integrated operation, and set the development targets of the dairy industry at a self-sufficiency ratio of not less than 70% in milk supply sourced in China and a percentage of large-scale farms of not less than 70% by 2020. Policies, laws and regulations were promulgated successively by the relevant supervision authorities, a registration system to manage the formulae of dairy products was implemented, which fully reflected the determination of the State to encourage merger and acquisition of milk powder enterprises, maintain market stability and regulate the market of dairy products in China reasonably.

With steady and sustainable development of the economy, driven by the dual favourable supports of the Plan and the "Two-children Policy", the demand for high quality dairy products kept on increasing, there was enormous development potential in the dairy product industry. To satisfy the market demand for quality, the dairy farming industry in China was in the process of structural transformation from scattering small farms to large modern farms with economies of scale and intensive development. As the market system for dairy products improves further, the use of reconstituted milk will be regulated. We believe that despite facing a number of challenges, the national premium quality dairy product industry will continue to maintain robust demand, raw milk prices will return to a rising trend, the whole industry will definitely enter into a new cycle of golden era.

BUSINESS REVIEW

The Group is primarily engaged in two business segments, including: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products; and (ii) liquid milk products business under its own brands, under which we mainly produce and sell liquid milk products. As market prices of raw milk slightly improved in the second half of 2016, the Group recorded total revenue of RMB4,862.3 million for the year ended 31 December 2016, representing an increase of 0.75% year-on-year. Of which, sales revenue from milk products of our own brands amounted to RMB1,478.7 million, decreased slightly by 1.54% on a year-on-year basis.

The Group will continue to maintain its high standard and strict requirement on the quality of raw milk, seeking to win trust and support from its consumers with high-end quality of "purity, genuineness, freshness and vitality" in its products, together with "integration", its cutting-edge innovative mode of operation.

Acquisition of 45% Equity Interest in Modern Farm (Anhui) Dairy

On 16 June 2016, the Company entered into a sale and purchase agreement (supplemented by supplemental agreement dated 9 December 2016) for acquisition of the remaining 45% equity interest in Modern Farm (Anhui) Dairy Product Sales Co., Limited ("Modern Farm (Anhui)") with five individuals (the "Acquisition").

On 25 January 2017, the Group has completed the Acquisition and Modern Farm (Anhui) is owned as to 45% by the Company and as to 55% by Modern Farm. The Acquisition will be helpful to streamline the downstream business structure of the Group and establish a key foundation for the effective management of sales channels and distribution network.

Details of the Acquisition are set out in the Company's circular dated 15 July 2016 and announcements dated 16 June 2016, 12 December 2016 and 25 January 2017.

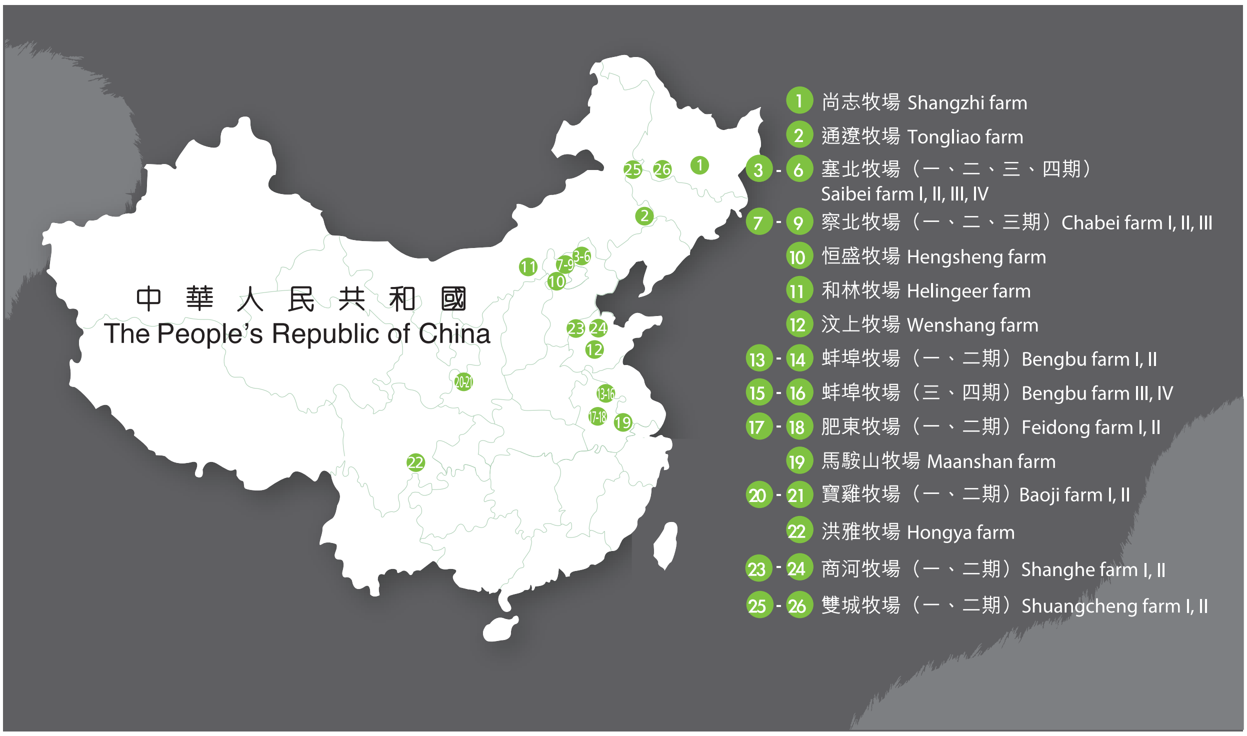
Conditional Mandatory Cash Offer

On 14 February 2017, UBS AG and DBS Asia Capital made a conditional mandatory cash offers of HK$1.94 per share of the company ("Share Offer") for and on behalf of China Mengniu Dairy Company Limited ("Mengniu") to acquire all the issued shares in the Company (Other than those already owned or agreed to be acquired by Mengniu or parties acting in concert with it) and for cancellation of all the outstanding options of the Company ("Option offer" together with Share Offer referred as "Offers").The conditions to the Share offer has been satisfied on 7 March 2017, and Mengniu then declared that the Share Offer was unconditional. The Offers were declared unconditional in all respects on 7 March 2017 and closed on 21 March 2017. Mengniu and its concert party, Future Discovery Limited, hold an aggregate of 3,755,769,412 shares of the Company, representing 61.3% of the Company as at the date of this report. Mengniu was a leading enterprise in the dairy industry of China, by fostering closer connection with it, the Group was able to secure healthy and stable output channels for its high quality raw milk. The Group would also leverage on the strong and large sales network of Mengniu to deliver our high quality milk of "purity, genuineness, freshness and vitality" to the homes of more consumers.

As the main force focusing on the development of downstream business, with the competitive advantages of the "Two Hours" pasteurized milk, together with the synergy generated from the aforesaid completion of the acquisition of Modern Farm (Anhui) and the strong and large sales network of Mengniu, it is expected to bring in more development opportunities for transformed modern dairy farming enterprises with comprehensive industrial chain.

We are the largest dairy farming company and the largest producer of raw milk in China in terms of herd size and quantity. As of 31 December 2016, the Group operated a total of 26 livestock farms in China with 229,200 dairy cows in total. As a nationwide farm, we are endowed with unique geographical advantages, our farms are close to various downstream processing plants for dairy products and supply sources of feed. For the year ended 31 December 2016, the dairy farming business of the Group recorded external sales revenue of RMB3,383.6 million, representing 69.59% of the total revenue of the Group. Total external sales volume of raw milk amounted to 855,353 tons. Raw milk with premium quality sold by the Group externally was used in the production of premium dairy products by downstream diary product enterprises. Sales of high-end milk in China continued to maintain significant growth in recent years.

Our Farms



Our financial results are directly affected by the milk yield per cow. In general, as milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. For the year ended 31 December 2016, we recorded an average annual milk yield of 9.4 tons per cow, representing an increase of 3.30% from 9.1 tons for the corresponding period last year.

The Cash EBITDA decreased by 45.7% from RMB1,527.7 million for the corresponding period last year to RMB829.4 million for the year ended 31 December 2016. Affected by factors, including the decrease in raw milk prices, sprayed powder and increased marketing and sales expenses, the Group's cash EBITDA margin decreased from 31.65% for the corresponding period last year to 17.06% for the year ended 31 December 2016.

As a pioneer in domestic large-scale farming and the one initiated the cutting-edge innovative mode of operation by "integration of forage grass planting, dairy farming and milk processing", the Group has won widespread recognition from organizations and consumers both at domestic and abroad. At the Monde Selection 2016 held in Budapest, the capital city of Hungary, on 30 May 2016, the Company was awarded the gold prize in food category of Monde Selection for three consecutive years. In addition, it was also awarded another special prize — The International High Quality Trophy. This was a special prize of Monde Selection awarded only to products winning grand gold or gold awards for three consecutive years. Monde Selection is an independent international organization jointly established by the European Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利時經貿部) in 1961, and is currently one of the longest-history, the most representative and authoritative food quality evaluation organization in the world. Its prizes are designed for the purpose of monitoring food quality, and are regarded as "Nobel Prize in food quality". The prizes are awarded after conducting strict review and evaluation on the safety, taste, packaging and raw materials of the contesting food products. This has further proved that the Group's own branded milk won recognition for its high-end quality of "purity, genuineness, freshness and vitality" and its cutting-edge innovative mode of operation by "integration of forage grass planting, dairy farming and milk processing" from authorities across the world.

On 20 October 2016, test results and production technology of products of Modern Farm such as sterilized milk and pasteurized milk conformed to the standard requirements of the National Dairy Technology Innovation Alliance and passed the approval successfully. Modern Farm has become the first enterprise whose pasteurized milk and UHT sterilized milk passing acceptance of "quality milk project" (優質乳工程) simultaneously. The implementation of "quality milk project" could improve quality of milk supply sourced and level of processing fundamentally, realize energy saving and emission reduction, green and environmental protection and increase competitiveness of domestic dairy products.

On 16 December 2016, Calves Center of Modern Farm worked together with Innovation Team of Feed Research Institute of Chinese Academy of Agricultural Sciences to research and develop and promote a series of complete calves raising means, which made projects with an improving growth performance of calves of the Group obtained the National Agriculture and Fisheries Golden Harvest for 2014-2016.

PROSPECTS

With optimistic economic prospects in China, steady increase in per capita consumption of urban residents and increasing market demand, the dairy industry in China has gradually moved into a healthy and sustainable development track, and the landscape of a modern dairy industry has been preliminary established. The "National Dairy Industry Development Plan (2016-2020)" jointly promulgated by the Ministry of Agriculture, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce and China Food and Drug Administration was published formally as the outline plan of the dairy industry for a five-year development period and injected a strong momentum into the dairy industry of China. The Plan focused on "4 highlights" as development principles, including good grass plantation, good dairy cows, quality milk production and promotion of integrated operation, and set the development targets of the dairy industry at a self-sufficiency ratio of not less than 70% in milk supply sourced in China and a percentage of large-scale farms of not less than 70% by 2020. And the standards of zero distance and 2 hours established by China Modern Dairy for the first time, the green development and mode of recycle economy by integrating plantation, farming and processing, were highly consistent with the core guidance thought in the planning for the dairy industry under the "13th Five-year Plan".

In 2017, along with the recovery in global milk prices and reduction in raw milk output caused by a decline in domestic dairy herd size, signs of gradual improvement in the oversupply of raw milk in China was noted. Domestic milk prices is expected to show a moderately rising trend in the second half of 2017. The upstream farming industry is expected leaving the bottom of depression, and the overall dairy industry in China is facing a new industrial cycle of golden era. We believe, being the largest dairy farming enterprise in China, we are well-positioned to capture the opportunities, by following the trend and improving performance results, more benefits will be brought to customers and shareholders.

With the continuous increase of sales points, the market share and brand awareness of the Group's milk products under its own brands will be further enhanced, beneficial to the strengthening of the Group's leading position in the industry. Leveraging on the high quality raw milk supply from our upstream business, we will be able to meet the demand of downstream market and consumers for higher quality dairy products by research and development of new products and producing higher value-added products with high gross profit, and structurally upgrade downstream products in due course. As pasteurized milk keeps the high nutrient composition of milk and other features, it has received more and more market attention in recent years, with its growth outperforming the development progress of the whole dairy industry. However, restricted by short shelf life of pasteurized milk and strict requirements for cold chain transportation equipment, raw milk must be sourced nearby. Currently, due to the fragmentation characteristic of the dairy farming industry in China, pasteurized milk has been sold primarily under urban and local brands, but without any national well-known brands. The inherent advantages of nationwide coverage of dairy farms of the Group and sustainable efforts for higher quality enable the Group to become the only competent nationwide producer of pasteurized milk in China at present. During 2015, we entered into the pasteurized milk market in northern China and recorded sound performance, which lay a solid foundation for the expansion of market in Eastern and Southern China in 2016. Expansion of new distribution channels will constitute a new growth point of pasteurized milk of the Group. As a newly rising member in the dairy products family in China, room-temperature yogurt keeps growing rapidly in recent years. During 2016, the Group will also be ready in this field to enrich its global product portfolio. Relying on the established system of sales network of the Company, coupled with advanced processing techniques of high quality and safety assurance, we are optimistic about the prospect of our high-end room-temperature yogurt.

FINANCIAL HIGHLIGHTS

Herd Size

	As at	
	31 December 2016 Head	31 December 2015 Head
Dairy cows		
Milkable cows	119,286	114,751
Heifers and calves	109,914	110,791
Total number of dairy cows	229,200	225,542

As at 31 December 2016, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. The current herd size is 229,200 compared to 225,542 as at 31 December 2015.

Milk Yield

For the year ended 31 December 2016, we recorded an average annual milk yield of 9.4 tons per cow, representing an increase of 3.30% as compared to 9.1 tons for the corresponding period of last year. Such results are attributable to effective herd management, genetic quality improvement of our cows through generations and increase in the number of cows reaching the peak stage of lactation.

FINANCIAL OVERVIEW

Revenue

The following table sets forth the breakdown of the consolidated revenue of our two operating segments for the years ended 31 December 2016 and 2015, respectively:

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	External Sales RMB'000	Internal Sales RMB'000	Subtotal RMB'000	External Sales RMB'000	Internal Sales RMB'000	Subtotal RMB'000
Sales of raw milk business	3,383,567	604,476	3,988,043	3,324,466	731,447	4,055,913
Sales of liquid milk products business	1,478,744	–	1,478,744	1,501,875	—	1,501,875
Consolidated revenue	4,862,311	604,476	5,466,787	4,826,341	731,447	5,557,788

Our revenue slightly increased by 0.75% from RMB4,826.3 million for the year ended 31 December 2015 to RMB4,862.3 million for the year ended 31 December 2016.

- *Dairy farming business*

  Revenue from our dairy farming business decreased primarily due to a decrease selling price of raw milk in the PRC. The decrease in revenue generated from internal sales of raw milk was due to lower than expected growth of our liquid milk business.

  The following table sets forth the details of sales revenue, sales volume and average selling price (ASP) per ton of our raw milk for the periods indicated:

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Sales revenue RMB'000	Sales volume tons	ASP RMB/ton	Sales revenue RMB'000	Sales volume tons	ASP RMB/ton
Raw milk						
External sales	3,383,567	855,353	3,956	3,324,466	752,314	4,419
Internal sales	604,476	154,501	3,912	731,447	171,778	4,258
Subtotal	3,988,043	1,009,854	3,949	4,055,913	924,092	4,389

- *Liquid milk products business*

  Revenue from our liquid milk products business decreased by 1.54% from RMB1,501.9 million for the year ended 31 December 2015 to RMB1,478.7 million for the year ended 31 December 2016. For the years ended 31 December 2015 and 2016, the revenue from liquid milk products business accounted for 31.12% and 30.41% of the consolidated revenue for the respective year.

  Due to the impact and effect of imported bulk milk powder and reconstituted milk, total sales volume of our liquid milk decreased by 8.66% from 164,559 tons for the year ended 31 December 2015 to 150,313 tons for the year ended 31 December 2016.

COST OF SALES BEFORE RAW MILK FAIR VALUE ADJUSTMENTS

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

Cost of sales before raw milk fair value adjustments of the dairy farming business

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	RMB'000	%	RMB'000	%
Feed cost	2,083,737	75.41%	2,133,566	77.06%
Labor cost	180,377	6.53%	151,709	5.48%
Utilities	60,357	2.18%	63,862	2.31%
Depreciation	203,325	7.36%	177,839	6.42%
Other costs of farms	235,434	8.52%	241,801	8.73%
Subtotal of cost of sales before raw milk fair value adjustments of the dairy farming business	2,763,230	100%	2,768,777	100%
Inter-segment cost	(424,201)		(516,681)	
Cost of external sales before raw milk fair value adjustments of the dairy farming business	2,339,029		2,252,096	

With the decrease in the prices of feed, total feed cost (before eliminating cost of sales in relation to internal supply of raw milk) for the year ended 31 December 2016 decreased by 2.3% to RMB2,083.7 million from RMB2,133.6 million of last year.

Meanwhile, the cost (excluding depreciation) per ton of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 9.59% from RMB2,804 of last year to RMB2,535 for the year ended 31 December 2016, mainly due to an increase in annual milk yield per cow and a decrease in feed prices.

Cost of sales before raw milk fair value adjustment of the liquid milk products business

	For the year ended 31 December 2016 RMB'000	%	For the year ended 31 December 2015 RMB'000	%
Raw materials	908,193	82.63%	985,966	87.53%
Labor cost	52,613	4.79%	33,375	2.96%
Depreciation	55,743	5.07%	45,797	4.07%
Utilities	32,544	2.96%	23,796	2.11%
Other processing costs	50,034	4.55%	37,510	3.33%
Subtotal of cost of sales before raw milk fair value adjustments of the liquid milk products business	1,099,127	100%	1,126,444	100%
Inter-segment cost	(180,029)		(211,242)	
Cost of external sales before raw milk fair value adjustments of the liquid milk products business	919,098		915,202	

In respect of the sales volume of liquid milk, the raw material cost for the year ended 31 December 2016 (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 7.89% from RMB986.0 million of last year to RMB908.2 million. Sales amount of our liquid milk decreased by 1.54% from RMB1,501.9 million of last year to RMB1,478.7 million for the year ended 31 December 2016.

Cash cost (excluding depreciation) per ton of liquid milk sold (before eliminating cost of sales in relation to internal supply of raw milk) increased from RMB6,567 for the same period last year to RMB6,941 for the year ended 31 December 2016, representing an increase of 5.70% on a year-on-year basis.

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin before raw milk fair value adjustments of our two operating segments for the years indicated:

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	Gross profit RMB'000	Gross Profit margin	Gross profit RMB'000	Gross Profit margin
Dairy farming business				
Before elimination	1,224,813	30.71%	1,287,136	31.73%
After elimination	1,044,538	30.87%	1,072,370	32.26%
Liquid milk products business				
Before elimination	379,617	25.67%	375,431	25.00%
After elimination	559,646	37.85%	586,673	39.06%

- *Dairy farming business*

  Gross profit of our dairy farming business before raw milk fair value adjustments (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 4.84% from RMB1,287.1 million for the year ended 31 December 2015 to RMB1,224.8 million for the year ended 31 December 2016. The decrease above was primarily due to the decrease in average selling price of raw milk.

  Gross profit margin of our dairy farming business before raw milk fair value adjustments (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 1.02% from 31.73% for the year ended 31 December 2015 to 30.71% for the year ended 31 December 2016, primarily due to the decrease in average selling price of raw milk.

- *Liquid milk products business*

  Gross profit of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased by 1.11% from RMB375.4 million for the year ended 31 December 2015 to RMB379.6 million for the year ended 31 December 2016. The increase above was primarily due to the increase in unit selling price of our branded milk products.

  Gross profit margin of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased from 25.00% for the year ended 31 December 2015 to 25.67% for the year ended 31 December 2016, mainly due to the decrease in selling price of raw milk and the increase in unit selling price of branded milk products.

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

As at 31 December 2016, the biological assets of the Group were valued at RMB7,603.0 million (31 December 2015: RMB7,590.9 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the fair value of dairy cows less costs to sell dairy cows were RMB1,058.9 million for the year ended 31 December 2016 (For the year ended 31 December 2015: RMB474.9 million). This was mainly attributable to the fact that after milk production by milkable cows, along with an extended lactation period, impairment will occur as less cash flow will be generated in future, and a decrease in the market 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 7.16% from RMB1,203.0 million for the year ended 31 December 2015 to RMB1,116.9 million for the year ended 31 December 2016, mainly due to the decrease in average selling price of our raw milk.

International Financial Reporting Standards (IFRS) required that raw milk harvested was initially measured at fair value less costs to sell, and the difference between the fair value less costs to sell and the actual costs incurred was charged to profit or loss.

Other income

For the year ended 31 December 2016, other income amounted to RMB69.9 million (For the year ended 31 December 2015: RMB32.1 million). Other income mainly consisted of government grants and interest income, of which interest income for the year ended 31 December 2016 amounted to RMB15.3 million (For the year ended 31 December 2015: RMB12.8 million), and government grants for the year ended 31 December 2016 amounted to RMB52.0 million (For the year ended 31 December 2015: RMB19.0 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Selling and distribution costs	786,929	194,542
Administrative expenses	274,210	243,566
Total operating expenses	1,061,139	438,108

Our operating expenses increased from RMB438.1 million for the year ended 31 December 2015 to RMB1,061.1 million for the year ended 31 December 2016. Of which:

Selling and distribution costs mainly consisted of, among other things, transportation costs for sales of raw milk, transportation costs for sales of liquid milk products, salaries of sales personnel and daily expenses.

The amount of raw milk transportation costs included in selling and distribution costs increased to RMB114.3 million for the year ended 31 December 2016 from RMB83.0 million for the corresponding period of last year, mainly attributable to an increase in the sales volume of raw milk and the expanded transportation distance for sales of raw milk.

The amount of liquid milk marketing and promotion expenses included in selling and distribution costs increased to RMB507.7 million for the year ended 31 December 2016 from RMB23.1 million for the corresponding period of last year, mainly attributable to an increase in our allocation of market publicity expenses to tackle with intensive market competition from branded products and to increase the market share of our branded products.

The breakdown of selling expenses is set forth below:

Selling and distribution costs

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Farm segment		
Transportation costs	114,299	82,974
Liquid milk segment		
Transportation, loading and unloading costs	108,841	60,186
Staff remuneration	22,340	9,390
Publicity expenses	507,731	23,100
Others	32,317	18,810
Business tax and surcharge	1,401	82
Total selling and distribution costs	786,929	194,542

Administrative expenses mainly included, among other things, remuneration of management staff (including equity-based share option expenses) and depreciation charges of office building, staff quarters and facilities.

The amount of equity-based share option expenses included in the administrative expenses for the year increased to RMB43.1 million for the year ended 31 December 2016 from RMB30.5 million for the corresponding period of last year.

Other gains and losses

For the year ended 31 December 2016, gains arising from other gains and losses amounted to RMB125.6 million (For the year ended 31 December 2015: RMB107.1 million), mainly consisted of, among other things, net loss (gain) of fair value arising from financial liabilities measured at fair value through profit or loss (FVTPL), net amount of foreign exchange losses, impairment provision for fixed assets and impairment loss on goodwill.

For the year ended 31 December 2016, net gain of fair value arising from financial liabilities measured at FVTPL was RMB 228.5 million (For the year ended 31 December 2015: net loss of fair value arising from financial liabilities measured at FVTPL was RMB50.0 million). The financial liabilities measured at FVTPL arose as a result of the put options granted to Success Dairy by the Company and the call options granted to the Company by Success Dairy pursuant to the agreement entered into by the Company and Success Dairy for the establishment of two joint ventures on 23 September 2013, and upon acquisition (the "Acquisition") of the two joint ventures by the Company on 20 July 2015, the two options were de-recognized, and upon acquisition of the two joint ventures by the Company, financial derivatives were re-established. On 31 December 2015, net loss of fair value arising from financial liabilities measured at fair value through profit or loss of the above financial derivatives was RMB50.0 million. On 28 December 2016, Success Dairy issued a conditional exercise notice (the "Exercise Notice") to the Group, pursuant to which Success Dairy conditionally exercised its option to early settle the Value Adjustment Undertakings at total considerations of US$254.8 million including values of the Consideration Shares previously issued to Success Dairy. On 7 February 2017, the Modified Considerations were settled by the Company. As at 31 December 2016, the fair value of the Modified Considerations is estimated by reference to the Cash Considerations payable and the fair value of the Supplemental Consideration Shares. A gain of RMB228.5 million resulting from the remeasurement is recognised in other gains and losses.

