



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1117



INTERIM REPORT
2013

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GAO Lina (*Deputy Chairman and Chief Executive Officer*)

Mr. HAN Chunlin (*Chief Operation Officer*)

Non-executive Directors

Mr. WOLHARDT Julian Juul (*Chairman*)

Mr. HUI Chi Kin, Max

Mr. LEI Yongsheng

Independent non-executive Directors

Prof. LI Shengli

Prof. GUO Lianheng

Mr. LEE Kong Wai, Conway

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway (*Chairman*)

Mr. HUI Chi Kin, Max

Prof. GUO Lianheng

REMUNERATION COMMITTEE

Prof. LI Shengli (*Chairman*)

Mr. WOLHARDT Julian Juul

Prof. GUO Lianheng

NOMINATION COMMITTEE

Prof. GUO Lianheng (*Chairman*)

Prof. LI Shengli

Mr. LEE Kong Wai, Conway

AUTHORISED REPRESENTATIVES

Ms. GAO Lina

Mr. WONG Kai Hing

COMPANY SECRETARY

Mr. Wong Kai Hing HKICPA

REGISTERED OFFICE

Maples Corporate Service Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

HEADQUARTERS

Economic and Technological Development Zone

Maanshan City, Anhui Province

PRC

PLACE OF BUSINESS IN HONG KONG

Unit 2402, 24/F, Alliance Building,

130-136 Connaught Road Central,

Sheung Wan, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Finance Limited

P.O. Box 1093, Queensgate House

Grand Cayman,

KY1-1102

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor,

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 Cayman Islands Law

Maples and Calder

AUDITORS

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

WEB SITE

www.moderndairyir.com

STOCK CODE

Hong Kong Stock Exchange 1117

Financial Highlights

RESULTS

	Six months ended 31 December		
	2012 RMB'000	2011 RMB'000	Changes %
Sales of milk produced	1,092,528	735,640	48.5%
Earnings before interest and tax	240,415	191,929	25.3%