Net amount of foreign exchange losses decreased to RMB11.4 million for the year ended 31 December 2016 from RMB92.0 million for the corresponding period of last year, mainly attributable to the decrease in losses from exchange rate changes after repayment of foreign loans denominated in USD.

For the year ended 31 December 2016, impairment loss of goodwill amounted to RMB17.0 million, compared with RMB94.4 million for the corresponding period of last year, primarily due to the carrying amount of goodwill was in excess of the recoverable amount of the relevant cash-generating unit resulting from a decrease in raw milk prices.

Since November 2014, the Group's operation of Modern Farming (Tongshan) Co., Ltd. ("Tongshan Farm") was suspended. In 2016, management of the Company determined that the operation of Tongshan Farm would not be resumed in the foreseeable future. Management of the Group carried out an impairment review of the recoverable amount of property, plant and equipment and inventory in Tongshan Farm and recognised full impairment for property, plant and equipment and inventory of Tongshan Farm and recorded impairment loss of RMB69.1 million and RMB 9.7 million respectively for the current financial year.

In addition, the Group recorded re-measured gains of RMB121.3 million from the joint venture companies during the corresponding period of last year as a result of the Acquisition.

Other expenses

For the year ended 31 December 2016, losses arising from other expenses amounted to RMB94.3 million (For the year ended 31 December 2015: RMB5.2 million), mainly consisting of, among other things, losses from sales of milk powder and expenditure of donations.

For the year ended 31 December 2016, losses from sales of milk powder amounted to RMB72.0 million, mainly due to the impact and effect of imported bulk milk powder and reconstituted milk. During the first half of 2016, the raw milk market condition was challenging with difficulties in sales, some raw milk was sprayed into dried milk powder which were intended for feeding calves, all milk powder inventories were sold to third parties, resulting in a loss, being the excess of the carry value of the milk powder over the proceeds received.

For the year ended 31 December 2016, expenditure of donations amounted to RMB8.5 million, mainly due to we actively communicate with stakeholders around our farms and integrate their expectations and demands into our operation strategy. While devoting to the pursuit of our own development, we managed to win the trust, understanding and support of community residents. Besides, we proactively give back the local communities and devote to public charity and volunteer activities to contribute to society.

Finance costs

Finance costs increased from RMB315.1 million of last year to RMB368.6 million for the year ended 31 December 2016. The increase in finance costs was mainly attributable to the increase in loans.

Profit attributable to owners of the Company

Taking into account of all the above factors, loss attributable to owners of the Company amounted to RMB742.1 million or the year ended 31 December 2016, compared with gain of RMB321.3 million for the corresponding period of last year.

Basic loss per share was RMB13.99 cents (For the year ended 31 December 2015: basic gain per share of RMB6.37 cents).

Liquidity and Financial Resources

For the year ended 31 December 2016, the amount of net cash generated from operating activities of the Group was RMB1,137.3 million, compared with RMB1,441.8 million for the corresponding period of last year.

As at 31 December 2016, the Group's available and unutilized bank financing facilities were approximately RMB6,709.3 million. In the opinion of the Group's management, the working capital available to the Group was sufficient to meet its present needs.

Interest-bearing borrowings

As at 31 December 2016, the interest-bearing debt ratio, being the ratio of total interest-bearing borrowings to total assets, was 38.22% (31 December 2015: 35.68%).

	As at	
	31 December 2016 RMB'000	31 December 2015 RMB'000
Bank borrowings	3,885,825	5,647,251
Short-term debentures	799,425	400,000
Medium-term notes	1,796,605	200,000
Corporate bonds	249,020	—
Other borrowing	75,489	—
	6,806,364	6,247,251
Carrying value repayable:		
Within one year	4,116,277	5,225,521
Between one and two years	1,367,902	749,230
Between two and five years	1,322,185	272,500
	6,806,364	6,247,251

Bank borrowings

For the year ended 31 December 2016, the effective annual interest rate of bank borrowings varied from 1.90% to 6.4% (For the year ended 31 December 2015: from 0.86% to 7.05%).

The table below sets forth the short-term and long-term bank borrowings as at 31 December 2016:

	As at	
	31 December 2016 RMB'000	31 December 2015 RMB'000
Bank borrowings	3,885,825	5,647,251
Unsecured borrowings	2,000,736	1,796,381
Secured borrowings	404,589	3,165,870
Guaranteed borrowings	1,480,500	685,000
	3,885,825	5,647,251
Carrying amount repayable:		
Within one year	3,278,325	4,825,521
Between one and two years	133,000	749,230
Between two and five years	474,500	72,500
	3,885,825	5,647,251

Other borrowing

In June 2016, the Group entered into a financing agreement with Far Eastern Leasing Co., Ltd., pursuant to which the Group transferred the legal title of certain equipment to Far Eastern Leasing Co., Ltd. at a net consideration of RMB96,250,000. The Group was obligated to pay quarterly instalment of RMB11,325,000 from July 2016 to July 2018 and the remaining balance of RMB6,913,000 shall be paid in October 2018. Upon the maturity of the lease, the Group shall be entitled to purchase back the equipment at cash consideration of RMB100. Despite the arrangement was associated with the legal form of a lease, the arrangement was accounted as collateralised borrowings by the Group at amortized cost using effective interest method in accordance with the substance of the arrangement.

	31/12/2016 RMB'000	31/12/2015 RMB'000
Principal amount payable:		
Within one year	38,527	—
Within a period of more than one year but not more than two years	36,962	—
	75,489	—
Less: Amount due for settlement within 12 months (shown under current liabilities)	(38,527)	—
Amount due for settlement after 12 months	36,962	—

BUSINESS STRATEGIES

Continue to expand sales of branded milk

We will continue to expand the sales channels and enrich the categories of our branded milk, which will, in turn, enhance the Group's overall profitability. Along with the completion of the acquisition of remaining 45% equity interest in Modern Farm (Anhui) in January 2017, we have successfully streamlined the downstream sales business structure of the Company to lay the significant foundation for effective management of sales channels.

After Mengniu has increased its shareholdings in the Company and become the controlling shareholder with 61.3% interests in the Company by ended of March 2017, the possibility to further expand the coverage of our sales channels in third-tier and fourth-tier cities in China was opened up. The Company has been a key force in the industry dedicated to develop downstream business, with the competitive advantage of "2 hours" pasteurized milk. The synergy arising from the completion of the aforesaid acquisition of Modern Farm (Anhui), together with the strong sales network of Mengniu, more development opportunities will be available for the Company to transform into a modern dairy farming enterprise with a complete industrial chain to provide consumers with high quality and reliable dairy products.

Improve pure-bred yield and raw milk quality by continuous adoption of modern and scientific breeding and feeding techniques

We have been improving our operations since the commencement of business, and this has resulted in rising average annual milk yield. Currently, our average annual milk yield per milkable cow is among the highest of all dairy companies in the PRC. We believe that the yield and raw milk quality of our milkable cows will continue to rise as we improve the genetic mix of our herd across generations, increase the ratio of milkable cows to total herd size and optimize the feed mix. In addition, we committ to research and development to reduce the heat damage of room-temperature milk and further reduce the content of furosine in milk, subject to eligibility of various indicators such as microorganisms in the products.

Continue to enhance feed nutrients and optimize the feed mix by persistent research on feed composition

We will continue to collaborate with local farmers and agricultural research institutions in pursuing research and planting high quality feed suitable for our milkable cows. Moreover, according to the locations of our farms, we will collaborate with local farmers of particular regions to jointly build a customized and efficient feed supply chain with the objective to reduce transportation cost of feed and to ensure the quality, nutrition content and stable supply of feed.

Refining herd mix

We keep improving the level of our refined management as the herd size of the Company grows. Starting from this year, the Company will gradually establish its own core herd and strive to improve the profitability per cow.

GROUP STRUCTURE

During the year under review, there was no material change in the structure of the Group.

CAPITAL STRUCTURE

As at 31 December 2016, the number of issued shares of the Company was 5,304,767,883 shares.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2016, land use rights, buildings and equipment and biological assets with carrying value of RMB9.4 million (31 December 2015: RMB9.7 million), RMB241.5 million (31 December 2015: RMB50.0 million) and RMB2,729.9 million (31 December 2015: RMB2,769.7 million) were pledged as security for the Group's borrowings.

The Group did not have any significant contingent liabilities as at 31 December 2016 and 2015.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

As at 31 December 2016, the Group's capital commitments amounted to RMB134.3 million (31 December 2015: RMB151.5 million) related to the acquisition of property, plant and equipment.

As at 31 December 2016, the Group has operating lease commitments of RMB20.7 million related to the operating leased property, plant and equipment and leased land.

FINANCIAL MANAGEMENT POLICIES

The Group continued to closely manage financial risks to safeguard the interest of the shareholders of the Company. The Group applied its cash flows generated from operations and bank loans to satisfy its operational and investment needs.

The Group's management considered that the Group had limited foreign currency exposure in respect of its operations since our business was mainly conducted in the PRC. Sales and purchases were mainly denominated in Renminbi and the foreign currency risk associated with concentrated feed and livestock farming facilities was not material. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure. During the year, a currency forward contract had been entered by the Group to mitigate the foreign currency risk of the Group's bank loan denominated in US$.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2016, the Group had approximately 6,051 employees (31 December 2015: 5,277) in China and Hong Kong. Total staff costs for the year ended 31 December 2016 (including staff compensation capitalized to biological assets) were approximately RMB449.4 million (For the year ended 31 December 2015: RMB374.8 million).

The Group values recruiting, training and retaining quality personnel. We recruit qualified 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.

EXECUTIVE DIRECTORS

Ms. GAO Lina (高麗娜), aged 60, is an executive Director, Chief Executive Officer and Deputy Chairman of the Company. Ms. Gao is one of the founders of the Company and its subsidiaries (together the "Group") and is currently a director of Modern Farming (Group) Co., Ltd ("Modern Farm") and 7 other subsidiaries of the Company. Ms. Gao has significant experience in cross-border trading, resource integration and administrative management. Prior to joining the Group in August 2005, Ms. Gao was the general manager of Taian Foreign General Trade Corporation (泰安市外貿總公司) between October 1993 to June 2005. Ms. Gao was the director general of Taian Municipal Taian Promotion Bureau (泰安市招商局) between October 2003 and June 2005. Ms. Gao developed her experience in managing dairy farms since joining the Group and was appointed as an executive Director of the Company on 14 November 2008.

Ms. Gao was awarded "Taian City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao was awarded the "Scientific and Technological Progress Award (Class 1 of Promotion Category) (科學技術進步獎推廣類一等獎)" by the Ministry of Education of the PRC (中國教育部) in January 2013, and Ms. Gao was granted the honour of Top 10 Business Leaders in the PRC Economy at the 2014 China Economic Summit Forum & The 12th Annual Meeting of China Economic Characters (2014年中國經濟高峰論壇暨第十二屆中國經濟人物年會). Ms. Gao completed an undergraduate course at Taian Municipal CPC Party School (中共泰安市委黨校) majoring in economic management in December 1999. Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd., a company owning 221,581,733 shares of the Company.

Mr. HAN Chunlin (韓春林), aged 44, is an executive Director and the Chief Operation Officer of the Company. Mr. Han is also a director of Modern Farm and Helingeer Modern Farming Co., Ltd.. Mr. Han has more than 15 years of experience in food and beverage industry in the PRC. Prior to joining the Group in September 2008 and his appointment as an executive Director of the Company on 14 November 2008, Mr. Han worked as the marketing vice general manager of Nowara Shinnosuke (Fujian) Food Industry Company from February 2006 to July 2008. From January 1999 to September 2004, Mr. Han served at the Liquid Milk Department of Inner Mongolia Mengniu Dairy (Group) Co., Ltd ("Mengniu (Inner Mongolia)") as marketing manager. Prior to that, Mr. Han was a branch-plant manager at the Milk Powder Department of Inner Mongolia Yili Industrial Group Company Limited from July 1994 to January 1999. Mr. Han received a bachelor's degree in biology from Inner Mongolia University in July 1994.

NON-EXECUTIVE DIRECTORS

Mr. YU Xubo (于旭波), aged 51, is a non-executive Director and Chairman of the Company. Mr. Yu is currently the president of COFCO Corporation, the managing director of COFCO (Hong Kong) Limited and a director of certain subsidiaries of COFCO Corporation. Mr. Yu is currently a non-executive director of China Agri-Industries Holdings Limited (stock code: 606), a company listed in Hong Kong, and a non-executive director of Noble Group Limited, a company listed in Singapore. Mr. Yu was a non-executive director of China Foods Limited (stock code: 506), a company listed in Hong Kong, until 15 February 2016, and a non-executive director and the vice-chairman of China Mengniu Dairy Company Limited ("Mengniu") (stock code: 2319), a company listed in Hong Kong and a substantial shareholder of the Company, until 19 February 2016. Mr. Yu holds a Bachelor's degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration degree from China Europe International Business School.

Mr. WOLHARDT Julian Juul, aged 43, is a non-executive Director of the Company. Mr. Wolhardt was the Chairman of the Company from 17 September 2012 to 28 June 2013. Mr. Wolhardt is currently the chief executive officer of CCP Advisors Limited since January 2017. Mr. Wolhardt was a partner of KKR Asia Limited up to January 2017. Mr. Wolhardt has been actively involved in advising on investments in Yageo Corporation, a company listed on the Taiwan Stock Exchange (stock code: 2327), Tianrui Group Cement Company Limited and International Far Eastern Leasing Company Limited since Mr. Wolhardt joined KKR Asia Limited in 2006. Before joining KKR Asia Limited, Mr. Wolhardt was with Morgan Stanley Private Equity from 1998 to 2006 and was responsible for its private equity business in the PRC. While at Morgan Stanley Private Equity, Mr. Wolhardt advised on investments in a number of highly successful companies in China, several of which, such as China Dongxiang (Group) Company Limited (stock code: 3818), Hengan International Group Company Limited (stock code: 1044), Mengniu, and Ping An Insurance (Group) Company of China, Limited (stock code: 2318), have been listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Wolhardt is also an independent non-executive director of Mengniu and a non-executive director of Novo Holdco Limited. Mr. Wolhardt is an independent nonexecutive director of China Cord Blood Corporation, a company listed on New York Stock Exchange (Stock code: CO). Mr. Wolhardt is a Certified Public Accountant and Certified Management Accountant. Mr. Wolhardt received a bachelor degree in accounting from the University of Illinois (Urbana-Champaign) in 1995. Mr. Wolhardt joined the Group in July 2008 and was appointed as a non-executive Director of the Company on 30 July 2008, and has been involved in the corporate development and strategic planning of the Group.

Mr. HUI Chi Kin Max (許志堅), aged 43, is a non-executive Director of the Company. Mr. Hui is currently the chief executive officer and a managing director of CDH Investment Advisory Private Limited. From 1999 to 2003, Mr. Hui worked with the private equity division of Morgan Stanley Asia Limited in Hong Kong and the investment banking department of Schroders & Co in New York. Prior to working in the financial industry, Mr. Hui was an engineer at the oil and gas pipeline division of Bechtel Corporation in San Francisco from 1997 to 1998. Mr. Hui graduated from the University of California, Berkeley in 1996 with a bachelor's degree in chemical engineering and received a master degree of engineering from Princeton University in 1999. He joined the Group in February 2009 and was appointed as a non-executive Director of the Company on 23 February 2009, and has been involved in the corporate development and strategic planning of the Group.

Mr. SUN Yugang (孫玉剛), aged 36, is a non-executive Director of the Company. Mr. Sun had been an executive Director and the chief financial officer of the Company until his re-designation as a non-executive Director and his resignation as the chief financial officer with effect from October 1, 2016. Mr. Sun is also a director of Modern Farm and 3 other subsidiaries of the Company. Prior to joining the Company in March 2007, Mr. Sun was a manager of the Finance and Investment Department of Mengniu (Inner Mongolia) from May 2002 to March 2007. Mr. Sun graduated from Inner Mongolia Finance and Economics College in December 2003.

Mr. ZHANG Ping (張平), aged 52, joined the Group as a non-executive Director of the Company on March 2016. With effect from 6 June 2014, Mr. Zhang has been appointed as the chief financial officer of China Mengniu Dairy Company Limited, a substantial shareholder of the Company. Mr. Zhang also holds several directorships in certain subsidiaries of China Mengniu Dairy Company Limited, including the director of Inner Mongolia Mengniu Dairy (Group) Co., Ltd., Inner Mongolia Mengniu Danone Dairy Co., Ltd., Shijiazhuang Junlebao Dairy Co., Ltd. and Aspen Ventures Co., Ltd.. Mr. Zhang also takes the position of non-executive director in Yashili International Holdings Ltd (HKEx: 1230) which is listed in Hong Kong since 27 April 2015. Mr. Zhang post graduated from Beijing Information Science and Technology University with master degree in management engineering, and has over 24 years of experience in the industry of fast-moving consumer goods, specializing in the management of operation, finance and audit as well as risk control. He successively worked as manager of internal audit and system development, finance director in Swire Beverages Co., Ltd, general manager of its bottler manufacturing company and chief executive officer in Coca-Cola Bottler Manufacturing Holdings Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Shengli (李勝利), aged 51, is an independent non-executive Director of the Company. Mr. Li graduated from Shihezi Agricultural College (石河子農學院) with a bachelor degree in animal husbandry and veterinary science in July 1987. He then obtained his doctorate degree in animal nutrition science from China Agricultural University in July 1996. Since 2003, Mr. Li has been with China Agricultural University, working at various times as an assistant professor and professor. Mr. Li is currently vice-director (Animal Nutrition) of the State Key Laboratories, director of the Sino-US Dairy Research Center of China Agricultural University, director of the Sino-Dutch Dairy Development Center, chief scientist in national dairy products industry technology system (國家奶牛產業技術體系), a specialist to the China School Milk Programme (國家學生飲用奶計劃) and a specialist in the Cattle and Poultry Research Centre of Beijing Sanyuan Breeding Technology Co,. Ltd. (北京三元種業科技股份有限公司畜牧研究院). Mr, Li is a specialist to the Working Committee of National Dairy Herd Improvement Programme (DHI) (全國奶牛生產性能測定工作委員會) of the Dairy Association of China (中國奶業協會)) and the chairman of China Institute of Animal Husbandry and Veterinary Cattle Chapter (中國畜牧獸醫學會養牛分會). In 2007, Mr. Li obtained a patent on Rubeili (乳倍利), a type of high-energy and high-protein supplementary feed for dairy cows. Mr. Li was awarded the Second Prize and a Prize of the Beijing Science and Technology Award (北京市科學技術獎) in 2000 and 2007 respectively, and was recognized by the Beijing Municipal Government as "Top 10 Scientists with Contribution to the Economic Development in Rural Villages of Beijing" (對北京農村經濟發展作出貢獻的「十佳」科學家) in 2009 and received the first prize for advancement in science and technology awarded by the Education Department (教育部科技進步一等獎) in 2012 and the first prize for Chinese Agricultural Science awarded by the Ministry of Agriculture (農業部中華農業科技獎一等獎) in 2013 and the second prize of National Scientific and Technological Progress Award (國家科技進步二等獎) in 2014. Mr. Li was appointed as an independent director of Modern Farm in October 2006 and resigned in June 2009. Mr Li has been appointed as an independent director of Xinjiang Western Animal Husbandry Co., Ltd. (新疆西部牧業股份有限公司) a company listed on China Venture Exchange (stock code: 300106) since July 2009.

Mr. LEE Kong Wai Conway (李港衛), aged 62, is an independent non-executive Director of the Company. Mr. Lee graduated from Kingston University (formerly known as Kingston Polytechnic) in London with a bachelor's degree in business studies in July 1980 and further obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young and held key leadership positions in the development of his firm in China. Mr. Lee is currently an independent non-executive director of West China Cement Limited (stock code: 2233), Chaowei Power Holdings Limited (stock code: 951), GOME Electrical Appliances Holding Limited (stock code: 493), Tibet 5100 Water Resources Holdings Ltd (stock code: 1115), NVC Lighting Holding Limited (stock code: 2222), Yashili International Holdings Limited (stock code: 1230), GCL New Energy Holdings Limited (stock code: 451), WH Group Limited (stock code: 288), China Rundong Auto Group Limited (stock code: 1365). companies listed on the Main Board of the Stock Exchange. Mr. Lee was a non-executive director and the deputy chairman of Merry Garden Holdings Limited, a company listed on the Stock Exchange (stock code: 1237) until 30 September 2015. Mr. Lee was the independent non-executive director of CITIC Securities Company Limited, a company listed on the Stock Exchange (stock code: 6030) and Shanghai Stock Exchange (stock code: 600030) until May 2016. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, The Chartered Accountants, Australia and New Zealand, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Since 2008, Mr. Lee has been a member of Chinese People's Political Consultative Conference of Hunan Province.

Mr. KANG Yan (康龑), aged 41, is an independent non-executive Director of the Company. Mr. Kang graduated from the Renmin University of China in 1998. Mr. Kang is a qualified practicing attorney in China and is currently a partner of Fangda Partners. Mr. Kang joined Beijing Commerce & Finance Law Offices in 2002 and was promoted as a partner in 2008. Mr. Kang has over 10 years of experience in legal corporate advisory on mergers and acquisitions and initial public offerings.

Mr. ZOU Fei (鄒飛), aged 43, is an independent non-executive Director of the Company. Mr. Zou previously served in various positions such as a fund manager of American Century Investments, a managing director of special investment department of China Investment Corporation, the chairman of the board of Chinese Finance Association of America and the board observer of Noble Group in Singapore. Mr. Zou is currently serving in positions such as the president of Synergy Capital and independent director of Delta Dunia Makmur TBK PT in Indonesia, senior consultant of Louis Dreyfus Commodities in France. Mr. Zou is currently an independent non-executive director of BYD Company Limited (a company listed on the Stock Exchange (stock code: 1211) and the Shenzhen Stock Exchange (stock code: 002594), Mr. Zou holds a master degree in economics and a doctor degree in finance from University of Texas of the United States of America. Mr. Zou is also a chartered financial analyst, a member of Chinese Finance Association of America and one of the experts listed in "Thousand Talents Program" launched by the PRC.

SENIOR MANAGEMENT

Mr. LIU Ruijun (劉瑞軍), aged 37, is the deputy president of the Group. Mr. Liu joined the Group in April 2016 and has been responsible for the integrated operation of production, supply and marketing since then. Prior to joining the Group, Mr. Liu worked as a general manager and held responsible for the management and operation of the Mengniu PET Project from January 2012 to November 2012 in Inner Mongolia. Mr. Liu has enrolled EMBA from CEIBS from 2012 to 2014 and obtained a master's degree in business administration.

Mr. Dong Xianli (董先理), aged 52, Mr. Dong jointed the Group as chief financial officer of the Group in December 2016. Mr. Dong has extensive experience in financial management with accountant and valuation qualifications in the People's Republic of China. Mr. Dong graduated from Beijing Forestry University (北京林業大學) with a bachelor degree in soil and water conservation in July 1985 and from Inner Mongolia University of Technology (內蒙古工業大學) with a master degree in project management in January 2010. Prior to joining the Company, Mr. Dong was the Assistant Vice President of China Mengniu Dairy Company Limited ("Mengniu"), a substantial shareholder of the Company. During his tenure of service with Mengniu and its subsidiaries ("Mengniu Group") for more than 12 years, Mr. Dong has developed strong expertise in financial management in milk industry and was primarily responsible for risk management, internal audit and project investment of Mengniu Group, including holding various senior managerial positions and directorships in certain subsidiaries of Mengniu.

Mr. CHEN Hongbo (陳紅波), aged 39, is the deputy president of the Group. Mr. Chen joined the Group in September 2008 and has been responsible for equipment operation ever since. Prior to joining the Group, Mr. Chen was with Mengniu from May 2002 to September 2008 during which period Mr. Chen was in charge of several factories of Mengniu (Inner Mongolia) and worked as the manager of the Mengniu (Wuhan) Frealth Dairy Co., Ltd. (蒙牛(武漢)友芝友乳業有限公司). Mr. Chen worked for Inner Mongolia Yili Industrial Group Co., Ltd. as an equipment supervisor from July 1996 to May 2002. Mr. Chen obtained a master degree in light industry technology and engineering from Hubei University of Technology (湖北工業大學) in September 2010.

Mr. Hai Tu (海濤), aged 47, is the assistant to the Chief Executive Officer of the Group. Mr. Hai joined the Group in October 2008 and has since been responsible for the planning and management of the farm. Prior to joining the Group, Mr. Hai worked as a deputy general manager for Shenzhen True Color Industrial Co., Ltd. (深圳色彩實業有限公司) from August 2001 to September 2008. Prior to that, Mr. Hai was the customer representative for the Beijing region of Shanghai Sangon Biological Engineering Technology & Services Company (上海生工生物工程技術服務公司) between September 1998 and June 2001. Mr. Hai served as a member of the Epidemic Division of the Daxing Anling Hygiene and Prevention Quarantine of Disease from August 1994 to May 1998. Mr. Hai graduated from Inner Mongolia University in July 1994, majoring in biology.

Mr. WANG Chun Jiang (王春江), aged 34, is the assistant to Chief Executive Officer of the Group. Mr. Wang joined the Group in May 2009 and has since been responsible for cattle breeding. Prior to joining the Group, Mr. Wang worked for Inner Mongolia Mengniu AustAsian Model Dairy Farm Co., Ltd. from August 2004 to May 2009, and has served as head of farms since March 2008. Mr. Wang graduated from Inner Mongolia Agricultural University in July 2004, and has graduated with a postgraduate course for student under employment at Inner Mongolia Agricultural University in December 2013.

The board (the "Board") of directors (the "Directors") of China Modern Dairy Holdings Ltd. (the "Company") and the management of the Company and its subsidiaries (collectively the "Group") are committed to upholding a high standard of corporate governance to safeguard the interests of the shareholders of the Company (the "Shareholder(s)") and the Company as a whole.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has, throughout the year ended 31 December 2016 and up to the date of this report, complied with the code provisions set out in the CG Code except for the deviation from code provisions A.6.7 and E.1.2.

1. Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. One non-executive Directors and one independent non-executive Director were not able to attend the annual general meeting ("AGM") of the Company held on 3 June 2016 ("AGM 2016") due to other business engagements.

2. Under Code provision E.1.2 of the CG Code, the chairman of the board shall attend the annual general meeting of the Company. Mr. Yu Xubo, the chairman of the Company was unable to attend the AGM 2016 due to other engagement. The AGM 2016 was chaired by the deputy chairman of the Company, Ms Gao Lina.

THE BOARD

Role of Directors

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

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

Composition

The Company is headed by the Board which assumes the responsibility for leadership and control and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The members of the Board as at the date of this annual report (i.e. 28 March 2017) are as follows:

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

Non-Executive Directors
Mr. YU Xubo (Chairman)
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. SUN Yugang (Note*)
Mr. Zhang Ping (appointed on 22 March 2016)
Mr. WU Jingshui (resigned on 22 March 2016)

Independent Non-Executive Directors
Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. KANG Yan
Mr. ZOU Fei

Note:* Mr. Sun Yugang was re-designated as non-executive Director with effect from 1 October 2016.

The biographical details of the Board members are set out in the "Biographies of Directors and Senior Management" on pages 23 to 26 of this annual report.

The Board has a balanced composition of Executive and Non-executive Directors with each Director having sound knowledge, experience and expertise contributing to the successful performance and development of the Group. In situation where certain areas of expertise/advice are required, external advisers or consultants shall be engaged to advise the Directors at the Company's expenses.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties of care, skill and diligence. Comprehensive directors and officers liability insurance coverage is in place to provide protection to the Company, the Directors and senior management.

The Directors conduct periodically evaluation of the performance of the Board to identify areas of improvement with a view to enhancing the board effectiveness and corporate governance.

Non-executive Directors

The non-executive Directors and the independent non-executive Directors give the Board the benefit of their skills, expertise, varied background and experiences. Through active participation in Board meetings and serving on various Board Committees, the non-executive Directors and the independent non-executive Directors bring in independent judgment and make valuable contributions to the effective direction and strategic decision making of the Group.

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

Independence of Independent Non-executive Directors

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

Corporate Governance Functions

The Board is responsible for determining the policies for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the existing share option scheme and share award scheme of the Company; and

(f) to review the Company's compliance with Appendix 14 to the Listing Rules.

During the reporting year, the Board has fulfilled the corporate governance functions by reviewing the Company's corporate governance practices.

Chairman and Chief Executive Officer

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

With the support of the Chief Executive Officer and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and that they receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a monthly basis in order to enable the Directors to assess the Group's performance, position and prospects in sufficient details.

Board and Board Committee Meetings

During the year ended 31 December 2016, the Board has held ten meetings to discuss the overall strategy as well as the operations and financial performance of the Group. The Directors participated in person or through electronic means of communication. Details of the Directors' attendance at the Board and Board Committee meetings, the AGM 2016 and the extraordinary general meeting (the"EGM") held in 2016 are set out as follows:

	Number of Board meetings, Board Committee meetings and General meetings attended/held						
Name of Director	Annual General Meeting	Extraordinary General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategy and Development Committee
Executive Directors							
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	1/1	1/2	10/10	N/A	N/A	N/A	1/1
Mr. HAN Chunlin	0/1	0/2	10/10	N/A	N/A	N/A	N/A
Non-executive Directors							
Mr. YU Xubo (Chairman)	0/1	0/2	10/10	N/A	N/A	N/A	N/A
Mr. WOLHARDT Julian Juul	1/1	1/2	10/10	N/A	1/1	N/A	1/1
Mr. HUI Chi Kin, Max	1/1	0/2	8/10	N/A	N/A	N/A	N/A
Mr. SUN Yugang	1/1	0/2	10/10	1/2	N/A	N/A	N/A
Mr. Zhang Ping	1/1	0/2	10/10	N/A	N/A	N/A	N/A
Mr. WU Jingshui	N/A	N/A	10/10	N/A	N/A	N/A	N/A
Independent Non-executive Directors							
Mr. LI Shengli	0/1	0/2	5/10	N/A	1/1	1/1	1/1
Mr. LEE Kong Wai, Conway	1/1	0/2	5/10	2/2	N/A	1/1	N/A
Mr. KANG Yan	1/1	0/2	5/10	1/2	N/A	1/1	N/A
Mr. ZOU Fei	1/1	0/2	5/10	2/2	1/1	N/A	1/1

The Board and each Director have separate and independent access to the Company's senior management for information and may make inquiries if necessary. Directors of the Company who considers it necessary to seek independent professional advice in order to perform his/her duties as a Director of the Company may convene, or request the Company Secretary to convene, a meeting of the Board to approve the consultation of independent legal or other professional advisor for advice. For regular Board meetings, an agenda and accompanying board papers of the meeting are sent to all Directors before the proposed date of a meeting. Additional Board meetings, if necessary, are arranged and held as and when required. During the year under review, the Chairman met with the non-executive Directors and the independent non-executive Directors without the presence of other executive Directors to exchange views on matters concerning the business development, management and corporate governance of the Group.

Every Director is entitled to access the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are open for inspection by any Director during normal office hours with reasonable advance notice.

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

Appointment, Re-election of Directors and removal

In accordance with the CG Code and the Articles of Association, all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. Each Director has entered into a letter of appointment with the Company for a term of three years. The Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company in accordance with article 17.18 of the Articles of Association. Directors appointed as an addition to the Board or to fill a casual vacancy on the Board will be subject to re-election by the Shareholders at the next following annual general meeting or the next following general meeting of the Company respectively after the appointment. Also, when an independent non-executive Director proposed for re-election has served the Company for more than nine years, his or her re-election will be subject to a separate resolution to be approved at the annual general meeting. The composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Group.

THE BOARD'S DIVERSITY POLICY

The Board has adopted diversity policy, which sets out the approach to diversity of Board members. In determining the Board's 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.

As at date of this report, the Board comprises eleven directors with both gender, four of which are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, nationality, professional background and skills.

CONTINUOUS PROFESSIONAL DEVELOPMENT

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company shall be responsible for arranging suitable training for all Directors at the Company's expense. The Group continuously updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. For newly appointed Director a induction package will be given to ensure that he has a proper understanding of the operations, business and governance policies of the Group. A summary of training received by the Directors during the year ended to 31 December 2016 according to the records provided by the Directors is as follows:

Directors	Type of trainings
Executive Directors	
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	A, B
Mr. HAN Chunlin (Chief Operation Officer)	A, B
Non-executive Directors	
Mr. YU Xubo (Chairman)	A, B
Mr. WOLHARDT Julian Juul	A, B
Mr. HUI Chi Kin, Max	A, B
Mr. ZHANG Ping (appointed on 22 March 2016)	A, B, C
Mr. SUN Yugang	A, B
Mr. WU Jingshui (resigned on 22 March 2016)	A, B
Independent Non-executive Directors	
Mr. LI Shengli	A, B
Mr. LEE Kong Wai, Conway	A, B, C
Mr. KANG Yan	A, B
Mr. ZOU Fei	A, B

A: Reading materials, journals and updates relating to the business and industry development

B: Reading materials relevant to the latest development of the Listing Rules and other applicable regulatory requirement

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

BOARD COMMITTEES

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

Remuneration Committee

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

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

During the year ended 31 December 2016, the Remuneration Committee reviewed, discussed and approved the remuneration for the executive Directors and senior management of the Group, reviewed the remuneration policy and made recommendation to the Board for the remuneration for the non-executive Directors for its approval.

The remuneration of the members of the senior management (including executive directors) by band for the year ended 31 December 2016 is set out below:

Remuneration bands (RMB)	Number of persons
2,000,001–3,000,000	1
3,000,001–4,000,000	2
6,000,001–7,000,000	1
8,000,001–9,000,000	1

Further particulars regarding Directors'remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 10 and 11 to the financial statements.

Audit Committee

The Chairman of the Audit Committee is Mr. LEE Kong Wai, Conway and other members are Mr. HUI Chi Kin, Max and Mr. ZOU Fei, the majority being independent non-executive Directors of the Company. The Audit committee is chaired by an independent non-executive Director. The Audit Committee is to oversee the Group's financial reporting system, risk management system and internal control procedures, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard. The Audit Committee has been provided with sufficient resources to discharge its duties. In order to comply with the revised CG Code, the terms of reference of the Audit Committee was revised during the reporting year and are available on the websites of the Stock Exchange and the Company.

The Audit Committee held two meetings during the year ended 31 December 2016. Major work completed by the Audit Committee during the year includes:

- reviewed the Group's annual report, interim financial information and annual financial statements;
- reviewed significant accounting and audit issues;
- reviewed the external auditor's qualifications, independence and performance;
- reviewed the external auditor's management letter and the management's response;
- assisted the Board to evaluate on the effectiveness of financial reporting procedures and internal control system;
- reviewed the adequacy and effectiveness of the Group's systems of internal control and risk management; and
- reviewed/continuing connected transactions entered into by the Group or subsisting during the year.

Nomination Committee

The Chairman of Nomination Committee is Mr. KANG Yan and other members are Mr. LI Shengli and Mr. LEE Kong Wai, Conway, all being independent non-executive Directors of the Company.

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

During the year ended 31 December 2016, the Nomination Committee reviewed and recommended the structure, size and composition (including skills, knowledge and experience) of the Board. It reviewed the independence of the independent non-executive Directors. It also made recommendations to the Board on retiring Directors for re-election at the AGM 2016.

Strategy and Development Committee

The Company has established a Strategy and Development Committee on 11 December 2014. As at 31 December 2016, the Strategy and Development Committee comprised executive Director, Ms. GAO Lina, one non-executive Director, Mr. WOLHARDT Julian Juul and two independent non-executive Directors, Mr. LI Shengli and Mr. ZOU Fei. The Strategy and Development Committee is chaired by Mr. LI Shengli.

The principal duties of the Strategy and Development Committee include drawing up long-term development strategies and significant investments on financing plans of the Company, proposing significant capital investment for operation projects, and conducting studies and making recommendations on important matters that would affect the development of the Company.

Company Secretary

The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with Shareholders and management. All Directors have access to the advice and service of the Company Secretaries to ensure that board procedures, all applicable rules and regulations are followed. The Company Secretaries complied with the professional training requirement with Rule 3.29 of the Listing Rules during the year under review.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 31 December 2016, the remuneration to the auditor of the Company was approximately RMB4.4 million for audit services and RMB0.6 million for non-audit services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. In preparing the financial statements for the year ended 31 December 2016, the requirements of the International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") issued by the International Accounting Standards Board and the applicable laws were complied with.

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

The reporting responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report" on pages 59 to 63 of this annual report.

Pursuant to code provision C.1.2 of the CG Code, the management of the Company should provide all members with monthly updates giving a fair and understandable assessment of the Company's performance, financial position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge his duties under Rule 3.08 and Chapter 13 of the Listing Rules. Monthly updates such as condensed monthly managements accounts and updated information have been provided to all members of the Board for the year under review.

RISK MANAGEMENT AND INTERNAL CONTROL

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

During the year under review, the Group has complied with Code Provision C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. The major features of the risk management and internal control systems are set out as below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitoring of the residual risks.

The Board together with senior management monitor and assess risk regularly, boost related management standards and evaluate investment projects. Based on the risk assessments conducted for the year under review, no significant risk was identified.

Internal Control System

The Company has in place an internal control system. The framework of the system enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring:* Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

With aim to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality agreements are in place when the Group enters into significant negotiations.
- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted for the year under review, no significant control deficiency was identified.

The Audit Committee is satisfied that the risk management system and internal control system maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and proper accounting records are properly maintained.

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

COMMUNICATION WITH SHAREHOLDERS

Effective communication

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

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

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

SHAREHOLDERS RIGHTS

Procedure for shareholders to convene an extraordinary general meeting

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

Procedures for sending enquiries to the Board

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

Procedures for making proposals at shareholder's meeting

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

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

Voting by way of poll

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the AGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to article 14.6 of the Articles of Association. The relevant details of the proposed resolutions, including biographies of each Director standing for re-election, will be included in the circular to Shareholders dispatched together with the annual report. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the code of conduct regarding securities transactions by Directors adopted by the Company.

INVESTOR RELATIONS

The Company adopts a proactive policy in promoting investor relations and communications. When the Company announces its interim and annual results, management will normally meets with institutional investors, financial analysts and financial media, provide briefings on the business progress and recent developments of the Company. The Company has regularly participated in investor summits and conferences to enhance communication with the investment community. Investors are welcomed to send their enquiries to our investor relation at info@moderndairyir.com or browse the Company's website (http://www.moderndairyir.com) for latest update information of the Group.

On behalf of the Board
GAO Lina
Director

Hong Kong, 28 March 2017

Report of the Directors

The Board presents its report together with the audited financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands and has its registered office at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Its principal place of business is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the PRC.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are (i) production and sale of raw milk to customers for processing into dairy products; and (ii) production and sale of liquid milk products. There were no significant change in the nature of the Group's principal activities during the year.

The particulars of the subsidiaries are set out in note 42 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 64 to 165.

SHARE CAPITAL

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016, except that the trustee of the Share Award Scheme adopted on 9 September 2016, pursuant to the rules of the Share Award Scheme, purchased on the open market a total of 35,519,000 shares of the Company at a total consideration of approximately RMB 61.4 million.

RESULTS AND RESERVES

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of this annual report. The movements in reserves are set out in the consolidated statement of changes in equity on page 67 of this annual report.

No interim dividend was paid during the year (2015: RMB49,003,000), and the Directors do not recommend the payment of a final dividend (2015: nil) in respect of the year 2016.

BUSINESS REVIEW

A review of the business of the Group during the year 2016, a discussion on the Group's future business development and possible risks and uncertainties that the Group may be facing, and an analysis of the Group's performance using financial key performance indicators are provided in the CEO's Statement on pages 3 to 5 and the Management Discussion and Analysis on pages 6 to 22 of this annual report. These discussions form part of this report.

The financial risk management objectives and policies of the Group are shown in note 34 to the financial statements.

Other than financial performance, the Group believes that a high standard of corporate social responsibility is essential for building up a good corporate and social relationship and motivating staff and creating a sustainable return to the Group. We are committed to contributing to the sustainability of the environment and community in which we conduct business and where our stakeholders live.

ENVIRONMENTAL PROTECTION

As a responsible business participant, the Group strictly endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental technologies to ensure our products meet the required standards and ethics in respect of environment protection.

RELATIONSHIPS WITH EMPLOYEES

The employees of the Group are one of the most important assets and stakeholders of the Group and their contribution and support are values at all times. The Group regularly reviews compensation and benefits policies accordingly to industry benchmark as well as the individual performance of employees. Other fringe benefits, mandatory provident fund, share options and share award scheme are provided to retain loyal employees with the aim to form a professional staff and management team that can bring the Group to different levels of success.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association (the "Articles of Association"), every Director shall be entitled to be indemnified out of the assets of the Company against all loss or liabilities (to the fullest extent permitted by the Companies Law of the Cayman Islands) which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability coverage for the Directors and officers of the Company.

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is determined with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 10 to the financial statements.

CORPORATE GOVERNANCE PRACTICE

Details of the corporate governance practice of the Company are set out on pages 27 to 38 of this annual report.

DISTRIBUTABLE RESERVES

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

As at 31 December 2016, the Company's distributable reserve was RMB4,449.9 million (31 December 2015: RMB4,277.6 million).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 166 to 168 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2016 are set out in notes 26, 27, 28, 29 and 30 to the financial statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Stock Exchange introduced ESG Reporting Guide as set out in Appendix 27 to the Listing Rules which took effect for financial years commencing on or after 1 January 2016. The Company will publish the ESG report on the websites of the Stock Exchange and the Company in due course and set out the sights and plans for the future.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the Group's primary customer, Mengniu and its subsidiaries (collectively "Mengniu Group") accounted for approximately 48.33% (2015: 47.75%) of the Group's total turnover for the year ended 31 December 2016. The Group's five largest customers contributed in aggregate 69.65% (2015: 78.78%) of the Group's total turnover for the year ended 31 December 2016.

During the year ended 31 December 2016, the five largest suppliers of the Group in aggregate represented 12.71% (year ended 31 December 2015: 14.04%) of the Group's total purchases. Purchases from the largest supplier accounted for approximately 4.24% (2015: 4.04%) of the Group's total purchases.

Save as disclosed under the paragraph headed "Continuing Connected Transactions" of this report, none of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors

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

Non-executive Directors

Mr. YU Xubo *(Chairman)*
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. Zhang Ping (appointed on 22 March 2016)
Mr. SUN Yugang (re-designated as non-executive Director on 1 October 2016)
Mr. WU Jingshui (resigned on 22 March 2016)

Independent Non-executive Directors

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

In accordance with Article 17.18 of the Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years, such that Mr. Han Chunlin, Mr. WOLHARDT Julian Juul, Mr. LI Shengli and Mr. LEE Kong Wai Conway, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Company considers that all the independent non-executive Directors are independent pursuant to the criteria set out in Rule 3.13 of the Listing Rules and that a confirmation of independence has been received from each of them.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 23 to 26 of this annual report.

Directors' Services Contracts

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

Related Parties Transaction

None of the "Related Parties Transactions" as disclosed in note 41 to the consolidated financial statements for the year under review constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

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

At 31 December 2016, the interests and short positions of the Directors and the chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company or 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 of Hong Kong Limited (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	4.18%
	Beneficial owner	57,736,339[(3)]	1.09%
Mr. HAN Chunlin	Beneficial owner	36,054,583[(2)]	0.68%
Mr. SUN Yugang	Beneficial owner	16,064,990[(2)]	0.30%

(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 interests in underlying shares of the management options (the "Management Options") and share options granted by the Company, details of which are set out in the sections "Management Options" and "Share Options" below.

(3) This represent 4,800,000 ordinary shares and 52,936,339 share option in underlying shares of the management options and share options of the Company.

Saved as disclosed above, as at 31 December 2016, none of the Directors and the chief executives of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2016 or at any time during the year.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Director named in the paragraphs below have interests in businesses, which are considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group during the year.

During the year under review, Mr. Wu Jingshui who resigned on 22 March 2016, was a non-executive director of China Shengmu Organic Milk Limited (Stock Code: 1432), company listed on the Stock Exchange. China Shengmu Organic Milk Limited is engaged in the dairy industry. Mr. ZHANG Ping is a member of the chief financial officer of China Mengniu Dairy Company Limited (Stock code: 2319) ("Mengniu"), a company listed on the Stock Exchange. Mr.YU Xubo ("Mr. Yu") is the president of COFCO Corporation which is the controlling shareholder of Mengniu. Mengniu is a substantial shareholder of the Company. Mr. Yu was also the non-executive director and the vice-chairman of Mengniu until 19 February 2016. Mengniu is engaged in dairy industry.

The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the business of the Group during the year.

MANAGEMENT CONTRACTS

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

PRE-IPO MANAGEMENT OPTIONS

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

		Number of underlying shares which may be issued pursuant to the management options				
Name of grantee	Date of grant	As at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2016
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 Management Options are exercisable during the period commencing from 26 November 2010 the date of listing of the Company until 10 years from the date of grant.

As at 31 December 2016, the number of shares to be issued upon the exercise of the outstanding Management Options is 60,073,756 shares, representing 1.13% of the issued share capital of the Company as at 31 December 2016.

SHARE OPTIONS

(I) Share Option Scheme adopted on 17 November 2011 ("Share Option Scheme I")

The Company unconditionally adopted a share option scheme on 17 November 2011, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme I

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

(b) Qualified Participants

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme I must not exceed 40,000,000 as approved by shareholders at 2011 AGM. As at 31 December 2016, the total number of shares granted under the Share Option Scheme is 27,323,315 shares, representing approximately 0.52% of the total number of shares in issue of the Company.

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

Unless approved by the Shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may not grant options to any Qualified Participants if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 0.1% of the total number of shares in issue of the Company at the time.

(e) Timing for exercise of options

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

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

(f) Performance targets and vesting of option

Once the options are granted to the relevant Qualified Participant (the "Granted Options"), the Granted Options will be deemed to be divided into three tranches, each of which will consist of one third of the Granted Options and will be associated with a performance target within a specific financial period (the "Performance Target"). Such Performance Target will be determined at the Board's discretion and specified in the offer letter when the options are granted. The financial period for the first tranche will be 12 months ended 30 June 2013 of the Company in which the options are first granted to the relevant Qualified Participant (the "First year"), the financial period for the second tranche will be 12 months ended 30 June 2014 of the Company immediately following the First Year (the "Second Year") and the financial period for the third tranche will be 12 months ended 30 June 2015 of the Company immediately following the Second Year. The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.

(g) Payment for acceptance of option

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

(h) Basis of determining the exercise price

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

(i) Period of the Share Option Scheme I

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

The following share options were outstanding under the Share Option Scheme I during the year under review:

Name or category of participant	As at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2016	Scheme period
	Number of shares which may be issued pursuant to the Share Option Scheme I					
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	22,681,423	—	—	(2,060,441)	20,620,982	12.12.2012-30.6.2020
Total	29,383,756	—	—	(2,060,441)	27,323,315	

Notes:

1) All the share options were granted on 12 December 2012 and the exercise price is HK$2.89 per share. The closing price of the shares on the date of grant is HK$1.98.

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

(II) SHARE OPTION SCHEME ADOPTED ON 5 JUNE 2014 ("SHARE OPTION SCHEME II")

The Company unconditionally adopted a share option scheme on 5 June 2014, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme II

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

(b) Qualified Participants

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme II must not exceed 100,000,000 as approved by shareholders at 2014 AGM. As at 31 December 2016, the total number of shares available for issue under the Share Option Scheme is 81,354,634 shares, representing approximately 1.53% of the total number of shares in issue of the Company as at 31 December 2016.

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

Unless approved by the Shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may not grant options to any Qualified Participants if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 0.1% of the total number of shares in issue of the Company at the time.

(e) Timing for exercise of options

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

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

(f) Performance targets and vesting of option

Once the options are granted to the relevant Qualified Participant, the Granted Options will be deemed to be divided into three tranches, each of which will consist of one third of the Granted Options and will be associated with the Performance Target. Such Performance Target will be determined at the Board's discretion and specified in the offer letter when the options are granted. The financial period for the first tranche will be the financial year 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. The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.

(g) Payment for acceptance of option

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

(h) Basis of determining the exercise price

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

(i) Period of the Share Option Scheme II

Subject to earlier termination by the Company at a general meeting or by the Board, the Share Option Scheme II shall be valid and effective for a period of three years from 5 June 2014.

The following share options were outstanding under the Share Option Scheme II during the year under review:

Name or category of participant	Number of shares which may be issued pursuant to the Share Options Scheme II As at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2016	Scheme period
Directors						
Ms. GAO Lina	6,779,823	2,000,000	—	—	8,779,823	6.6.2014 - 29.4.2022
Mr. HAN Chunlin	5,000,000	1,500,000	—	—	6,500,000	6.6.2014 - 29.4.2022
Mr. SUN Yugang	5,000,000	—	—	—	5,000,000	6.6.2014 - 29.4.2022
Subtotal	16,779,823	—	—		20,279,823	
Other employees						
In aggregate	60,845,700	5,533,327	—	(5,304,216)	61,074,811	6.6.2014 - 29.4.2022
Total	77,625,523	9,033,327	—	(5,304,216)	81,354,634	

Notes:

1) All the share options were granted on 6 June 2014, 17 June 2015 9 September 2016 and the exercise prices are HK$3.38 per share, HK$2.83 per share and HK$1.52, respectively. The closing prices of the shares on 6 June 2014, 17 June 2015 and 9 September 2016 are HK$3.38, HK$2.72 and HK$1.52, respectively.

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

Share Option Scheme II was terminated by the Board on 9 September 2016 taking into account all share options that can be issued under Share Option Scheme II was duly granted.

(III) Share Option Scheme adopted on 30 September 2016 ("Share Option Scheme III")

The Company unconditionally adopted a share option scheme on 30 September 2016, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme III

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

(b) Qualified Participants

The Board may at its discretion grant options to: (i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary or any invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any invested entity; (iii) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of the Company, any Subsidiary or any invested entity who is an individual; (iv) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of the Company, any subsidiaries or any invested entity.

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

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme III shall not exceed 150,000,000 as approved by shareholders at the extraordinary general meeting held on 30 September 2016. As at 31 December 2016, a total of 146,650,000 share options have been granted representing 2.76% of the shares in issue of the Company.

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

Unless approved by the Shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Qualified Participants if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 0.1% of the total number of shares in issue of the Company at the time.

(e) Performance targets and vesting of option

Once the options are granted to the relevant Qualified Participant, the Granted Options will be deemed to be divided into three tranches, each of which will consist of one third of the Granted Options and will be associated with the Performance Target. Such Performance Target will be determined at the Board's discretion and specified in the offer letter when the options are granted. The financial period for the first tranche will be the financial year ended 31 December 2016, the financial period for the second tranche will be the financial year ending 31 December 2017 and the financial period for the third tranche will be the financial year ending 31 December 2018. The corresponding tranche will be cancelled if less than 80% of the Performance Target set for the relevant financial period is met. The corresponding tranche will accrue on a pro-rata basis if 80% or more of the Performance Target set for the relevant financial period is met. The corresponding tranche will accrue in full if 100% of the Performance Target set for the relevant financial period is met. The Granted Options accrued shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the year ended 31 December 2018. Any Granted Options not accrued as a result of non-fulfilment of any Performance Target shall automatically lapse.

(f) Timing for exercise of options

The vested options could only be exercised within one (1) year on the day when they become vested and after such period the vested options will automatically lapse (to the extent not already exercised).

(g) Payment for acceptance of option

Upon acceptance of the option, the grantee shall pay HK$1.0 to the Company as a consideration for the grant.

(h) Basis of determining the exercise price

The exercise price shall be a price determined by the Board but in any event shall be at least highest of: (i) the closing price of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets on the offer date; (ii) the average of the closing prices of the shares of the Company as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares;

(i) Period of the Share Option Scheme III

Subject to earlier termination by the Company at a general meeting or by the Board, the Share Option Scheme III shall be valid and effective for a period of three years from 30 September 2016.

The following share options were outstanding under the Share Option Scheme III during the year under review:

Name or category of participant	Number of shares which may be issued pursuant to the Share Options Scheme III As at 30 September 2016	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2016	Scheme period
Directors						
Ms. GAO Lina	12,000,000	—	—	—	12,000,000	8.11.2016-31.12.2023
Mr. HAN Chunlin	6,000,000	—	—	—	6,000,000	8.11.2016-31.12.2023
Subtotal	18,000,000	—	—		18,000,000	
Other employees						
In aggregate	128,650,000	—	—	—	128,650,000	8.11.2016-31.12.2023
Total	146,650,000	—	—	—	146,650,000	

Notes:

1) A total of 146,650,000 share options were granted on 8 November 2016 and the exercise prices are HK$1.71. The closing prices of the shares on 8 November 2016 are HK$1.71.

2) The Granted Options accrued in accordance with the above paragraph shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 31 December 2018. The vested options could only be exercised within one (1) year on the day when they become vested and after such period the vested options will automatically lapse (to the extent not already exercised)

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

Other details of the share options granted pursuant to the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III are set out in note 33 to the financial statements.

Subsequent to the year ended, out of a total of 315,401,705 share options under Management Options, Schare Options Scheme I, Scheme II and Scheme III, 264,320,873 share options were cancelled as a result the acceptance of mandatory cash offer made by UBS AG and DBS Asia Capital Limited for and on behalf of China Mengniu Dairy Company Dairy Holdings Ltd on 21 March 2017.

The related accounting policy for the fair values of the share options are set out in note 3 to the financial statements.

SHARE AWARD SCHEME

A share award scheme (the "Share Award Scheme") was adopted by the Company on 9 September 2016 (the "Adoption Date") with aim to recognize and motivate the contribution of certain members of management of the Group for the long-term business objectives of the Group, pursuant to which existing shares of the Company will be purchased by the professional trustee(s) (which is/are independent of and not connected with the Company) appointed by the Company for the administration of the Share Award Scheme (the "Trustee(s)") from the market out of cash contributed by the Group and be held in trust for Eligible Participants (as defined below) selected by the Company until such shares are vested with the relevant Selected Participants (as defined below) in accordance with the provisions of the Share Award Scheme.

Major terms of the Share Award Scheme are set out as below (For details, please refer to Company's announcement on 11 September 2016):

1. **Duration**

The Share Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for an initial term of five (5) years commencing on the Adoption Date.

2. Eligible Participants.

All members of the middle and senior management of any member of the Group. Eligible Participant(s) will be selected by the Board for participation in the Share Award Scheme ("Selected Participant")

3. Limit of the Share Award Scheme –

The maximum number of shares of the Company which may be purchased by the Trustee is 55,000,000 Shares. The total contributed amount by the Group shall be not more than HK$70,000,000.

4. Vesting of Award Shares

Subject to the terms and condition of the Share Award Scheme and the fulfillment of all vesting conditions (if any) to the vesting of the awarded shares of the Company on such Selected Participant as specified in the rules of the Share Award Scheme and the grant notice (as the case may be), the respective awarded shares held by the Trustee on behalf of the Selected Participant shall vest in such Selected Participant in accordance with the vesting schedule as set out in the grant notice, and the Trustee shall cause the relevant awarded shares to be transferred to such Selected Participant (or his nominee) on the vesting date.

Any award made pursuant to the Scheme Rules shall be personal to the Selected Participant and shall not be assignable. No Selected Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the awarded shares.

As at 31 December 2016, the aggregate number of shares of the Company purchased by the Trustee from the open market was 35,519,000, representing approximately 0.67% of the issued share capital of the Company at the Adoption Date, which will be granted to Selected Participants once determined by the Board at its discretion in accordance with the rules to the Share Award Scheme.

Further details of the share award scheme are also set out in note 32 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2016, the interests or short positions of substantial Shareholders, other than the Directors or the chief executives of the Company and their respective associates, in the shares, underling shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), 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
Mengniu	Beneficial interest	1,347,903,000	25.41%
Xinmu Holdings Co Ltd.	Beneficial interest	671,021,025	12.65%
Yinmu Holdings Co Ltd.	Beneficial interest	446,465,419	8.42%
Success Dairy II Limited(2)	Beneficial interest	477,429,132	9.00%
Success Dairy I Limited(1), (2)	Interest in controlled corporation	477,429,132	9.00%
New Dairy Investment Ltd. (1), (2)	Interest in controlled corporation	477,429,132	9.00%
KKR China Growth Fund L.P. (1), (2)	Interest in controlled corporation	477,429,132	9.00%
KKR Associates China Growth L.P. (1), (2)	Interest in controlled corporation	477,429,132	9.00%
KKR China Growth Limited(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Fund Holdings L.P. (1)	Interest in controlled corporation	477,429,132	9.00%
KKR Fund Holdings GP Limited(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Group Holdings L.P. (1)	Interest in controlled corporation	477,429,132	9.00%
KKR Group Limited(1)	Interest in controlled corporation	477,429,132	9.00%
KKR & Co. L.P. (1)	Interest in controlled corporation	477,429,132	9.00%
KKR Management LLC(1)	Interest in controlled corporation	477,429,132	9.00%
Mr. Henry Roberts Kravis and Mr. George R. Roberts(1)	Interest in controlled corporation	477,429,132	9.00%

(1) Each of these corporations and Mr. Henry Roberts Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) are deemed to be interested in the shares.

(2) Success Dairy II Limited is wholly owned by Success Dairy I Limited, which is owned as to 25% by Crown Dairy Holdings Limited and 75% by New Dairy Investment Ltd. ("New Dairy"). New Dairy is a subsidiary of KKR China Growth Fund L.P., the general partner of which is KKR Associates China Growth L.P..

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company or as recorded in the register required to be maintained under Section 336 of the SFO as at 31 December 2016.

CONTINUING CONNECTED TRANSACTION

OFF-TAKE AGREEMENT

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

Date:	October 24, 2008
Parties:	(i) Modern Farm, a non-wholly owned subsidiary of the Company (ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Nature of the Transaction:	Modern Farm shall supply raw milk to Mengniu (Inner Mongolia).
Committed Purchase:	Both parties shall start to discuss estimates of annual supply three months prior to the beginning of each calendar year. Should the parties fail to reach an agreed amount, Modern Farm shall be entitled to require Mengniu (Inner Mongolia) to purchase, subject to certain limitations, all of its raw milk production in the upcoming calendar year.
Right to sell to other parties:	Modern Farm may sell up to 30% of its raw milk produced daily at each dairy farm to third parties at its discretion, except to two of Mengniu's competitors. Other than the aforesaid, the Off-Take Agreement contains no other restrictions on Modern Farm's sales of raw milk to third parties or development of its own dairy products.
Pricing:	The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustment for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if the Modern Farm's farms are within an agreed proximity to Mengniu Group's dairy processing plants. The base price is based on the price which Mengniu Group at the relevant time offers to buy raw milk from other mid- to large-scale dairy farms (which can offer raw milk of comparable quality) or, if there are no such mid- to large-scale dairy farms in such region, other comparable dairy farms in nearby regions with adjustments (reflecting the prices in different regions). The base price and upward adjustment payable by Mengniu Group under the Off-Take Agreement shall not be lower than the base price and upward adjustment it pays respectively to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases). Mengniu (Inner Mongolia) also grants Modern Farm an option to sell to Mengniu (Inner Mongolia) the same amount of raw milk at the same terms and prices Mengniu (Inner Mongolia) offers to any third party suppliers.
Term:	The Off-Take Agreement shall be for an term of 10 years commencing from October 24, 2008 and will be automatically extend for another 10 years upon expiry in the absence of any force majeure or events of default.

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

The aggregate sales amount pursuant to the Off-take Agreement during the year ended 31 December 2016 amounted to approximately RMB2,349,781,000 (2015:RMB 2,304,424,000).

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

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions regarding the sales of raw milk to Mengniu Group have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or on terms no less favourable than terms available from independent third parties; and

3. in accordance with the relevant agreements governing them and on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Board engaged the auditor of the Company to report the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the page above in accordance with Rule 14A.56 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Save as disclosed above, there are no other connected transactions of the Company that are subjected to be reported in the annual report in accordance with the Listing Rules.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group adopts a comprehensive risk management framework. Rick management policies and procedures are regularly reviewed and updated to react changes in dairy product quality, food safety, production, market developments and financial risks. The Audit Committee reviews risk-related policies and scrutinizes that management has performed its duty to have effective risk management and internal control systems necessary for monitoring and controlling risks arising from the Group's business activities, changing external risks and regulatory environment, and report to the Board on the above.

Strategic Risks

The Directors maintain a strategic plan based on the knowledge on the dairy industry. The Group will invest in good grass plantation, good dairy cows, quality milk production and promotion of integrated operation that based on the strategic plan in order to cope with the market demand and expectation. The Group will closely review and monitor its short and long-term strategies and strives for the best interests to its shareholders.

Operational Risks

Operational risk is concerned with possible losses caused by failure of internal processes, people, system or external events, such risk is mitigated by and controlled by establishing sound internal control, setting out clear lines of responsibility, proper segregation of duties and effective internal reporting. Management regularly reviews the Group's operations to ensure that the Group's risk of losses, whether financial or otherwise, resulting from fraud, errors, omissions and other operational and compliance matters, are adequately managed.

Financial Risks

The principal financial risks are set out in Note 34 and 35 to the consolidated financial statements headed "Capital Risk Management" and "Financial Instrument".

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Lee Kong Wai, Conway (Chairman), Mr. Hui Chi Kin, Max and Mr. Zou Fei. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group, and discussed the risk management and internal control systems and financial reporting matters including the review of the audited results for the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2016 and up to the date of this annual report, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after 31 December 2016 of the Group are set out in Note 45 to the consolidated financial statements.

AUDITORS

The financial statements for the years ended 31 December 2016 and 2015 were audited by Deloitte Touche Tohmatsu.

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

On behalf of the Board
YU Xubo
Chairman

Hong Kong, 28 March 2017

Deloitte.
德勤

To the Members of China Modern Dairy Holdings Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 64 to 165, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Fair value of milkable cows	
We identified the fair value of milkable cows as a key audit matter due to the significance of the balance on the consolidated statement of financial position at 31 December 2016 and the significant degree of estimates made by the management in determining their fair value. The Group has milkable cows of RMB5,174 million as at 31 December 2016. These biological assets are measured at fair value less costs to sell at the end of each reporting period. As disclosed in note 36 to the consolidated financial statements, fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows. Management's estimation is primarily based on the discount rate, the estimated feed costs per kg of raw milk, estimated average daily milk yield at each lactation cycle and the estimated local future market price of raw milk. Details of milkable cows and the related estimation uncertainty on their fair value are set out in notes 4, 21 and 36 to the consolidated financial statements.	Our procedures in relation to the fair value of milkable cows included: • Testing the Group's internal controls over the fair value determination of milkable cows; • Evaluating the external valuer's objectivity, qualifications and competence; • Utilising our internal valuation specialists to assess the valuation methodologies and the key assumption of the discount rate; and • Assessing, challenging and reconciling the reasonableness of key assumptions, such as the estimated feed costs per kg of raw milk, estimated average daily milk yield at each lactation cycle and the future market price of raw milk by comparing to historical and industry data.
Impairment assessment on goodwill allocated to ADH CGU	
We identified the impairment assessment on goodwill allocated to ADH CGU (as defined in Note 16 to the consolidated financial statements) as a key audit matter due to the continuing impairment losses recognized in the consolidated statement of profit or loss and other comprehensive income and the impairment loss recognized involved a significant degree of estimates and underlying assumptions made by the management in determining their fair value. The Group has goodwill of RMB1,225 million relating to the acquisition of ADH Companies (as defined in Note 18 to the consolidated financial statements). Impairment loss amounting to RMB94,392,000 and RMB16,955,000 were recognized, respectively, for the year ended 31 December 2015 and 2016. As disclosed in note 16 to the consolidated financial statements, the Group determines whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated and the Group determines the recoverable amount of ADH CGU based on a value in use calculation. Management's estimation is primarily based on the cash flow projections and the discount rate.	Our procedures in relation to the goodwill impairment assessment included: • Testing the Group's internal controls over goodwill impairment assessment; • Evaluating the external valuer's objectivity, qualification and competence; • Utilising our internal valuation specialists to assess valuation methodologies and the key assumption of the discount rate; and • Assessing, challenging and reconciling the reasonableness of the future cash flows by comparing the estimated revenues and gross operating profits against historical data and the data used in the prior periods' impairment assessment.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is LAU, King Pak.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Revenue	5	4,862,311	4,826,341
Cost of sales before raw milk fair value adjustments		(3,258,127)	(3,167,298)
Raw milk fair value adjustments included in cost of sales	7/21	(1,116,860)	(1,203,011)
Loss arising from changes in fair value less costs to sell of dairy cows	21	(1,058,928)	(474,910)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	21	1,116,860	1,203,011
Other income	6	69,860	32,094
Selling and distribution costs		(786,929)	(194,542)
Administrative expenses		(274,210)	(243,566)
Share of loss of an associate	17	(1,616)	(1,192)
Share of profit of joint ventures	18	—	5,782
Other gains and losses, net	7	125,554	(107,077)
Other expenses	6	(94,324)	(5,173)
(Loss) profit before finance costs and tax	7	(416,409)	670,459
Finance costs	8	(368,582)	(315,078)
(Loss) profit before tax		(784,991)	355,381
Income tax expense	9	(504)	(11,663)
(Loss) profit and total comprehensive income for the year		(785,495)	343,718
(Loss) profit and total comprehensive income attributable to:			
Owners of the Company		(742,103)	321,296
Non-controlling interests		(43,392)	22,422
		(785,495)	343,718
(Loss) earnings per share (RMB)	13		
Basic		(13.99) cents	6.37 cents
Diluted		(13.99) cents	6.32 cents

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	31/12/2016 RMB'000	31/12/2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	5,075,030	5,376,897
Land use rights	15	126,679	120,622
Goodwill	16	1,424,539	1,441,494
Interest in an associate	17	1,887	25,076
Available-for-sale equity investment	17	24,955	—
Biological assets	21	7,602,959	7,590,878
		14,256,049	14,554,967
CURRENT ASSETS			
Inventories	22	980,515	834,099
Trade and other receivables	23	1,348,480	1,097,794
Land use rights	15	4,012	3,743
Pledged bank balances and non-pledged bank deposits	24	356,624	533,866
Cash and bank balances	24	851,788	483,367
Other financial assets	19	11,236	—
		3,552,655	2,952,869
CURRENT LIABILITIES			
Trade and other payables	25	2,781,727	2,012,976
Tax payable		57	281
Bank borrowings - due within one year	26	3,278,325	4,825,521
Short-term debentures	27	799,425	400,000
Other borrowing - due within one year	30	38,527	—
Other financial liabilities	20	927,058	—
		7,825,119	7,238,778
NET CURRENT LIABILITIES		(4,272,464)	(4,285,909)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,983,585	10,269,058

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	31/12/2016 RMB'000	31/12/2015 RMB'000
CAPITAL AND RESERVES			
Share capital	32	452,959	452,959
Share premium and reserves	32	6,568,554	7,328,938
Equity attributable to owners of the Company		7,021,513	7,781,897
Non-controlling interests		101,383	168,135
		7,122,896	7,950,032
NON-CURRENT LIABILITIES			
Bank borrowings - due after one year	26	607,500	821,730
Medium-term notes	28	1,796,605	200,000
Corporate bond	29	249,020	—
Other borrowing - due after one year	30	36,962	—
Deferred income	31	170,602	141,824
Other financial liability	20	—	1,155,472
		2,860,689	2,319,026
		9,983,585	10,269,058

The consolidated financial statements on pages 64 to 168 were approved and authorised for issue by the board of directors on 28 March 2017 and are signed on its behalf by:

GAO Lina	HAN Chunlin
Director	Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note 32)	Share options reserve RMB'000	Shares held under the Share Award Scheme RMB'000 (note 32)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2015	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 year	—	—	—	—	—	321,296	321,296	22,422	343,718
Dividends	—	(49,003)	—	—	—	—	(49,003)	—	(49,003)
Recognition of equity-settled share-based payment (note 33(a) and (b))	—	—	—	30,532	—	—	30,532	—	30,532
Issue of ordinary shares for acquisition of ADH Companies (as defined in note 18)	37,698	931,135	—	—	—	—	968,833	—	968,833
Balance at 31 December 2015	452,959	3,292,068	1,585,752	75,078	—	2,376,040	7,781,897	168,135	7,950,032
Loss and total comprehensive income for the year	–	–	–	–	–	(742,103)	(742,103)	(43,392)	(785,495)
Share purchase for the Share Award Scheme (note 32)	–	–	–	–	(61,424)	–	(61,424)	–	(61,424)
Recognition of equity-settled share-based payment (note 33(b) and (c))	–	–	–	43,143	–	–	43,143	–	43,143
Transfer due to forfeiture of share options after vesting(note 33(a))	–	–	–	(1,015)	–	1,015	–	–	
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(25,200)	(25,200)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	1,840	1,840
Balance at 31 December 2016	452,959	3,292,068	1,585,752	117,206	(61,424)	1,634,952	7,021,513	101,383	7,122,896

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
OPERATING ACTIVITIES			
(Loss) profit before tax		(784,991)	355,381
Adjustments for:			
Depreciation of property, plant and equipment	7	318,736	272,976
Impairment loss in respect of property, plant and equipment	7	69,061	—
Impairment loss in respect of trade recievables	7	1,589	—
Write-down of inventories to net realisable value	7	9,701	—
Impairment loss in respect of goodwill	7	16,955	94,392
Release of land use rights	7	4,658	2,192
Bank interest income	6	(15,322)	(12,828)
Government grants credited to income	6	(41,741)	(16,375)
Finance costs	8	368,582	315,078
Share of loss of an associate		1,616	1,192
Share of profit of joint ventures		–	(5,782)
Gain on deemed disposal/partial disposal of interest in associate	7	(1,462)	(7,336)
Fair value gain on the Forward (as defined in note 19)	7	(11,236)	—
Fair value gain from Put Option and Call Option (as defined in note 18)	7	–	(147,099)
Fair value (gain) loss from contingent considerations (note 20)	7	(228,540)	197,127
Loss (gain) on disposal of property, plant and equipment	7	7,257	(613)
Gain on derecognition of financial liabilities	7	(303)	(102)
Gain arising on remeasurement of interests in joint ventures	7	–	(121,340)
Net foreign exchange loss from borrowings		11,660	112,988
Expense recognised in respect of equity-settled share-based payments	7	43,143	30,532
Loss arising from changes in fair value less costs to sell of dairy cows	21	1,058,928	474,910
Operating cash flows before movements in working capital		828,291	1,545,293
Increase in inventories		(112,772)	(72,055)
Increase in trade and other receivables		(348,448)	(225,494)
Increase in trade and other payables		770,967	211,922
Cash generated from operations		1,138,038	1,459,666
Income taxes paid		(728)	(17,901)
NET CASH FROM OPERATING ACTIVITIES		1,137,310	1,441,765

	Notes	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
INVESTING ACTIVITIES			
Interest received		16,537	33,769
Purchases of property, plant and equipment		(404,231)	(665,892)
Investment in an associate		(1,920)	—
Addition in biological assets		(1,347,733)	(1,372,206)
Addition in pledged bank balances		(124,874)	(183,664)
Release of pledged bank balances		183,664	612,909
Addition in non-pledged bank deposits with original maturity of more than three months		(231,750)	(350,202)
Release of non-pledged bank deposits with original maturity of more than three months		350,202	179,636
Proceeds from disposal of property, plant and equipment		5,284	7,097
Purchases of land use rights		(10,984)	(7,013)
Proceeds from disposal of dairy cows		525,878	416,992
Net cash inflow on acquisition of subsidiaries	37	—	75,173
Investment in joint ventures		—	(66,280)
Government grants received		70,519	37,778
NET CASH USED IN INVESTING ACTIVITIES		(969,408)	(1,281,903)
FINANCING ACTIVITIES			
Interest paid		(257,275)	(317,802)
New borrowings raised		3,443,611	5,033,648
Repayment of borrowings		(5,216,697)	(4,187,233)
Proceeds from issue of short-term debentures		1,300,000	400,000
Proceeds from medium-term notes		1,600,000	200,000
Proceeds from corporate bond		250,000	—
Proceeds from other borrowing		96,250	—
Payment of transaction cost for borrowings, short-term debentures, medium-term notes and corporate bond		(9,825)	(33,433)
Repayment of short-term debentures		(900,000)	(1,100,000)
Repayment of principal amount of other borrowing		(20,761)	—
Payment for repurchase of ordinary shares		(61,424)	—
Dividends paid to non-controlling interests		(25,200)	—
Dividends paid to owners of the Company		—	(49,003)
Capital contribution from non-controlling interests		1,840	—
NET CASH FROM (USDED IN) FINANCING ACTIVITIES		200,519	(53,823)
INCREASE IN CASH AND CASH EQUIVALENTS		368,421	106,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		483,367	377,328
CASH AND CASH EQUIVALENTS AT END OF YEAR, Represented by cash and bank balances		851,788	483,367

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Basis of preparation of the consolidated financial statements

In preparation of the consolidated financial statements for the year ended 31 December 2016, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of that the Group incurred a net loss of RMB785,495,000 for the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its total current assets by RMB4,272,464,000 (31 December 2015: RMB4,285,909,000). Having considered the available credit facilities of approximately RMB6,709,321,000 which remains unutilised as at 31 December 2016, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

(a) Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to IFRSs.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

(b) New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS [4] Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

1. Effective for annual periods beginning on or after 1 January 2018

2. Effective for annual periods beginning on or after 1 January 2019

3. Effective for annual periods beginning on or after a date to be determined

4. Effective for annual periods beginning on or after 1 January 2017

5. Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as described below, the Directors do not anticipate that the application of the abovementioned new standards, amendments and interpretations issued but not yet effective will have a material effect on Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

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

(b) New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 9 Financial Instruments *(continued)*

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual items that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments currently stated at cost less impairment will either be measured as fair value through profit or loss ("FVTPL") or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed assessment.

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

(b) New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 15 Revenue from Contracts with Customers and the related Amendments

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the International Accounting Standards Board (the "IASB") issued clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

(b) New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, expect for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments for land use rights as investing cash flows while other operating lease payments are presented as operating cash flows. Upon applicantion of the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset for prepaid lease payments for land use rights where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of -use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Upon application of IFRS 16, assessing whether the transfer of the assets is a sale under sale and leaseback transaction will be based on the requirements of IFRS 15 Revenue from Contracts with Customers.

Furthermore, extensive disclosures are required by IFRS 16.

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

(b) New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 16 Leases *(continued)*

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB20,744,000 as disclosed in note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS16. In addition, the sale and leaseback transactions entered into by the Group as disclosed in note 30 do not satisfy the requirements of IFRS 15 as sales of assets and hence will be considered as collateralised borrowings under IFRS 16. The application of new requirements may result other changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared under the historical cost basis except for: (i) biological assets, which are measured at fair value less costs to sell, and (ii) financial instruments at FVTPL, which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree over the net amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

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

Investments in an associate and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of an associate or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Grope retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

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

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

An arrangement that involves a legal form of a lease is not, in substance, accounted for as a lease if:

- the Group retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;
- the primary reason for the arrangement is not to convey the right to use an asset; and
- an option is included on terms that make its exercise almost certain.

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating lease, are recognised as an expense on a straight-line basis over the lease term.

Land use rights

Land use rights represent the Group's prepaid lease payments for leasehold interest in land. The Group assesses the classification of the leased land as a finance lease or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of the leased land have been transferred to the Group. Based on such assessment, the Group's land use rights are accounted for as operating lease. Land use right are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

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

Government grants

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

Grants relating to biological assets

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

Other grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Where government grant takes the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the Group, the non-monetary asset and the grant are recorded at a nominal amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the shares or share options granted at the measurement date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes (classified as construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the assets is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on tangible assets *(continued)*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Biological assets

The Group's biological assets comprise dairy cows. Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises.

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

Agricultural produce

Agricultural produce represents raw milk. Raw milk is recognised at the point of harvest at its fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at FVTPL, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses, net" line item except for that the net gain or loss of the Group's interest rate swap is recognised in "finance costs" line item. Fair value is determined in the manner described in note 36.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

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

For AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

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

For trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 360 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, (ii) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 Business Combinations applies.

A financial liability is classified as held for trading if:

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the "other gains and losses, net" line item except for that the net gain or loss of the Group’s interest swap is recognised in “finance costs” line item. Fair value is determined in the manner described in notes 20 and 36.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities at amortised cost

Financial liabilities including bank and other borrowings, trade and other payables, short-term debentures, medium-term notes and corporate bond are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. If the Group retains substantially all the risks and rewards of a transferred financial asset, the Group continues to recognised the financial assets and also the associated financial liabilities.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the contractual terms of financial liability are modified such that the revised terms would result in a substantial modification from the original terms, after taking into account all relevant facts and circumstances including qualitative factors, such modifications is account for as derecognition of the original financial liability and the recognition of new financial liability. The difference between the carrying amount of financial liability derecognised and the fair value of consideration paid or payable, including any liabilities assumed, is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Fair value measurements of biological assets

The Group's biological assets are measured at fair value less costs to sell at the end of each reporting period. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of biological assets. Any changes in the inputs may affect the fair value of the Group's biological assets significantly. The carrying amounts of the Group's biological assets as at 31 December 2016 were RMB7,602,959,000 (31 December 2015: RMB7,590,878,000). Further details are given in notes 21 and 36.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated, which is the higher of its value in use and its fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or when there is a downward revision to the estimated future cash flows due to changes in facts and circumstances, further impairment loss may arise.

As at 31 December 2016, the carrying amount of goodwill were RMB1,424,539,000 (31 December 2015: RMB1,441,494,000), net of accumulated impairment loss of RMB111,347,000 (31 December 2015: RMB94,392,000). Details of the recoverable amount calculation are disclosed in note 16.

5. SEGMENT INFORMATION

Information reported to the chief operating decision maker (the "CODM") for the purposes of resources allocation and assessment of segment performance focuses on the type of goods delivered. No operating segment has been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under IFRS 8 Operating Segments are as follows:

- Dairy farming - breeding dairy cows to produce and sell raw milk.
- Liquid milk products production - producing and selling processed liquid milk.

Segment revenue, results, assets and liabilities

For the year ended 31 December 2016

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	3,988,043	1,478,744	5,466,787	(604,476)	4,862,311
Segment cost of sales before raw milk fair value adjustments	2,763,230	1,099,127	3,862,357	(604,230)	3,258,127
Reportable segment profit (loss)	501,238	(355,719)	145,519	(246)	145,273
Loss arising from changes in fair value less costs to sell of dairy cows					(1,058,928)
Share of loss of an associate					(1,616)
Unallocated other income					10,577
Unallocated other gains and losses					229,228
Unallocated expenses					(109,525)
Loss before tax					(784,991)

5. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
As at 31 December 2016					
Segment assets	16,153,073	1,894,221	18,047,294	(942,720)	17,104,574
Unallocated assets					704,130
Consolidated assets					17,808,704
Segment liabilities	8,847,228	1,804,468	10,651,696	(934,350)	9,717,346
Unallocated liabilities					968,462
Consolidated liabilities					10,685,808

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB604,476,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

5. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

For the year ended 31 December 2015

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	4,055,913	1,501,875	5,557,788	(731,447)	4,826,341
Segment cost of sales before raw milk fair value adjustments	2,768,777	1,126,444	3,895,221	(727,923)	3,167,298
Reportable segment profit	712,851	220,530	933,381	(3,524)	929,857
Loss arising from changes in fair value less costs to sell of dairy cows					(474,910)
Share of loss of an associate					(1,192)
Share of profit of joint ventures					5,782
Unallocated other income					12,583
Unallocated other gains and losses					(9,659)
Unallocated expenses					(107,080)
Profit before tax					355,381
As at 31 December 2015					
Segment assets	15,833,395	1,353,217	17,186,612	(577,422)	16,609,190
Unallocated assets					898,646
Consolidated assets					17,507,836
Segment liabilities	7,571,794	1,381,373	8,953,167	(569,298)	8,383,869
Unallocated liabilities					1,173,935
Consolidated liabilities					9,557,804

5. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB731,447,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 31 December 2016

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Unallocated items RMB'000	Total RMB'000
Additions to non-current assets (note i)	1,790,846	87,584	1,878,430	1,527	1,879,957
Depreciation and amortisation charged to profit or loss	253,960	65,261	319,221	4,173	323,394
Impairment loss of trade receivables recognised in profit or loss	1,589	–	1,589	–	1,589
Impairment loss of goodwill	16,955	–	16,955	–	16,955
Impairment loss of property, plant and equipment	69,061	–	69,061	–	69,061
Write-down of inventories to net realisable value	9,701	–	9,701	–	9,701
Marketing and promotion expenses included in selling and distribution costs (note ii)	–	507,731	507,731	–	507,731
Loss on disposal of property, plant and equipment	5,861	411	6,272	985	7,257
Interest income	4,786	337	5,123	10,199	15,322
Finance cost	339,943	28,639	368,582	–	368,582

5. SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

For the year ended 31 December 2015

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Unallocated items RMB'000	Total RMB'000
Additions to non-current assets	4,375,932	150,904	4,526,836	3,285	4,530,121
Depreciation and amortisation charged to profit or loss	216,416	51,992	268,408	6,760	275,168
Impairment loss of goodwill	94,392	—	94,392	—	94,392
(Gain) loss on disposal of property, plant and equipment	(738)	87	(651)	38	(613)
Marketing and promotion expenses included in selling and distribution costs	—	23,100	23,100	—	23,100
Interest income	1,184	54	1,238	11,590	12,828
Finance cost	284,702	30,376	315,078	—	315,078

Notes:

i. Additions to non-current assets comprise biological assets, property, plant and equipment, and land use rights.

ii. Marketing and promotion expenses are incurred for the purpose of promoting the Group's liquid milk products. The Group reformed and expanded its distribution networks to deal with the market competition during the year ended 31 December 2016.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit or loss represents the profit earned by or loss from each segment without including loss arising from changes in fair value less costs to sell of dairy cows, fair value gains/losses from financial liabilities at FVTPL, share of loss of an associate, share of profit of joint ventures, corporate bank interest income, and other head office and corporate income and expenses that are not directly attributable to operating segments. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in an associate, interests in joint ventures, corporate cash and bank balances, other financial asset and other head office and corporate assets; and

- all liabilities are allocated to operating segments other than tax payable, other financial liabilities and other head office or corporate liabilities.

5. SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Raw milk	3,383,567	3,324,466
Processed liquid milk	1,478,744	1,501,875
	4,862,311	4,826,341

Geographic information

Since all the revenue from external customers is derived from the customers located in mainland China and all of the non-current assets are located in mainland China and all the segments are managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information by segment is presented.

Information about major customers

Included in revenue arising from sales of raw milk to external customers of RMB3,383,567,000 (2015: RMB3,324,466,000) are revenue of approximately RMB2,349,781,000 (2015: RMB2,304,424,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the years ended 31 December 2016 and 2015.

6. OTHER INCOME AND OTHER EXPENSES

Other income

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Bank interest income	15,322	12,828
Government grants related to		
– Biological assets (note i)	20,720	4,000
– Other assets (note 31)	21,021	12,375
– Income (note ii)	10,238	2,674
	51,979	19,049
Others	2,559	217
	69,860	32,094

Notes:

i. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of supporting the Group to purchase dairy cows.

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

Other expenses

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Loss from sales of milk powders (note)	71,956	—
Donation expenses	8,456	—
Others	13,912	5,173
	94,324	5,173

Note:

During the year ended 31 December 2016, the Group dehydrated some of its raw milk into milk powders which were intended for feeding calves. The Group subsequently decided to sell to third parties, resulting in a loss of RMB71,956,000, being the excess of the carry value of the milk powders over the proceeds received.

7. (LOSS) PROFIT BEFORE FINANCE COSTS AND TAX

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

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	2,339,029	2,252,096
Production costs for liquid milk products	919,098	915,202
	3,258,127	3,167,298
Gains arsing on initial recognition of raw milk at fair value less cost to sell at the point of harvest	1,116,860	1,203,011
	4,374,987	4,370,309
Other gains and losses:		
Fair value gains from Put Option and Call Option (as defined in note 18)	—	(147,099)
Fair value (gain) loss from contingent considerations (note 20)	(228,540)	197,127
Gains arising on deemed disposal/partial disposal of an associate	(1,462)	(7,336)
Net foreign exchange loss	11,424	92,048
Loss (gain) from disposal of property, plant and equipment	7,257	(613)
Loss arising from closure of a dairy farm:		
Impairment loss of property, plant and equipment (note14)	69,061	—
Write-down of inventories to net realisable value	9,701	—
	78,762	—
Impairment loss of trade receivables	1,589	—
Impairment loss of goodwill	16,955	94,392
Gain arising on remeasurement of joint ventures (note 18)	—	(121,340)
Fair value gain on the Forward (as defined in note 19)	(11,236)	—
Others	(303)	(102)
	(125,554)	107,077
Depreciation of property, plant and equipment	552,306	473,342
Less: capitalised in biological assets	(233,570)	(200,366)
Depreciation charged to profit or loss	318,736	272,976
Equity-settled share option expense	43,143	30,532
Other employee benefits costs	449,382	374,785
Less: capitalised in biological assets	(121,616)	(103,615)
Employee benefits charged to profit or loss	370,909	301,702
Auditors' remuneration	5,000	4,300
Release of land use rights	4,658	2,192

8. FINANCE COSTS

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Interest expenses on:		
Bank borrowings	230,012	269,352
Short-term debentures	43,529	32,788
Medium-term notes	71,624	10,796
Other borrowing	5,112	—
Corporate bond	5,263	—
Total borrowing cost	355,540	312,936
Less: amounts capitalised for construction of property, plant and equipment	(3,033)	(9,458)
Cost of discount of bills receivable	15,949	11,600
Fair value loss on the Swap	126	—
	368,582	315,078

For the year ended 31 December 2016, the borrowing cost was capitalised based on the terms of the general bank borrowings in respect of construction in progress. The weighted average capitalisation rate on general borrowings is 5.46% per annum (2015: 5.52%).

9. INCOME TAX EXPENSE

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	504	11,663

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

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividend income of Aquitair (defined in note 42) from Modern Farming (Group) Co., Ltd. ("Modern Farm") is subject to Irish Income Tax at 25%. As at 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,562,974,000 (31 December 2015: RMB1,512,302,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

9. INCOME TAX EXPENSE *(continued)*

According to the prevailing tax rules and regulation in the PRC, the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC. The Group's subsidiaries engaged in agricultural business for the years ended 31 December 2016 and 2015 are listed as below:

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Modern Farm	Exempted	Exempted
Helingeer Modern Farm Co., Ltd.	Exempted	Exempted
Zhangjiakou Saibei Modern Farm Co., Ltd.	Exempted	Exempted
Wenshang Modern Farm Co., Ltd.	Exempted	Exempted
Shangzhi Modern Farm Co., Ltd.	Exempted	Exempted
Hongya Modern Farm Co., Ltd.	Exempted	Exempted
Modern Farming (Chabei) Co., Ltd.	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd.	Exempted	Exempted
Modern Farm (Feidong) Co., Ltd.	Exempted	Exempted
Modern Farm (Hefei) Co., Ltd.	Exempted	N/A
Modern Farming (Tongshan) Co., Ltd.	Exempted	Exempted
Modern Farming (Tongliao) Co., Ltd.	Exempted	Exempted
Modern Farm (Chabei) Hengsheng Co., Ltd.	Exempted	Exempted
Modern Farm (Bengbu) Co., Ltd.	Exempted	Exempted
Modern Farm (Shuangcheng) Co., Ltd.	Exempted	Exempted
Modern Farm (Jinan) Co., Ltd.	N/A	Exempted
Modern Farm (Shanghe) Co., Ltd.	Exempted	Exempted

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong.

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

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
(Loss) profit before tax	(784,991)	355,381
Tax at applicable income tax rate at 25%	(196,248)	88,846
Effect of tax exemption granted to agricultural entities	(76,682)	(91,137)
Effect of losses incurred for agricultural business and other non-deductible expenses	121,007	11,685
Tax effect of tax losses not recognised	152,427	2,269
Income tax expense	504	11,663

9. INCOME TAX EXPENSE *(continued)*

As at 31 December 2016, the Group's PRC subsidiaries had unused tax losses of RMB629,685,000 (31 December 2015: RMB23,063,000) incurred by non-agricultural business in the PRC. These unused tax losses as at 31 December 2016 will expire in year 2017 to year 2021 if not utilised. No deferred tax asset has been recognised in relation to such tax losses as it is not probable that taxable profit will be available against which the temporary differences can be utilised.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	For the year ended 31 December 2016				
	Directors fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Equity-settled share option expense RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms. Gao Lina	–	2,041	5,760	25	7,826
Mr. Han Chunlin	–	1,231	4,126	25	5,382
Mr. Sun Yugang (note ii)	–	375	3,057	8	3,440
Non-executive directors					
Mr. Yu Xubo	–	–	–	–	–
Mr. Sun Yugang (note ii)	–	–	–	–	–
Mr. Hui Chi Kin Max	–	–	–	–	–
Mr. Wu Jingshui (note iii)	–	–	–	–	–
Mr. Zhang Ping (note iii)	–	–	–	–	–
Mr. Wolhardt Julian Juul	–	–	–	–	–
Independent non-executive directors					
Professor Li Shengli	200	–	–	–	200
Mr. Lee Kong Wai Conway	200	–	–	–	200
Mr. Zou Fei	200	–	–	–	200
Mr. Kang Yan	200	–	–	–	200
	800	3,647	12,943	58	17,448

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

	For the year ended 31 December 2015				
	Directors fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Equity-settled share option expense RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms. Gao Lina	—	1,876	2,930	25	4,831
Mr. Han Chunlin	—	1,170	2,140	25	3,335
Mr. Sun Yugang	—	1,087	2,142	25	3,254
Non-executive directors					
Mr. Yu Xubo	—	—	—	—	—
Mr. Hui Chi Kin Max	—	—	—	—	—
Mr. Wu Jingshui	—	—	—	—	—
Mr. Wolhardt Julian Juul	—	—	—	—	—
Independent non-executive directors					
Professor Li Shengli	200	—	—	—	200
Mr. Lee Kong Wai Conway	200	—	—	—	200
Mr. Zou Fei	200	—	—	—	200
Mr. Kang Yan	200	—	—	—	200
	800	4,133	7,212	75	12,220

Ms. Gao Lina and Mr. Han Chunlin are also the chief executives of the Company. The emoluments disclosed above for executive directors were for the management of the affairs of the Company and the Group. The executive directors were also granted share options under the share option schemes of the Company. Details of the share option scheme are set out in note 33.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Notes:

i. No directors waived or agreed to waive any remuneration during the year ended 31 December 2016 (2015: nil).

ii. Mr. Sun Yugang, an executive director, resigned from his office and has been appointed as non-executive director with effect from 1 October 2016.

iii. Mr. Wu Jingshui, a non-executive director, resigned from his office with effect from 22 March 2016, and Mr. Zhang Ping was appointed as non-executive director with effect from the same date as a replacement of Mr. Wu Jingshui.

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest remuneration in the Group, three (2015: three) are directors of the Company whose emoluments are included in the disclosures in note 10 above. Details of the remuneration of the remaining two (2015: two) individuals for the year are as follows:

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Salaries and allowances	1,382	1,128
Retirement benefits scheme contribution	50	50
Equity-settled share option expense	3,913	2,345
	5,345	3,523

No remuneration was paid by the Group to the Directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2015: nil).

The number of the highest paid employees who are not the Directors whose remuneration fell within the following bands is as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
HK$1,000,001 to HK$1,500,000	—	1
HK$2,000,001 to HK$2,500,000	1	—
HK$2,500,001 to HK$3,000,000	—	1
HK$3,500,001 to HK$4,000,000	1	—
	2	2

Certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option schemes of the Company. Details of the share option scheme are set out in note 33.

12. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2014 Final - 1.2481 HK cents per share	–	49,003

Note:

No dividend (2015: RMB49,003,000) was paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting period.

13. (LOSS) EARNINGS PER SHARE

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

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
(Loss) Earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	(742,103)	321,296

	For the year ended 31 December 2016 Shares	For the year ended 31 December 2015 Shares
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earnings per share	5,302,909,436	5,041,854,854
Effect of share options issued by the Company	–	39,783,628
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	5,302,909,436	5,081,638,482

The calculation of diluted loss per share for the year ended 31 December 2016 has not taken into account the effect of the share options of the Company since the assumed exercise would result in decrease in loss per share.

The calculation of diluted loss per share for the year ended 31 December 2016 has not taken into account the effect of the Supplemental Consideration Shares (as defined in note 20) to be issued since the Supplemental Consideration Shares are part of the Modified Considerations (as defined in note 20) are measured at FVTPL as at 31 December 2016.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
Balance at 1 January 2015	3,937,989	32,259	1,556,286	123,261	5,649,795
Additions	—	1,171	103,851	819,131	924,153
Acquired in a business combination (note 38)	390,088	823	71,539	23,018	485,468
Transfer	585,122	—	216,311	(801,433)	—
Disposals	(4,176)	(7,110)	(50,269)	—	(61,555)
Balance at 31 December 2015	4,909,023	27,143	1,897,718	163,977	6,997,861
Additions	—	1,597	64,782	264,636	331,015
Transfer	182,812	—	145,631	(328,443)	—
Disposals	(11,853)	(2,319)	(59,170)	—	(73,342)
Balance at 31 December 2016	5,079,982	26,421	2,048,961	100,170	7,255,534
Accumulated depreciation					
Balance at 1 January 2015	(731,622)	(10,671)	(406,904)	—	(1,149,197)
Charge for the year	(263,158)	(2,304)	(207,880)	—	(473,342)
Eliminated on disposals of assets	979	3,278	39,946	—	44,203
Balance at 31 December 2015	(993,801)	(9,697)	(574,838)	—	(1,578,336)
Charge for the year	(324,355)	(2,313)	(225,638)	—	(552,306)
Eliminated on disposals of assets	5,354	1,993	54,480	—	61,827
Balance at 31 December 2016	(1,312,802)	(10,017)	(745,996)	—	(2,068,815)
Impairment					
Balance at 1 January 2015 and 31 December 2015	(41,528)	(15)	(1,085)	—	(42,628)
Charge for the year	(62,652)	(99)	(6,310)	—	(69,061)
Balance at 31 December 2016	(104,180)	(114)	(7,395)	—	(111,689)
Carrying amounts					
Balance at 31 December 2016	3,663,000	16,290	1,295,570	100,170	5,075,030
Balance at 31 December 2015	3,873,694	17,431	1,321,795	163,977	5,376,897

Certain of the Group's buildings, plant and equipment with an aggregate carrying amount of RMB241,516,000 (31 December 2015: RMB50,042,000) have been pledged as security for bank borrowings of the Group (note 26).

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimated residual value, at the following rates per annum:

Buildings	4.75%-9.50%
Motor vehicles	19.00%
Plant and equipment	9.50%-19.00%

During the year end 31 December 2016, depreciation charge amounting to RMB233,570,000 (for the year ended 31 December 2015: RMB200,366,000) has been capitalised in the Group's biological assets.

Impairment losses recognised in current year

Since November 2014, the Group's operation of Tongshan Farm (defined in note 42) was suspended. In 2016, management of the Company determined that the operation of Tongshan Farm would not be resumed in the foreseeable future. Management of the Group carried out an impairment review of the recoverable amount of property, plant and equipment in Tongshan Farm and recognised full impairment for property, plant and equipment of Tongshan Farm and recorded impairment loss of RMB69,061,000 (2015: nil) in other gains and losses in the consolidated statement of profit or loss and other comprehensive income in current year.

15. LAND USE RIGHTS

	RMB'000
Balance at 1 January 2015	66,535
Addition	7,013
Acquired in a business combination (note 38)	53,009
Release to profit or loss	(2,192)
Balance at 31 December 2015	124,365
Addition	10,984
Release to profit or loss	(4,658)
Balance at 31 December 2016	130,691

15. LAND USE RIGHTS *(continued)*

	31/12/2016 RMB'000	31/12/2015 RMB'000
Analysed for reporting purpose as:		
– Current assets	4,012	3,743
– Non-current assets	126,679	120,622
	130,691	124,365

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

As at 31 December 2016, land use rights with carrying amount of RMB9,433,000 (31 December 2015: RMB9,677,000) were pledged for certain banking borrowings of the Group (note 26).

16. GOODWILL

	31/12/2016 RMB'000	31/12/2015 RMB'000
Cost		
At 1 January	1,535,886	310,426
Arising on acquisition (note 38)	–	1,225,460
At 31 December	1,535,886	1,535,886
Impairment		
At 1 January	(94,392)	—
Impairment loss recognised in the year	(16,955)	(94,392)
At 31 December	(111,347)	(94,392)
Carrying values		
At 31 December	1,424,539	1,441,494

The Group's goodwill of RMB310,426,000 arose from acquisition of Modern Farm in 2009 (the "2009 Goodwill"). Accordingly, for the purposes of impairment testing, the 2009 Goodwill has been allocated to the dairy farming business of Modern Farm and its subsidiaries at the point of acquisition which are groups of cash generating units engaged in dairy farming operations (the "Modern Farm CGU") and represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

16. GOODWILL *(continued)*

The recoverable amount of the Modern Farm CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 13.0% (31 December 2015: 11.7%). Cash flows beyond the budgeted period are extrapolated using a 2.50% (31 December 2015: 2.50%) growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the Modern Farm CGU to exceed the aggregate recoverable amount of the Modern Farm CGU. No impairment loss was recognised for the year ended 31 December 2016 (2015: nil).

The Group's goodwill of RMB1,225,460,000 arose from acquisition of the ADH Companies (note 38) in 2015 (the "2015 Goodwill"). Accordingly, for the purposes of impairment testing, the 2015 Goodwill has been allocated to the ADH Companies which are groups of cash generating units engaged in dairy farming operations (the "ADH CGU") and represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the ADH CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 13.0% (31 December 2015: 11.7%). Cash flows beyond the budgeted period are extrapolated using a 2.50% (31 December 2015: 2.50%) growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. An impairment loss of RMB16,955,000 (2015:RMB94,392,000) was recognised in other gains and losses in current year, being the excess of the carrying amount of the ADH CGU over the recoverable amount of RMB2,216,775,000 (2015:RMB2,211,593,000) determined based on above value in use calculation.

17. INTEREST IN AN ASSOCIATE

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

Name of company	Place of establishment	Registered capital		Proportion of ownership interest		Principal activities
				31/12/2016	31/12/2015	
		As at 31 December 2016	As at 31 December 2015	%	%	
Qiushi Grass Industry Co., Ltd. ("Qiushi")	PRC	RMB 147,500,000	RMB 147,500,000	N/A	14.4	Planting and sale of forage grass
Modern Farming (Anhui) Ecommerce Co., Ltd. ("MF Ecommerce")	PRC	RMB 10,000,000	N/A	45	N/A	Sales of milk online

17. INTEREST IN AN ASSOCIATE *(continued)*

Qiushi was established on 30 September 2011 as a limited liability company. In September 2015, the former owners of Inner Mongolia Dachen Agriculture Co., Ltd. (內蒙古達晨農業股份有限公司) ("Dachen Agriculture") injected all assets and liabilities of Dachen Agriculture to Qiushi in exchange of 20% equity interest in Qiushi. Upon the completion of the transaction, the Company's share in the equity interest of Qiushi was diluted from 18.0% to 14.4%.

On 24 June 2016, Qiushi restructured its board of directors which resulted in the Group reclassified the investment in Qiushi to AFS equity investment. A gain of RMB1,462,000, being the difference of the fair value and carrying amount of the Group's investment in Qiushi as at 24 June 2016, was recognised in other gains and losses. As at 31 December 2016, the Group's investment in Quishi is measured at cost less impairment because the Group was no longer able to obtain reliable inputs to establish reasonable fair value estimates of Qiushi since the restructure of its board of directors and therefore the Directors are of the opinion that its fair value cannot be measured reliably.

During the year, the Group and two non-related individuals established MF Ecommerce. The Group made cash capital contribution of RMB1,920,000, which accounted for 45% equity interests in MF Ecommerce. MF Ecommerce is accounted for as an associate.

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

(a) Qiushi

	31/12/2016 RMB'000	31/12/2015 RMB'000
Current assets	N/A	501,065
Non-current assets	N/A	177,625
Current liabilities	N/A	(442,866)
Non-current liabilities	N/A	(60,079)

	For the period from 1 January 2016 to 24 June 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Revenue	62,141	331,173
Loss and total comprehensive income for the year	(10,991)	(8,209)
Dividend	—	—

17. INTEREST IN AN ASSOCIATE *(continued)*

(a) Qiushi *(continued)*

Reconciliation of the above summarise financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Net assets of the associate	N/A	175,745
Less: net assets attributable to non-controlling interests	N/A	(1,607)
Net assets of attributable to owners of Qiushi	N/A	174,138
Proportion of the Group's ownership interest in Qiushi	N/A	14.4%
Carrying amount of the Group's interest in Qiushi	N/A	25,076

(b) MF Ecommerce

	31/12/2016 RMB'000	31/12/2015 RMB'000
Current assets	4,267	N/A
Non-current assets	–	N/A
Current liabilities	(73)	N/A
Non-current liabilities	–	N/A

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Revenue	–	N/A
Loss and total comprehensive income for the year	(73)	N/A
Dividend	–	N/A

17. INTEREST IN AN ASSOCIATE *(continued)*

(b) MF Ecommerce *(continued)*

Reconciliation of the above summarise financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Net assets of the associate	4,194	N/A
Proportion of the Group's ownership interest in MF Ecommerce	45%	N/A
Carrying amount of the Group's interest in MF Ecommerce	1,887	N/A

18. INTERESTS IN JOINT VENTURES

Details of the Group's interests in joint ventures are as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Cost of investments in joint ventures	N/A	154,771
Share of post-acquisition profits and other comprehensive income	N/A	12,499
Decrease due to acquisition of subsidiaries (note 38)	N/A	(167,270)
	N/A	—

Details of the Group's interests in joint ventures at 31 December 2015 and 2016 are as follows:

Name of company	Place of establishment	Issued and fully paud capital		Proportion of ownership interest 31/12/2016	Proportion of ownership interest 31/12/2015	Principal activities
		As at 31 December 2016	As at 31 December 2015	%	%	
Asia Dairy Holdings Limited (the "ADH 1")	Cayman Islands	US$20	US$20	N/A	N/A	Breeding dairy cows and production of raw milk
Asia Dairy Holdings II Limited (the "ADH II")	Cayman Islands	US$20	US$20	N/A	N/A	Breeding dairy cows and production of raw milk

18. INTERESTS IN JOINT VENTURES *(continued)*

On 23 September 2013, the Company entered into an agreement (the "JV Agreement I") with Success Dairy II Limited ("Success Dairy"). Pursuant to the JV Agreement I, the Company and Success Dairy established ADH I, an investment holding company incorporated in the Cayman Islands which indirectly owns Modern Farm (Shanghe) Co., Ltd. (現代牧業(商河)有限公司), a subsidiary established in the PRC. The principal activities of the ADH I and its subsidiaries are breeding dairy cows and production of raw milk in Shandong province, the PRC. According to the JV Agreement I, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company I.

On 23 September 2013, the Company also entered into an agreement (the "JV Agreement II") (the JV Agreement I and the JV Agreement II are collectively referred to as the "JV Agreements") with Success Dairy. Pursuant to the JV Agreement II, the Company and Success Dairy established the ADH II (the ADH I and the ADH II are collectively referred to as the "ADH Companies"), an investment holding company incorporated in the Cayman Islands which indirectly owns Modern Farm (Jinan) Co., Ltd. (現代牧業(濟南)有限公司), a subsidiary established in the PRC. The principal activities of the JV Company II and its subsidiaries are dairy farming operation in Shandong province, the PRC. According to the JV Agreement II, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company II.

Pursuant to the JV Agreements, the Company was entitled to nominate one director of ADH I and ADH II, respectively, and vote on any matters that is a Reserved Matter (as defined in the JV Agreement I and JV Agreement II, including but not limited to execution of material contracts, approve annual budget, major investment, financing and dividend policies) required unanimous consent of the directors nominated by both of the Success Dairy and the Company. The Directors considered that the Reserved Matters are relevant activities as defined under IFRS 10 Consolidated Financial Statements and therefore ADH I and ADH II was under joint control of the Company and Success Dairy.

Pursuant to the JV Agreements: (1) the Company granted to Success Dairy an option to require the Company to purchase from Success Dairy up to all loans or borrowings owed by ADH Companies to Success Dairy from time to time and the shares held by Success Dairy in the ADH Companies from time to time (the above are collectively referred to as the "Success Dairy Assets") (the "Put Option"); and (2) Success Dairy granted the Company an option to require Success Dairy to sell to the Company up to all the Success Dairy Assets (the "Call Option"). The Put and Call Options will be exercisable three years after the first day on which the farms owned by the ADH Companies produce milk for sale and will expire by the end of the seventh year after the date of the JV Agreements. The Put Option and Call Option are exercisable for JV Agreement I and JV Agreement II in 2017 and 2018, respectively.

The exercise price for the Put Option and the Call Option shall be calculated with reference to the highest of the following:

(i) ((Market capitalization of the Company + Company net debt)/Company last twelve months (the "LTM ") Cash EBITDA x 0.8 x ADH Companies LTM Cash EBITDA - ADH Companies net debt) x Success Dairy's shareholding interest in the ADH Companies;

(ii) (12 x ADH Companies LTM Cash EBITDA - ADH Companies net debt) x Success Dairy's shareholding interests in the ADH Companies; and

(iii) 7% compound investment rate of return on the capital contribution by Success Dairy.

The Put Option and the Call Option may be exercised anytime between three to seven years after the first day on which the ADH Companies produces milk for sale.

18. INTERESTS IN JOINT VENTURES *(continued)*

On 6 July 2015, the Company and Success Dairy entered into an agreement (the "Share Purchase Agreement") pursuant to which the Company agreed to purchase and Success Dairy agreed to sell the 82% equity interests in the ADH Companies held by Success Dairy (the "Acquisition"). The sale and purchase price of the 82% equity interest is determined by reference to 12 times of the projected average LTM Cash EBITDA of the ADH Companies in year 2017 and 2018. Upon the completion of the Acquisition on 20 July 2015, the ADH Companies became 100% subsidiaries of the Company (note 38). The 18% equity interests previously held by the Company was remeasured at fair value at the date of Acquisition and the excess of the fair value over the carrying value of RMB121,340,000 was credited to profit or loss.

The total consideration payable by the Company for the Acquisition shall be the issuance of 477,429,132 ordinary shares of the Company (the "Consideration Shares"), representing approximately 9.0% of the enlarged issued share capital of the Company.

Pursuant to the Share Purchase Agreement, Success Dairy has undertaken to the Company that it shall not, and will procure that none of its affiliates will, at any time during a three-year period (the "Lock-up Period") from the date on which the sale and purchase of the Success Dairy Assets pursuant to the Share Purchase Agreement has been completed, transfer or dispose of any Consideration Shares.

Upon the expiry of the Lock-up Period, in the event that:

➢ the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is less than US$308 million, the Company shall pay Success Dairy by further issuance of ordinary shares of the Company and/or in immediately available funds the difference between the value of the Consideration Shares and US$308 million (the "Value Adjustment Undertaking I"); or

➢ the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is more than US$363 million, Success Dairy shall pay the Company in cash or shall return part of the Consideration Shares equivalent in value to 20.0% of the difference between the value of the Consideration Shares and US$363 million to the Company (the "Value Adjustment Undertaking II") (the Value Adjustment Undertaking I and the Value Adjustment Undertaking II are collectively referred to as the "Value Adjustment Undertakings").

On 12 December 2016, the Group and Success Dairy entered into a supplemental deed to the Share Purchase Agreement, pursuant to which, either party is granted an option to request the counterparty to early settle the Value Adjustment Undertakings. Details of the supplemental deed are set out in note 20.

18. INTERESTS IN JOINT VENTURES *(continued)*

(a) ADH I

The summarised financial information in respect of the ADH I:

	For the year ended 31 December 2016 RMB'000	For the period from 1 January 2015 to 20 July 2015 RMB'000
Revenue	N/A	63,987
Profit and total comprehensive income for the year/period	N/A	13,282
Dividend	N/A	—

	For the year ended 31 December 2016 RMB'000	For the period from 1 January 2015 to 20 July 2015 RMB'000
Depreciation and amortisation charged to profit or loss	N/A	3,641
Interest income	N/A	273
Interest expense	N/A	—
Income tax expense	N/A	—

18. INTERESTS IN JOINT VENTURES *(continued)*

(b) ADH II

The summarised financial information in respect of ADH II:

	For the year ended 31 December 2016 RMB'000	For the period from 1 January 2015 to 20 July 2015 RMB'000
Revenue	N/A	—
Profit and total comprehensive income for the year/period	N/A	18,842
Dividend	N/A	—

	For the year ended 31 December 2016 RMB'000	For the period from 1 January 2015 to 20 July 2015 RMB'000
Depreciation and amortisation charged to profit or loss	N/A	4,536
Interest income	N/A	867
Interest expense	N/A	—
Income tax expense	N/A	—

19. OTHER FINANCIAL ASSET

In April 2016, Modern Farm borrowed a loan from China Construction Bank ("CCB") to finance its operations (the "Loan"). The Loan has a principal of US$28,000,000 at a floating interest rate determined as "three-month US$ LIBOR + 0.9%". The loan will mature by 31 March 2017. In order to manage the volatility risk arising from fluctuations in RMB/US$ foreign exchange rate on principal repayment, Modern Farm entered into a forward contract (the "Forward") in April 2016 with CCB at forward rate of US$1: RMB6.5676. In May 2016, Modern Farm further fixed the interest rate at 2.20% by entering into a swap contract (the "Swap") with CCB, pursuant to which Modern Farm shall pay a fixed interest rate of 2.20% to CCB and receive a floating interest rate determined as the "three-month US$ LIBOR + 0.9%" from CCB on the notional amount of US$28,000,000, both of which shall be settled quarterly. The fair value changes of the Forward and the Swap are gain of RMB11,236,000 and loss of RMB126,000 (included in note 20) respectively for the year ended 31 December 2016 which are recognised in other gains and losses and finance costs respectively. The valuation techniques used in determination of fair values of the Forward and the Swap are disclosed in note 36.

20. OTHER FINANCIAL LIABILITIES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Financial liabilities measured at FVTPL		
Modified Considerations (note ii)/original contingent consideration (note i)	926,932	1,155,472
The Swap (note 19)	126	—
	927,058	1,155,472

Notes:

(i) It represents the fair value of the Value Adjustment Undertakings as described in note 18 which has been recognised as a financial liability at FVTPL.

The fair values of the Value Adjustment Undertakings as at 31 December 2015 were independently valued by Jones Lang LaSalle Corporate Appraisal And Advisory Limited ("JLL") and have been determined by using a Binominal Option Pricing Model with the following assumptions:

	31/12/2016	31/12/2015
Spot price	N/A	US$123,811,000
Exercise price		
– Value Adjustment Undertaking I	N/A	US$308,000,000
– Value Adjustment Undertaking II	N/A	US$363,000,000
Expected volatility	N/A	40.000%
Risk-free interest rate	N/A	1.33%
Dividend yield	N/A	0.64%

A fair value loss of RMB197,127,000 was recognised in other gains and losses for the year ended 31 December 2015.

20. OTHER FINANCIAL LIABILITIES *(continued)*

Notes: *(continued)*

(ii) On 12 December 2016, the Group and Success Dairy entered into a supplemental deed to the Share Purchase Agreement, pursuant to which, either party is granted an option to request the counterparty to early settle the Value Adjustment Undertakings. Upon the exercise of the option by either party, the option granted to the counterparty will lapse automatically. Pursuant to the supplemental deed, Success Dairy shall have the rights to request the Group to settle the Value Adjustment Undertakings by delivery of shares and/or cash at the exercise price set out in the supplemental deed, the details of which are included in the Gruop's announcement dated 12 December 2016.

On 28 December 2016, Success Dairy issued a conditional exercise notice (the "Exercise Notice") to the Group, pursuant to which Success Dairy conditionally exercised its option to early settle the Value Adjustment Undertakings at total considerations of US$254,800,000 including values of the Consideration Shares previously issued to Success Dairy. Pursuant to the settlement arrangement, the Group shall issue additional 488,036,618 ordinary shares (the "Supplemental Consideration Shares", the market value of which amounted to RMB833,808,000 at 31 December 2016) and pay cash of US$13,424,231 (equivalent to RMB93,124,000 as at 31 December 2016) (the "Cash Considerations", together with the Supplemental Consideration Shares are referred to as "Modified Considerations"). The exercise notice is conditional on the signing of a sale and purchase agreement between Success Dairy and China Mengniu Dairy Company Limited (the "Mengniu Company") in respect of the Company's ordinary shares owned by Success Dairy on or before 6 January 2017 and the shareholders' approval of the sale and purchase agreement at the shareholders' meeting of Mengniu Company on or before 13 March 2017.

On 4 January 2017, a share purchase agreement between Success Dairy and Mengniu Company was entered into. Subsequently, the share purchase agreement was approved by an extraordinary general meeting of Mengniu on 3 February 2017. On 7 February 2017, the Modified Considerations were settled by the Company. As at 31 December 2016, the fair value of the Modified Considerations is estimated by reference to the Cash Considerations and the fair value of the Supplemental Consideration Shares. A gain of RMB228,540,000 resulting from the remeasurement is recognised in other gains and losses in current year. The Group's obligation to issue the Supplemental Consideration Shares continued to be presented as a financial liability as the conditions attaching to the Exercise Notice had not been met as at 31 December 2016.

21. BIOLOGICAL ASSETS

A - Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk.

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

	31/12/2016 heads	31/12/2015 heads
Milkable cows	119,286	114,751
Heifers and calves	109,914	110,791
Total dairy cows	229,200	225,542

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

21. BIOLOGICAL ASSETS *(continued)*

A - Nature of activities *(continued)*

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

When a heifer begins to produce raw milk, it is transferred to the category of milkable cows based on the estimated fair value on the date of transfer.

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

i. Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates plantation and breeding. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

ii. Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls and surveys and insurance.

B - Quantity of the agricultural produce of the Group's biological assets

	For the year ended 31 December 2016 KG	For the year ended 31 December 2015 KG
Volume of milk sold	1,009,854,000	924,093,000

21. BIOLOGICAL ASSETS *(continued)*

C - Value of dairy cows

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

	31/12/2016 RMB'000	31/12/2015 RMB'000
Milkable cows	5,173,559	4,813,178
Heifers and calves	2,429,400	2,777,700
Total dairy cows	7,602,959	7,590,878

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance at 1 January 2015	2,183,700	4,347,114	6,530,814
Increase due to business combination (note 38)	325,597	143,230	468,827
Feeding cost and other related costs	1,513,592	—	1,513,592
Transfer	(1,783,112)	1,783,112	—
Decrease due to disposal	(70,290)	(377,155)	(447,445)
Gain (loss) arising from changes in fair value less costs of dairy cows	608,213	(1,083,123)	(474,910)
Balance at 31 December 2015	2,777,700	4,813,178	7,590,878
Feeding cost and other related costs	1,537,958	—	1,537,958
Transfer	(2,040,479)	2,040,479	—
Decrease due to disposal	(71,219)	(395,730)	(466,949)
Gain (loss) arising from changes in fair value less costs of dairy cows	225,440	(1,284,368)	(1,058,928)
Balance at 31 December 2016	2,429,400	5,173,559	7,602,959

21. BIOLOGICAL ASSETS *(continued)*

C - Value of dairy cows *(continued)*

The Directors have engaged JLL to assist the Group in assessing the fair values of the Group's dairy cows. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in note 36.

As at 31 December 2016, the Group has pledged dairy cows of RMB2,729,867,000 (31 December 2015: RMB2,769,734,000) to banks to secure certain borrowings of the Group (note 26).

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

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	1,116,860	1,203,011
Loss arising from changes in fair value less costs to sell of dairy cows	(1,058,928)	(474,910)
	57,932	728,101

22. INVENTORIES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Feeds	857,308	705,291
Finished goods	51,944	51,627
Others	71,262	77,181
	980,514	834,099

23. TRADE AND OTHER RECEIVABLES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Trade receivables	1,217,606	882,751
Bills receivable	1,500	23,153
Less: allowance for doubtful debts	(1,589)	—
	1,217,517	905,904
Advanced payments	82,787	105,082
Receivable in respect of sales of self-reproduced dairy cows	—	57,922
Input value added tax recoverable	31,261	7,905
Interest receivables	694	1,909
Receivables in respect of disposal of property, plant and equipment	9,842	10,868
Others	6,379	8,204
	1,348,480	1,097,794

The Group normally allows credit periods of 30 to 120 days to its customers. The Group may consider to extend credit periods to up to 360 days for certain customers that have long relationship with the Group on a case by case basis.

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

	31/12/2016 RMB'000	31/12/2015 RMB'000
Trade receivables		
– within 120 days	672,426	880,751
– beyond 120 days but within 360 days	461,328	2,000
– beyond 360 days	82,263	—
Bills receivable		
– within 120 days	—	23,153
– beyond 120 days but within 360 days	1,500	—
	1,217,517	905,904

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

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits. Credit quality and credit limits attributed to customers are reviewed once a year. As at 31 December 2016, 92% (2015: 99%) of the trade receivables that are neither past due nor impaired have the best credit scoring under the internal credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB98,407,000 (31 December 2015:RMB2,000,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 385 days (2015: 440 days).

23. TRADE AND OTHER RECEIVABLES *(continued)*

Aging of trade receivables which are past due but not impaired

	31/12/2016 RMB'000	31/12/2015 RMB'000
1-90 days past due	72,441	—
91-180 days past due	25,966	—
271-360 days past due	—	2,000
Total	98,407	2,000

Movement in the allowance for doubtful debts

	31/12/2016 RMB'000	31/12/2015 RMB'000
1 January	—	—
Impairment loss recognised during the year	1,589	—
31 December	1,589	—

Included in the allowance of doubtful debts are individually impaired trade receivable with an aggregate balance of RMB1,589,000 (31 December 2015: nil).

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2016 that were transferred to suppliers by endorsing those receivables on a full recourse basis but not matured at the end of the reporting period (31 December 2015: RMB23,153,000). As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets are carried at amortised cost in the Group's consolidated financial statements.

23. TRADE AND OTHER RECEIVABLES *(continued)*

Transfers of financial assets *(continued)*

Bills receivable endorsed to suppliers with full recourse

	31/12/2016 RMB'000	31/12/2015 RMB'000
Carrying amount of transferred assets	1,500	23,153
Carrying amount of associated liabilities	(1,500)	(23,153)
Net position	–	—

All the bills receivable endorsed to suppliers have a maturity date of less than one year from the the end of the reporting period.

24. PLEDGED BANK BALANCES, NON-PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

Pledged bank balances and non-pledged bank deposits

	31/12/2016 RMB'000	31/12/2015 RMB'000
Pledged bank balances	124,874	183,664
Non-pledged bank deposits with original maturity of more than three months	231,750	350,202
	356,624	533,866

The pledged bank balances as at 31 December 2016 represent deposits pledged for letter of credit and bills payable. The pledged bank balances carry interest at prevailing market saving rates ranging from 0.35% to 1.95% (31 December 2015: 0.35% to 3.25%) per annum at 31 December 2016.

Non-pledged bank deposits with original maturity of more than three months are held with banks and carry interest at prevailing market saving rates ranging from 1.56% to 1.80% (31 December 2015: 1.30% to 2.38%) per annum at 31 December 2016.

Cash and bank balances

Cash and bank balances comprise cash and short-term deposits with an original maturity of three months or less which are held with banks and carry interest at prevailing market saving rate of 0.35% (31 December 2015: 0.35% to 1.10%) per annum at 31 December 2016.

Pledged bank balances, non-pledged bank deposits and cash and bank balances at 31 December 2015 and 2016 are denominated in United States Dollar ("US$"), Euro ("EUR"), Hong Kong Dollar ("HK$") and RMB. RMB is not freely convertible in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

24. PLEDGED BANK BALANCES, NON-PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES *(continued)*

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

	31/12/2016 RMB'000	31/12/2015 RMB'000
US$ - pledged bank balances	6,237	45,868
US$ - non-pledged bank deposits	—	48,702
US$ - cash and bank balances	41,985	45,727
EUR - cash and bank balances	1,019	924
HK$ - cash and bank balances	802	14,318

25. TRADE AND OTHER PAYABLES

The credit period granted by suppliers for trade purchases is generally 120 days. The following is an aged analysis of trade and bills payable at the end of the reporting period:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Trade payables		
– within 60 days	1,204,450	817,966
– beyond 60 days but within 120 days	213,399	68,243
– beyond 120 days	84,293	15,088
Bills payable (note)	377,055	310,268
	1,879,197	1,211,565
Payable for acquisition of property, plant and equipment	554,959	631,208
Accrued staff costs	70,965	61,084
Accrued interest expenses	102,009	28,680
Advance payments from customers	77,119	12,931
Others	97,478	67,508
	2,781,727	2,012,976

Note: Bills payable are bank accepted and mature within twelve months from the respective issuance dates.

26. BANK BORROWINGS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Bank borrowings	3,885,825	5,647,251
Unsecured borrowings	2,000,736	1,796,381
Secured borrowings (note i)	404,589	3,165,870
Guaranteed borrowings (note ii)	1,480,500	685,000
	3,885,825	5,647,251
Carrying amount repayable:		
Within one year	3,278,325	4,825,521
Between one to two years	133,000	749,230
Between two to five years	474,500	72,500
	3,885,825	5,647,251
Less: Amounts due within one year shown under current liabilities	3,278,325	4,825,521
	607,500	821,730

The bank borrowings comprise:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Fixed-rate borrowings	2,199,859	1,841,381
Variable-rate borrowings	1,685,966	3,805,870
	3,885,825	5,647,251

26. BANK BORROWINGS *(continued)*

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

	31/12/2016	31/12/2015
Fixed-rate borrowings	3.6%-4.75%	0.86%-6.30%
Variable-rate borrowings	1.90%-6.4%	2.15%-7.05%

Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China and the London Interbank Offered Rate.

As at 31 December 2016, bank borrowings denominated in RMB and US$ are approximately RMB3,691,589,000 (31 December 2015: RMB3,045,530,000) and RMB194,236,000 (31 December 2015: RMB2,601,721,000) respectively.

Notes:

i. Certain loans as at 31 December 2016 and 2015 were secured by certain properties, land use rights and biological assets owned by the Group as set out in notes 14, 15 and 21 respectively; and certain loan as at 31 December 2015 was secured by all of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the "Shares") and all dividends, interest and other monies payable in respect of the shares and all other rights, benefits and proceeds in respect of or derived from the Shares (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) of Advanced Dairy Company (Luxemburg) Limited.

ii. The balances were guaranteed by group entities within the Group.

27. SHORT-TERM DEBENTURES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Short-term debentures - unsecured	799,425	400,000

Notes:

i. On 2 September 2016, 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 nine months. The short-term debenture bears a fixed interest rate of 5.00% per annum. Related transaction costs amounted to RMB900,000. The effective interest rate is 5.42% per annum.

ii. On 16 June 2016, Modern Farm issued short-term debenture with a principal amount of RMB500,000,000 through China Construction Bank Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 4.67% per annum. Related transaction costs amounted to RMB1,500,000. The effective interest rate is 5.09% per annum.

iii. On 25 January 2016, Modern Farm issued short-term debenture with a principal amount of RMB500,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 3.89% per annum. Related transaction costs amounted to RMB1,500,000. It was repaid on 21 Octorber 2016. The effective interest rate is 4.30% per annum.

iv. On 24 September 2015, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through Industrial and Commercial Bank of China Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 3.98% per annum. It was repaid on 19 June 2016.

28. MEDIUM-TERM NOTES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Medium-term notes	1,796,605	200,000

Notes:

i. On 23 March 2016, Modern Farm issued medium-term notes with an aggregate principal amount of RMB1,000,000,000 which will mature in two years. The medium-term notes bear a fixed interest rate of 4.60% per annum. Related transaction costs amounted to RMB3,000,000. The effective interest rate is 4.76% per annum.

ii. On 23 March 2016, Modern Farm issued medium-term notes with an aggregate principal amount of RMB600,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 4.75% per annum. Related transaction costs amounted to RMB1,800,000. The effective interest rate is 4.86% per annum.

iii. On 11 February 2015, Modern farm issued medium-term notes with an aggregate principal amount of RMB200,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 6.00% per annum.

29. CORPORATE BOND

	31/12/2016 RMB'000	31/12/2015 RMB'000
Corporate bond	249,020	—

Note: In June 2016, the Group obtained approval from China Securities Regulatory Commission to issue corporate bond in the PRC of an aggregate principal amount up to RMB2,000,000,000 within 24 months from the approval. On 12 August 2016, the Group issued the first tranche of the corporate bond of an aggregate principal amount of RMB250,000,000 which will mature in three years. The corporate bond bear a fixed interest rate of 5.30% per annum. Related transaction costs amounted to RMB1,125,000. The effective interest rate is 5.47% per annum.

30. OTHER BORROWING

In June 2016, the Group entered into a financing arrangement with Far Eastern Leasing Co., Ltd., pursuant to which the Group transferred the legal title of certain equipment of the Group to Far Eastern Leasing Co., Ltd. at net consideration of RMB96,250,000. The Group is obligated to pay quarterly instalment of RMB11,325,000 from July 2016 to July 2018 and the remaining balance of RMB6,913,000 will be paid in October 2018. Upon the maturity of the lease, the Group is entitled to purchase back the equipment at cash consideration of RMB100. Despite the arrangement involves a legal form of a lease, the Group accounted for the arrangement as a collateralised borrowing at amortised cost using effective interest method, in accordance with the substance of the arrangement.

	31/12/2016 RMB'000	31/12/2015 RMB'000
Principal amount payable:		
Within one year	38,527	—
Within a period of more than one year but not more than two years	36,962	—
	75,489	—
Less: Amount due for settlement within 12 months (shown under current liabilities)	(38,527)	—
Amount due for settlement after 12 months	36,962	—

31. DEFERRED INCOME

	Arising from government grants RMB'000
Balance at 1 January 2015	120,421
Addition	33,778
Released to income	(12,375)
Balance at 31 December 2015	141,824
Addition	49,799
Released to income	(21,021)
Balance at 31 December 2016	170,602

Deferred income represents government grants obtained in relation to the construction and acquisition of property, plant and equipment. Government grants are included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a straight-line basis over the useful lives of the related assets.

32. SHARE CAPITAL AND RESERVES

Share capital

	Number of shares '000	Share capital HK$'000
Authorised		
At 31 December 2015 and 2016	10,000,000	1,000,000
Issued and fully paid		
At 1 January 2015	4,827,339	482,734
Issued and fully paid	477,429	47,743
At 31 December 2015 and 2016		
- ordinary shares of HK$0.1 each	5,304,768	530,477

	31/12/2016 RMB'000	31/12/2015 RMB'000
Presented as	452,959	452,959

Other reserve

	Other reserve RMB'000
Balance at 1 January 2015, 31 December 2015 and 2016	1,585,752

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

32. SHARE CAPITAL AND RESERVES *(continued)*

Shares held under the Share Award Scheme

	Treasury Share reserve RMB'000
Balance at 1 January 2015 and 31 December 2015	—
Purchase of ordinary shares for the Share Award Scheme	61,424
Balance at 31 December 2016	61,424

On 9 September 2016 (the "Adoption Date"), the Company adopted a share award scheme (the "Share Award Scheme") to motivate and award the contribution of certain members of management of the Group. The Share Award Scheme is valid and effective for a period of 5 years commencing on the Adoption Date. The shares to be awarded under the Share Award Scheme will be acquired by the Company through Dairy Fortune Limited ("Dairy Fortune") which is 100% owned by Dairy Fortune (PTC) Limited (the "Trustee") from the open market by cash contributed by the Group under the directions of the Company and will be held in trust for the relevant selected participants until such shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme. During the year ended 31 December 2016, the Company advanced an aggregate amount of HK$68,966,000 (equivalent to approximately RMB61,425,000) to Dairy Fortune to purchase the Company's existing ordinary shares of 35,519,000 shares on open market. As at 31 December 2016, the participants of the Share Award Scheme had not yet been selected by the Company.

Based on the trust arrangements among the Company, the sole shareholder of the Trustee and the Trustee, the Company is able to control the Trustee and its subsidiary, Dairy Fortune, pursuant to IFRS10 Consolidated Financial Statements. Therefore, the Group accounts for the Trustee and Dairy Fortune as consolidated structured entities. The ordinary shares of the Company held by Dairy Fortune as at 31 December 2016 are accounted for as a debit to the Group's reserve and are presented under the account of "Shares held under the Share Award Scheme" in the consolidated financial statements.

33. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Company's 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 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the 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 0.1% of the total shares of the Company 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 were granted to two directors and 128 eligible employees (collectively, the "Scheme I Grantees "), subject to acceptance of the grantees, under the Company's 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 granted options and are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, 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 and on fulfilment of the service condition are vested on a one-off basis at the end of the third financial period. Any of the Share Options I not vested as a result of non-fulfillment of the performance target at the end of the respective specific financial periods has automatically lapsed.

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

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

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

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 Options become vested

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

Category	Outstanding as at 1 January 2016	Forfeited* during the year	Outstanding as at 31 December 2016
Share Option A	4,780,267	—	4,780,267
Share Option B	24,603,489	(2,060,441)	22,543,048
	29,383,756	(2,060,441)	27,323,315

Category	Outstanding as at 1 January 2015	Forfeited* during the year	Outstanding as at 31 December 2015
Share Option A	4,780,267	—	4,780,267
Share Option B	27,325,916	(2,722,427)	24,603,489
	32,106,183	(2,722,427)	29,383,756

* Pursuant to the rules of Share Options I, the Share Options I were forfeited after vesting due to the fact that the relevant Scheme I Grantees had not exercised their share options within one month after resignation from the Group. Accordingly, the amount of RMB1,015,000 (2015: nil) previously recognised in share options reserve in relation to these forfeited options was transferred to retained earnings during the current year.

The fair values of Share Option A and Share Option B determined at the date 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.

No share option expense in respect of the Share Options I was recognised during the current year (2015: RMB2,370,000) in respect of the Share Option I. All of the Share Options I are exercisable as at 31 December 2015 and 2016.

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

(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 30% 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 0.1% of the total shares of the Company 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 to three directors and 148 eligible employees (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.

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 are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, 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 is the financial year ended 31 December 2015; and the financial period for the third tranche is the financial year ending 31 December 2016. Each tranche of the Share Options II-i after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis at the end of the third financial period. Any of the Share Options II-i not vested as a result of non-fulfilment of the performance target 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.

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

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

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

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 2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2016
Share Option C	16,779,823	–	–	–	16,779,823
Share Option D	52,542,911	–	–	(4,678,115)	47,864,796
	69,322,734	–	–	(4,678,115)	64,644,619

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2015
Share Option C	17,000,000	—	—	(220,177)	16,779,823
Share Option D	60,848,683	—	—	(8,305,772)	52,542,911
	77,848,683	—	—	(8,525,949)	69,322,734

The fair values of the Share Option C and the Share Option D determined at the date 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 variables and assumptions used in computing the fair value of the share options are based on the best estimate of the Directors. 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 RMB30,019,000 in respect of the Share Option Scheme II-i during the current year (2015: RMB23,646,000), taking into consideration of forfeiture before vesting. None of the Share Options II-i was exercisable as at 31 December 2016 (31 December 2015: none).

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

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

(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 to one executive and 31 eligible employees (collectively referred to as 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.

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 are associated with a performance target within a specific financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, 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 and there is no performance condition but only service condition attached to the first tranche; the financial period for the second tranche is the financial year ended 31 December 2015; and the financial period for the third tranche is the financial year ending 31 December 2016. Each tranche of the Share Options II-ii after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis at the end of the third financial period. Any of the Share Options II-ii not vested as a result of non-fulfilment of the performance target 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

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

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

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

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

Category	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2016
Share Option E	3,333,333	—	—	—	3,333,333
Share Option F	4,969,456	—	—	(626,101)	4,343,355
	8,302,789	—	—	(626,101)	7,676,688

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2015
Share Option E	—	3,333,333	—	—	3,333,333
Share Option F	—	7,633,340	—	(2,663,884)	4,969,456
	—	10,966,673	—	(2,663,884)	8,302,789

The fair values of the Share Option E and the Share Option F determined at the date of grant using the Binomial Option Pricing Model were HK$3,772,000 (equivalent to RMB2,975,000) and HK$7,389,000 (equivalent to RMB5,827,000) respectively.

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-optional factor	2.2	1.6

Expected volatility was determined by using the historical volatility of the Company's share price over the years since being listed.

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

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

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

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the Directors. 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 RMB2,619,000 in respect of the Share Options II-ii during the current year (2015: RMB4,516,000), taking into consideration of forfeiture before vesting. None of the Share Options II-ii was exercisable as at 31 December 2016 (31 December 2015: none).

(iii) The Share Options II-iii

On 9 September 2016, the Company announced that a total of 9,033,327 share options (the "Share Options II-iii") to subscribe for shares were granted to 4 executives (including two directors) and 3 eligible employees (collectively, the "Scheme II-iii Grantees "), under the Share Option Scheme II adopted by the Company on 5 June 2014.

The Share Options II-iii shall entitle the Scheme II-iii Grantees to subscribe for an aggregate of 9,033,327 new shares upon the exercise of the Share Options II-iii in full at an exercise price of HK$1.52 per share.

Pursuant to the rules of the Share Option Scheme II, the Share Options II-iii granted to each of the Scheme II Grantees are associated with a performance target for the year ended 31 December 2016. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme II-iii Grantees. The Share Options II-iii after meeting the performance target and on fulfilment of the service condition are vested on a one-off basis at 31 December 2016. Any of the Share Options II-iii not vested as a result of non-fulfillment of the performance target shall automatically lapse.

Out of the aggregate of 9,033,327 Share Options II-iii, 6,500,000 Share Options II-iii were granted to 4 executives of the Company ("Share Option G") and the remaining Share Options II-iii were granted to three eligible employees ("Share Option H"), respectively.

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

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

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

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

Exercise price of the Share Options II-iii:	HK$1.52
Closing price of the shares on the date of grant:	HK$1.51
Validity period of the Share Options II-iii:	Five (5) years on the date when the Options become vested

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

Category	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2016
Share Option G	–	6,500,000	–	–	6,500,000
Share Option H	–	2,533,327	–	–	2,533,327
	–	9,033,327	–	–	9,033,327

The fair values of Share Option G and Share Option H determined at the date of grant using the Binomial Option Pricing Model were HK$ 3,958,000 (equivalent to RMB 3,400,000) and HK$ 1,394,000 (equivalent to RMB 1,197,000) respectively.

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

	Share Options G	Share Options H
Grant date share price	HK$1.51	HK$1.51
Exercise price	HK$1.52	HK$1.52
Expected volatility	46.19%	46.19%
Option life	Five years	Five years
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.72%	0.72%
Sub-optional factor	2.8	2.2

Expected volatility was determined by using the historical volatility of the Company's share price over the years since being listed.

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

The Company recognised a share option expense of RMB4,462,000 during the current year in respect of the Share Option II-iii (2015: nil), taking into consideration of forfeiture before vesting. None of the Share Options II-iii was exercisable as at 31 December 2016.

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

(c) The Share Option Scheme III

The Company's share option scheme III (the "Share Option Scheme III") was adopted pursuant to a resolution passed on 30 September 2016 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 III and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the 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 0.1% of the total shares of the Company then in issue.

On 8 November 2016, the Company announced that a total of 146,650,000 share options (the "Share Options III") to subscribe for shares of HK$0.10 each in the capital of the Company were granted to 7 executives (including 2 directors) and 222 eligible employees (collectively, the "Scheme III Grantees "), subject to acceptance of the grantees, under the Company's Share Option Scheme III adopted by the Company on 8 November 2016.

The Share Options III shall entitle the Scheme III Grantees to subscribe for an aggregate of 146,650,000 new shares upon the exercise of the Share Options III in full at an exercise price of HK$1.71 per share.

Pursuant to the rules of the Share Option Scheme III, the Share Options III granted to each of the Scheme III Grantees are deemed to be divided into three tranches, each of which consists of one third of the granted options and are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme III Grantees. The financial period for the first tranche is the 12 months ended 31 December 2016; the financial period for the second tranche is the 12 months ended 31 December 2017; and the financial period for the third tranche is the 12 months ended 31 December 2018. Each tranche of the Share Options III after meeting the respective performance target and on fulfilment of the service condition are vested on a one-off basis at the end of the third financial period. Any of the Share Options III not vested as a result of non-fulfillment of the performance target at the end of the respective specific financial periods shall automatically lapse.

Out of the aggregate of 146,650,000 Share Options III, 38,600,000 Share Options III were granted to 7 executives of the Company ("Share Option I") and the remaining Share Options III were granted to 222 eligible employees ("Share Option J"), respectively.

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

(c) The Share Option Scheme III *(continued)*

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

Exercise price of the Share Options III:	HK$1.71
Closing price of the shares on the date of grant:	HK$1.71
Validity period of the Share Options III:	Five (5) years on the date when the Options become vested

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

Category	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2016
Share Option I	–	38,600,000	–	–	38,600,000
Share Option J	–	108,050,000	–	–	108,050,000
	–	146,650,000	–	–	146,650,000

The fair values of Share Option I and Share Option J determined at the date of grant using the Binomial Option Pricing Model were HK$30,810,000 (equivalent to RMB26,941,000) and HK$80,124,000 (equivalent to RMB70,061,000) respectively.

The following assumptions were used to calculate the fair values of the Share Options III:

	Share Options I	Share Options J
Grant date share price	HK$1.71	HK$1.71
Exercise price	HK$1.71	HK$1.71
Expected volatility	46.55%	46.55%
Option life	Five years	Five years
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.92%	0.92%
Sub-optional factor	2.8	2.2

Expected volatility was determined by using the historical volatility of the Company's share price over the years since being listed.

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

The Company recognised a share option expense of RMB6,043,000 during the current year in respect of the Share Option III (2015: nil), taking into consideration of forfeiture before vesting. None of the Share Option III was exercisable as at 31 December 2016.

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

(d) Modern Farm Option Scheme

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

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

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

Category	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding and exercisable as at 31 December 2016
Management Options	60,073,756	–	–	–	60,073,756

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding and exercisable as at 31 December 2015
Management Options	60,073,756	—	—	—	60,073,756

None of share options was exercised during the year ended 31 December 2016 (2015: None).

34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings, short-term debentures, medium-term notes, corporate bond and other borrowing as disclosed in notes 26, 27, 28, 29 and 30 respectively, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, share premium and reserves.

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

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31/12/2016 RMB'000	31/12/2015 RMB'000
Financial assets:		
Loans and receivables (including pledged bank balances non-pledged bank deposits and cash and bank balances)	2,440,343	1,890,828
The Forward	11,236	N/A
Available-for-sale equity investment	24,955	N/A
Financial liabilities:		
Amortised cost	9,440,007	8,185,331
Financial liabilities at FVTPL		
– The Swap	126	N/A
– Modified Considerations/original contingent consideration	926,932	1,155,472

Financial risk management objectives and polices

The Group's major financial instruments include available-for-sale equity investment, trade and other receivables, pledged bank balances, non-pledged bank deposits, cash and bank balances, other financial assets, trade and other payables, bank and other borrowing, short-term debentures, medium-term notes, corporate bond and other financial liabilities. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk, interest risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

35. FINANCIAL INSTRUMENTS *(continued)*

Market risk

(i) Foreign currency risk

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

As at 31 December 2016, the major assets denominated in foreign currency are cash and bank balances disclosed in note 24. The major liabilities denominated in foreign currency are bank borrowings disclosed in note 26.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure. During the year, a currency forward contract had been entered by the Group to mitigate the foreign currency risk of the Group's bank loan denominated in US$.

Foreign currency sensitivity analysis

2% (31 December 2015: 2%) is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates.

The Group was primarily subject to foreign currency risk from the movement of the exchange rates between RMB against US$. The sensitivity analysis below includes only US$ denominated monetary items that are not associated to a foreign currency forward contract. At the end of each reporting period, if the exchange rate had been weaken in RMB against US$ by 2% and all other variables were held constant, the Group's post-tax loss/profit for each reporting period would decrease/increase as follow:

	Decrease (increase) in post-tax loss 31/12/2016 RMB'000	Increase (decrease) in post-tax profit 31/12/2015 RMB'000
US$ denominated assets and liabilities against RMB		
– cash and bank balance	964	2,806
– bank borrowings	–	(52,034)
Total	964	(49,228)

For a 2% strengthening of the RMB against US$, there would be an equal and opposite impact on the post-tax loss/profit.

35. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

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

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, short-term debentures, medium-term notes and corporate bond.

The Group manages its interest rate risk by performing regular reviews of the Group's net interest rate exposures and may enter into interest rate swap contracts, when necessary, to manage its interest rate exposure. During the year, an interest rate swap contract had been entered by the Group to mitigate its cash flow interest rate risk.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to loan interest rates for non-derivative instruments at the end of the reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings that are not associated to an interest rate swap contract. Bank balances, pledged bank balances and non-pledged bank deposits are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings were outstanding for the whole year. A 50 basis points increase or decrease represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the current year would increase/decrease by RMB7,459,000 (the Group's profit for 2015: decrease/increase by RMB18,172,000).

(iii) Other price risk

As at 31 December 2016, the Group is exposed to stock price risk mainly through the Modified Considerations included in other financial liabilities as disclosed in note 20. The Group is also exposed to equity price risk through its AFS equity investment measured at cost less impairment where the Group is not able to establish fair value estimates.

As at 31 December 2015, the Group is exposed to stock price risk mainly through the Value Adjustment Undertakings included in other financial liabilities as disclosed in note 20.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to stock price risk at the end of the reporting period.

If stock price of the Company had been 5% higher/lower and all other variables were held constant, post-tax loss for the year ended 31 December 2016 would increase/decrease by RMB41,690,000 (post-tax profit for the year ended 31 December 2015: increase/decrease RMB34,546,000/RMB34,416,000).

35. FINANCIAL INSTRUMENTS *(continued)*

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

The Group has concentration of credit risk as over 7% of total trade receivables as at 31 December 2016 (31 December 2015: 18%) were receivables due from the Mengniu Group (defined in note 41), the Group's largest customer with significant influence over the Company.

Liquidity risk

The Group had net current liabilities of approximately RMB4,272,464,000 as at 31 December 2016 (31 December 2015: RMB4,285,909,000). The Directors closely monitor the cash flows of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, when necessary, to ensure the Group has sufficient funds to enable the Group to meet its financial obligations. In addition, the available credit facilities of the Group amounted to approximately RMB6,709,321 which remains unutilised as at 31 December 2016. In view of the above, the Directors consider the Group's liquidity risk is significantly reduced.

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

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

35. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

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

	Interest rates %	Within 180 days RMB'000	181 days to 365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016							
Non-derivative financial liabilities							
Non-interest bearing	–	2,488,621	145,022	–	–	2,633,643	2,633,643
Modified considerations (note)		93,124	–	–	–	93,124	93,124
Fixed interest rate bank borrowings	3.6-4.75	882,830	1,368,157	1,568	26,593	2,279,148	2,199,859
Variable interest rate bank borrowings	1.90-6.40	650,562	542,680	170,178	508,214	1,871,634	1,685,966
Short-term debentures	4.67-5.00	811,164	–	–	–	811,164	799,425
Medium-term notes	4.6-6.00	18,052	–	1,286,500	628,500	1,933,052	1,796,605
Other borrowings	4.77	20,708	22,650	40,888	–	84,246	75,489
Corporate bond	5.30	–	12,887	13,250	263,250	289,387	249,020
		4,965,061	2,091,396	1,512,384	1,426,557	9,995,398	9,533,131
Derivatives-net settlement							
The Swap		126	–	–	–	126	126
		126	–	–	–	126	126

35. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

	Interest rates %	Within 180 days RMB'000	181 days to 365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2015							
Non-derivative financial liabilities							
Non-interest bearing	—	1,408,225	529,855	—	—	1,938,080	1,938,080
Fixed interest rate bank borrowings	0.86-6.30	489,428	1,445,476	—	—	1,934,904	1,841,381
Variable interest rate bank borrowings	2.15-7.05	2,864,862	234,076	788,233	79,382	3,966,553	3,805,870
Short-term debentures	3.98	411,523	—	—	—	411,523	400,000
Medium-term notes	6.00	5,762	5,762	11,523	223,047	246,094	200,000
		5,179,800	2,215,169	799,756	302,429	8,497,154	8,185,331

Note:

The Group's financial liabilities from the original contigent consideration and Modified Considerations are measured at FVTPL as set out in note 20. The liquidity analysis above only includes the Cash Consideration payable as at 31 December 2016 as the Supplemental Consideration Shares as at 31 December 2016 and the Value Adjustment Undertakings as at 31 December 2015 can be settled in shares by the Company.

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

36. FAIR VALUE MEASUREMENTS

Fair value of the Group's biological assets, other financial assets and other financial liabilities that are measured on a recurring basis

Some of the Group's assets and liabilities are measured at fair value or fair value less costs to sell for financial reporting purposes. The Directors have 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 and Level 2 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation team's findings to the Directors semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

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 assets and 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.

Fair value hierarchy

Assets/(liabilities)	**Fair value as at 31 December 2016 RMB'000**	Fair value as at 31 December 2015 RMB'000	Fair value hierarchy
Modified Considerations	(926,932)	—	level 2
The Forward	11,236	—	level 2
The Swap	(126)	—	level 2
Biological assets	7,602,959	7,590,878	level 3
The Value Adjustment Undertakings	—	(1,155,472)	level 3

The Group's other financial liability arising from the Value Adjustment Undertakings was measured at FVTPL as at 31 December 2015 the fair value of which was measured using Binominal Option Pricing Model with significant unobservable inputs and hence was classified as Level 3 of the fair value hierarchy. Upon the entering into the supplemental deed to the Share Purchase Agreement and issuing the Exercise Notice as set out in note 20, the Value Adjustment Undertakings was modified and became the Modified Considerations as defined in note 20. The Modified Considerations was measured at FVTPL as at 31 December 2016 and the fair value was measured using discounted cash flow method based on observable share price of the Company discounted at the rate reflecting the credit risks of counterparties and hence was classified as Level 2 of the fair value hierarchy.

36. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used in the valuation models:

Type	Valuation technique	Significant unobersvable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Modified Considerations	Discounted cash flow Future cash flow are estimated based on the observable market price of the Company's ordinary shares at the end of reporting period discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
The Forward	Discounted cash flow Future cash flow are estimated based on forward exchange rates (from observable forward exchange rates at the end of reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
The Swap	Discounted cash flow Future cash flow are estimated based on forward interest rates (from observable forward exchange rates at the end of reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
The Value Adjustment Undertakings	Binomial Option Pricing Model	Expected volatility and risk-free interest of the undertakings as disclosed in note 20.	An increase in expected volatility of the Value Adjustment Undertakings would result in a smaller percentage increase in the fair value measurement of Value Adjustment Undertakings, and vice versa. An increase in risk-free interest rate of the Value Adjustment Undertakings would result in a smaller percentage increase in the fair value measurement of Value Adjustment Undertakings, and vice versa.

36. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements *(continued)*

Type	Valuation technique	Significant unobersvable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB 23,700 per head at 31 December 2016 (31 December 2015: RMB 24,500).	An increase in the estimated local market selling price used would result in a smaller percentage increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old are RMB 16,151 at 31 December 2016 (2015: RMB 16,248); average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB 15,799 at 31 December 2016 (2015: RMB 15,983).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in a much smaller percentage increase/decrease in the fair value measurement of the heifers and calves older/younger than 14 months old, and vice versa.
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	The estimated feed costs per kg of raw milk used in the valuation process are RMB1.98 for the year ended 31 December 2016 (2015: RMB2.21), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation.	An increase in the estimated feed costs per kg of raw milk used would result in a smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 24.5 kg to 26.5 kg for the year ended 31 December 2016 (31 December 2015: 24.0 kg to 26.0 kg), depending on the number of the lactation cycles and the individual physical condition.	An increase in the estimated discount rate used would result in a slightly smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.
		Estimated local future market price for raw milk is RMB4.03 per kg at 31 December 2016 (31 December 2015: RMB4.39 per kg).	An increase in the estimated daily milk yield per head used would result in a smaller percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Discount rate for estimated future cash flow used is 13.00% at 31 December 2016 (31 December 2015: 11.07%).	An increase in the estimated average selling price of raw milk used would result in a much higher percentage increase in the fair value measurement of the milkable cows, and vice versa.

36. FAIR VALUE MEASUREMENTS *(continued)*

Reconciliation of Level 3 fair value measurements

The reconciliations from the beginning balances to the ending balances for fair value measurements of the biological assets are disclosed in note 21.

	Original Contingent Consideration/ Modified Considerations RMB'000
31 December 2016	
At 1 January 2016	(1,155,472)
Gain in profit or loss	228,540
Transfers out of level 3	926,932
At 31 December 2016	—
31 December 2015	
At 1 January 2015	—
Recognition due to business combination	(958,345)
Loss in profit or loss	(197,127)
At 31 December 2015	(1,155,472)

The above fair value gains on the original contingent consideration/Modified Considerations are included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income. The Modified Considerations are considered level 2 fair value since its fair value is based on observable inputs.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with general accepted pricing model based on discounted cash flow analysis.

37. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING ENFORCEABLE MASTER NETTING ARRANGMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and are offset on the Group's consolidated statement of financial position.

The Group currently has a legally enforceable right to set off and the Group intends to settle these balances on a net basis.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As at 31 December 2016

	Gross amounts of recognised financial assets RMB'000	Gross amounts of recognised financial liabilities set off in the statement of financial position RMB'000	Net amounts of financial assets presented in the statement of financial position RMB'000
Trade receivables due from certain customers	1,136,154	(161,212)	974,942

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As at 31 December 2016

	Gross amounts of recognised financial liabilities RMB'000	Gross amounts of recognised financial assets set off in the statement of financial position RMB'000	Net amounts of financial liabilities presented in the statement of financial position RMB'000
Other payables due to certain customers	(161,212)	161,212	–

Other than the balances which have been set off as disclosed above, there were no related amounts in the form of financial instruments or cash collateral which were not set off in the statement of financial position.

The Group did not have any financial assets and financial liabilities that were subject to enforceable master netting arrangement or similar agreements at 31 December 2015.

38. BUSINESS COMBINATION

As set out in note 18, the Company acquired the ADH Companies on 20 July 2015 and since then the ADH Companies became 100% owned subsidiaries of the Company. The Directors believe that the acquisition of ADH Companies would strengthen the Group's market position as a leading dairy farming company and raw milk producer in the PRC.

Consideration transferred

	RMB'000
The fair value of the Consideration Shares (note i)	968,833
The fair value of the Value Adjustment Undertakings (note ii)	958,345
Total	1,927,178

Notes:

i. Pursuant to the Share Purchase Agreement, the Company issued 477,429,132 Consideration Shares to Success Dairy. RMB968,833,000 represents the fair value of the Consideration Shares issued, using the average price of the last trading day before the date of the Acquisition.

ii. Under the value adjustment undertaking arrangement, the Company provided the Value Adjustment Undertaking I to Success Dairy and Success Dairy provided the Value Adjustment Undertaking II to the Company (note 20). RMB958,345,000 represents the estimated fair value of the Value Adjustment Undertakings as at the date of the Acquisition.

Assets acquired and liabilities recognised at the date of the Acquisition are as follows:

	RMB'000
Property, plant and equipment	485,468
Biological assets	468,827
Land use right	53,009
Inventories	62,483
Trade and other receivables	22,517
Cash and bank balance	75,173
Trade and other payables	(177,150)
Total	990,327

The fair value of trade and other receivable at the date of acquisition amounted to RMB22,517,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB22,517,000 at the date of acquisition.

38. BUSINESS COMBINATION *(continued)*

Consideration transferred *(continued)*

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	1,927,178
Add: fair value of the equity interest in the ADH Companies previously held by the Group	288,609
Less: fair value of identifiable net assets acquired	(990,327)
Goodwill arising on acquisition	1,225,460

Goodwill arose in the Acquisition because the cost of combination included a control premium. In addition, consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the ADH Companies. These benefit are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash inflow on the Acquisition:	RMB'000
Cash consideration paid	—
Less: cash and cash equivalent balances acquired	75,173
	75,173

39. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments under operating leases recognised during the year is RMB23,020,000 (2015: RMB12,374,000).

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

	31/12/2016 RMB'000	31/12/2015 RMB'000
Within one year	11,078	10,868
In the second to fifth year inclusive	9,666	19,257
	20,744	30,125

Operating lease payments represent rentals payable by the Group for property, plant and equipment and leased land which are negotiated for terms ranging from two to five years and rentals are fixed.

40. CAPITAL COMMITMENTS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Capital expenditure contracted but not provided for:		
in respect of acquisition of property, plant and equipment	134,302	151,498

41. RELATED PARTY TRANSACTIONS

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

Qiushi*	An associate of the Group
Mengniu Company**	A shareholder with significant influence over the Company
Inner Mongolia Mengniu Dairy (Group) Company Limited ***	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy Taian Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Maanshan) Co., Ltd. ***	A subsidiary of Mengniu Company
Hubei Frealth Dairy Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Shangzhi) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Chabei) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Baoji) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy Meishan Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Saibei Dairy Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Suqian) Co., Ltd. ***	A subsidiary of Mengniu Company
Shijiazhuang Junlebao Dairy Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu 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
Mengniu Dairy (Tai Yuan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Qingyuan) Co., Ltd.***	A subsidiary of Mengniu Company
Mengniu Dairy (Beijing) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Baoding) Co., Ltd. ***	A subsidiary of Mengniu Company
Baoding Mengniu Beverage Co., Ltd.***	A subsidiary of Mengniu Company
Mengniu Dairy (Hengshui) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Tangshan) Co., Ltd. ***	A subsidiary of Mengniu Company
Mengniu Dairy (Luannan) Co., Ltd. ***	A subsidiary of Mengniu Company
Modern Farm (Shanghe) Co., Ltd. ****	A subsidiary of ADH I
Modern Farm (Jinan) Co., Ltd. ****	A subsidiary of ADH II

* Qiushi is no longer related to the Group since 24 June 2016 (as disclosed in note 17). The related party transaction disclosed in this note include the transaction between the Group and Qiushi from 1 January 2016 to 24 June 2016.

** 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").

**** These two entities became subsidiaries of the Group since the Acquisition on 20 July 2015. On 22 February 2016, the Group merged these two entities into Modern Farm (Shanghe) Co., Ltd. and Modern Farm (Jinan) Co., Ltd. was liquidated during the current year. The related party transaction disclosed in this note include the transaction between the Group and these two entities before the Acquisition.

41. RELATED PARTY TRANSACTIONS *(continued)*

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

Amounts due from

	31/12/2016 RMB'000	31/12/2015 RMB'000
Mengniu Group		
Trade receivable		
Within 120 days based on invoice date	98,335	162,520

Amounts due to

	31/12/2016 RMB'000	31/12/2015 RMB'000
Mengniu Group		
Advance from customers	–	8,333
Qiushi		
Trade payable		
Within 60 days based on invoice date	N/A	6,086

c. During the reporting period, the Group had the following transactions with related parties:

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Sales of raw milk to Mengniu Group	2,349,781	2,304,424

41. RELATED PARTY TRANSACTIONS *(continued)*

c. During the reporting period, the Group had the following transactions with related parties: *(continued)*

	For the period from 1 January 2016 to 24 June 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Purchases of forage grass from Qiushi	27,266	156,572
Disposals of property, plant and equipment to Qiushi	–	10,867

	For The year ended 31 December 2016 RMB'000	For the period from 1 January 2015 to 20 July 2015 RMB'000
Disposals of diary cows to Modern Farm (Shanghe) Co., Ltd.	N/A	15,807

The sales and purchase prices were based on mutually agreed terms.

d. Compensation of key management personnel

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

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Salaries and other benefits	7,388	7,043
Recognition of equity-settled share-based payments	19,482	10,030
Retirement benefits scheme contributions	163	162
	27,033	17,235

42. SUBSIDIARIES

Particulars of the Company's principle subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2016		31 December 2015		
			Directly %	Indirectly %	Directly %	Indirectly %	
Advanced Dairy Company (Luxemburg) Limited ("Lux")	Luxemburg	US$138,500,000	100	–	100	—	Investment holding
Aquitair Holdings Limited ("Aquitair")	Republic of Ireland	US$472,307,046	–	100	—	100.00	Investment holding
Modern Farm (note i)	PRC	RMB563,301,046	–	97.87	—	97.87	Production of milk
Asia Dairy Holdings Co., Ltd. (note iii)	Cayman Islands	US$20	100	–	100.00	—	Investment holding
Asia Dairy Holdings II Co., Ltd. (note iii)	Cayman Islands	US$20	100	–	100.00	—	Investment holding
Asia Dairy Trading and Holdings Co., Ltd. (note iii)	Hong Kong	HK$5	–	100	—	100.00	Investment holding
Asia Dairy Trading and Holdings II Co., Ltd. (note iii)	Hong Kong	HK$4	–	100	—	100.00	Investment holding
Modern Farm (Shanghe) Co., Ltd (notes i and iii)	PRC	RMB425,000,000	–	100	—	100.00	Breeding dairy cows and production of milk
Modern Farm (Jinan) Co., Ltd. (notes i and iii)	PRC	RMB425,000,000	N/A	N/A	—	100.00	Breeding dairy cows and production of milk
Helingeer Modern Farming Co., Ltd. (note ii)	PRC	RMB93,670,447	–	97.87	—	97.87	Breeding dairy cows and production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. (note ii)	PRC	RMB90,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Wenshang Modern Farm Co., Ltd. (note ii)	PRC	RMB55,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Shangzhi Modern Farm Co., Ltd. (note ii)	PRC	RMB55,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Hongya Modern Farm Co., Ltd (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	Production of fertilisers
Modern Farming (Chabei) Co., Ltd (note ii)	PRC	RMB8,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Modern Farming (Baoji) Co., Ltd (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Maanshan Modern Farming Feedstock Co., Ltd. (note ii)	PRC	RMB18,000,000	–	97.87	—	97.87	Sales of feeds
Modern Farm (Feidong) Co., Ltd. (note ii)	PRC	RMB50,000,000	–	97.87	—	97.87	Sales and production of milk
Modern Farming (Tongshan) Co., Ltd (note ii) ("Tongshan Farm)	PRC	RMB30,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk

42. SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2016		31 December 2015		
			Directly %	Indirectly %	Directly %	Indirectly %	
Modern Farming (Tongliao) Co., Ltd (note ii)	PRC	RMB30,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd (note ii)	PRC	RMB5,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Modern Farm (Bengbu) Co., Ltd (note ii)	PRC	RMB30,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Modern Farm (Anhui) Dairy Product Sales Co., Ltd. ("Modern Farm (Anhui)") (note ii)	PRC	RMB45,000,000	–	53.83	—	53.83	Sales of milk
Modern Farm (Shuangcheng) Co., Ltd. (note ii)	PRC	RMB20,000,000	–	97.87	—	97.87	Breeding dairy cows and production of milk
Modern Farm Shanghe Feeding Co., Ltd. (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	Production of fodder
China Modern Dairy I Ltd.	Cayman Islands	US$1.00	100.00	–	100.00	—	Investment holding
China Modern Dairy II Ltd.	British Virgin Islands	US$1.00	–	100.00	—	100.00	Investment holding
China Leading Dairy Ltd.	Hong Kong	HK$1.00	–	100.00	—	100.00	Investment holding
Modern Farming (Anhui) Dairy Co.,Ltd. (note i)	PRC	RMB20,000,000	–	98.91	—	98.91	Sales of milk
Modern Farm (Bengbu) Dairy Product Sales Co., Ltd. (note ii)	PRC	RMB5,000,000	–	53.83	—	53.83	Sales of milk
Modern Farm (Saibei) Dairy Product Sales Co., Ltd. (note ii)	PRC	RMB5,000,000	–	53.83	—	53.83	Sales of milk
Modern Farm (Hefei) Co., Ltd. (note ii)	PRC	RMB50,000,000	–	97.87	N/A	N/A	Breeding dairy cows and production of milk
Nanchang Modern Farm Co., Ltd. (note ii)	PRC	RMB5,000,000	–	49.91	N/A	N/A	Sales of milk
Chengdu Modern Farm Dairy Products Sales Co., Ltd. (note ii)	PRC	RMB1,000,000	–	68.47	N/A	N/A	Sales of milk
Wuhan Modern Farm Dairy Products Sales Co., Ltd. (note ii)	PRC	RMB1,000,000	–	68.47	N/A	N/A	Sales of milk
Modern Farm (Shenzhen) Sales Company (note ii)	PRC	RMB1,000,000	–	58.72	N/A	N/A	Sales of milk
Modern Farm (Jinan) Dairy Products Sales Co., Ltd. (note ii)	PRC	RMB1,000,000	–	73.40	N/A	N/A	Sales of milk

Notes:

i. The entity was established in PRC and became a sino-foreign investment enterprise.

ii. These entities were established in PRC as domestic companies and owned by Modern Farm.

iii. These entities were acquired in 2015 (note 38), and Modern Farm (Jinan) Co., Ltd. was deregistered in February 2016 and its business, assets and liabilities were transferred to Modern Farm (Shanghe) Co., Ltd.

43. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2016	31/12/2015	31/12/2016 RMB'000	31/12/2015 RMB'000	31/12/2016 RMB'000	31/12/2015 RMB'000
Modern Farm	PRC	2.13%	2.13%	(43,392)	22,422	101.383	168,135

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31/12/2016 RMB'000	31/12/2015 RMB'000
Current assets	3,491,176	2,735,326
Non-current assets	11,547,010	11,959,321
Current liabilities	(6,689,971)	(4,848,027)
Non-current liabilities	(3,291,464)	(3,849,490)
Equity attributable to owners of the Company	(4,955,368)	5,828,995
Non-controlling interests	101,383	168,135

43. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(continued)*

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Revenue	4,648,178	4,750,816
Expenses	5,557,860	4,342,555
(Loss) profit for the year	(909,682)	408,261
(Loss) profit attributable to owners of the Company	(866,290)	385,839
(Loss) profit attributable to the non-controlling interests	(43,392)	22,422
(Loss) profit for the year	(909,682)	408,261
Dividend paid to shareholder	–	—
Net cash inflow from operating activities	1,029,533	1,445,969
Net cash outflow from investing activities	(884,338)	(1,112,901)
Net cash inflow (outflow) from financing activities	237,513	(83,352)
Net cash inflow	382,708	249,716

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	31/12/2016 RMB'000	31/12/2015 RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries	5,370,527	5,506,345
Amounts due from a subsidiary	561,505	2,913,422
	5,932,032	8,419,767
CURRENT ASSETS		
Other receivables	1,894	35,406
Cash and bank balances	27,544	73,118
	29,438	108,524
CURRENT LIABILITIES		
Other payables	556	12,230
Amounts due to subsidiaries	13,952	17,625
Bank borrowings	—	2,537,340
Other financial liability	926,932	—
	941,440	2,567,195
NET CURRENT LIABILITIES	(912,002)	(2,458,671)
TOTAL ASSETS LESS CURRENT LIABILITIES	5,020,030	5,961,096
CAPITAL AND RESERVES		
Share capital	452,959	452,959
Reserves	4,567,071	4,352,665
	5,020,030	4,805,624
NON-CURRENT LIABILITIES		
Other financial liability	—	1,155,472
	—	1,155,472
	5,020,030	5,961,096

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in equity

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note)	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015	415,261	2,409,936	1,382,199	44,546	(284,328)	3,967,614
Loss and total comprehensive expense for the year	—	—	—	—	(112,352)	(112,352)
Payment of dividends	—	(49,003)	—	—	—	(49,003)
Recognition of equity-settled share-based payment	—	—	—	30,532	—	30,532
Issue of ordinary shares for acquisition of the subsidiaries	37,698	931,135	—	—	—	968,833
Balance at 31 December 2015	452,959	3,292,068	1,382,199	75,078	(396,680)	4,805,624
Profit and total comprehensive income for the year	—	—	—	—	171,263	171,263
Transfer due to forfeiture of share options after vesting	—	—	—	(1,015)	1,015	—
Recognition of equity-settled share-based payment	—	—	—	43,143	—	43,143
Balance at 31 December 2016	452,959	3,292,068	1,382,199	117,206	(224,402)	5,020,030

45. EVENTS AFTER THE REPORTING PERIOD

The Group had the following significant events after the reporting period:

Acquisition of non-controlling interests

Pursuant to the announcement of the Company dated 25 January 2017, the Company issued 338,602,205 ordinary shares of the Company to the non-controlling equity holders, which are non-related to the Group, of Modern Farm Anhui, a subsidiary of the Group, in exchange for the 45% equity interest in Modern Farm Anhui. After the acquisition, Modern Farm Anhui is owned as to 45% by the Company and as to 55% by Modern Farm.

Acquisition of the ordinary shares of the Company by Mengniu Company

As disclosed in note 20, a share purchase agreement was entered into between Success Dairy and Mengniu Company to acquire the Company's ordinary shares owned by Success Dairy. The share purchase was completed on 7 February 2017 and Mengniu Company and its concert parties collectively owned 37.7% of issued share capital of the Company. Pursuant to the relevant Listing Rules, Mengniu Company was required to make a mandatory cash offer to acquire all the issued ordinary shares of the Company that were not owned by Mengniu Company and its concert parties and make an offer to acquire and cancel all of the outstanding share options issued by the Company except for the Management Options (collectively referred to as "Offers"). The Offers commenced on 14 February and closed on 21 March 2017. Upon the close of the Offers, Mengniu Company and its concert parties owned 61.3% of the issued share capital of the Company.

Five-year Financial Summary

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000	For the 6 months ended 31 December 2013 RMB'000
Revenue	4,862,311	4,826,341	5,026,706	1,901,248
Cost of sales before biological fair value adjustment	(3,258,127)	(3,167,298)	(3,161,345)	(1,280,342)
Biological fair value adjustment included in cost of sales	(1,116,860)	(1,203,011)	(1,666,242)	(542,821)
Loss arising from changes in fair value less costs to sell of dairy cows	(1,058,928)	(474,910)	(329,069)	(16,408)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	1,116,860	1,203,011	1,666,242	542,821
Other income	69,860	32,094	40,213	15,902
Selling and distribution costs	(786,929)	(194,542)	(111,909)	(33,595)
Administrative expenses	(274,210)	(243,566)	(214,561)	(84,678)
Share of loss of an associate	(1,616)	(1,192)	(6,791)	(872)
Share of profit (loss) of joint ventures	–	5,782	7,004	(287)
Other gains and losses, net	125,554	(107,077)	(209,648)	(37,562)
Other expenses	(94,324)	(5,173)	(4,635)	(769)
Profit before finance costs and tax	(416,409)	670,459	1,035,965	462,637
Finance costs	(368,582)	(315,078)	(265,601)	(113,505)
Profit before tax	(784,991)	355,381	770,364	349,132
Income tax expense	(504)	(11,663)	(7,476)	(5,875)
Profit and total comprehensive income for the year/period	(785,495)	343,718	762,888	343,257
Profit and total comprehensive income attributable to:				
Owners of the Company	(742,103)	321,296	735,317	327,487
Non-controlling interests	(43,392)	22,422	27,571	15,770
	(785,495)	343,718	762,888	343,257
Earnings per share (RMB)				
Basic (cents)	(13.99)	6.37	15.23	6.79
Diluted (cents)	(13.99)	6.32	15.08	6.72

	From 1 July 2012 to 30 June 2013 RMB'000
Sales of milk produced	2,480,561
Loss arising from changes in fair value less costs to sell of dairy cows	(38,599)
Other income	106,343
Farm operating expenses	(1,655,803)
Employee benefits expenses	(170,847)
Depreciation	(135,472)
Share of profit of an associate	3,371
Net foreign exchange gain	9,127
Other gains and losses	(2,400)
Other expenses	(92,555)
Profit before finance costs and tax	503,726
Finance costs	(153,679)
Profit before tax	350,047
Income tax expense	(8,051)
Profit and total comprehensive income for the year	341,996
Attributable to:	
Equity shareholders of the Company	323,832
Minority interests	18,164
Profit and total comprehensive income for the year	341,996
Earnings per share (RMB)	
Basic (cents)	6.74
Diluted (cents)	6.67

	31/12/2016 RMB'000	31/12/2015 RMB'000	31/12/2014 RMB'000	31/12/2013 RMB'000	30/6/2013 RMB'000
Assets and liabilities					
Property, plant and equipment	5,075,030	5,376,897	4,457,970	4,032,642	3,772,270
Land use rights	126,679	120,622	64,868	66,261	67,098
Goodwill	1,424,539	1,441,494	310,426	310,426	310,426
Interest in an associate	1,887	25,076	18,931	25,722	26,594
Interest in joint ventures	—	—	95,208	32,829	—
Biological assets	7,602,959	7,590,878	6,530,814	5,954,363	5,465,008
Net current liabilities	(4,272,464)	(4,285,909)	(1,725,295)	(2,435,149)	(1,777,128)
Total assets less current liabilities	9,983,585	10,269,058	9,752,922	7,987,094	7,864,268
Non-current liabilities	(2,860,689)	(2,319,026)	(3,096,970)	(2,126,360)	(2,355,544)
NET ASSETS	7,122,896	7,950,032	6,655,952	5,860,734	5,508,724
Capital and reserves					
Share capital	452,959	452,959	415,261	415,261	414,564
Share premium and Reserves	6,568,554	7,328,938	6,094,978	5,327,763	4,992,220
Total equity attributable to equity shareholders of the Company	7,021,513	7,781,897	6,510,239	5,743,024	5,406,784
Non-controlling interests	101,383	168,135	145,713	117,710	101,940
	7,122,896	7,950,032	6,655,952	5,860,734	5,508,724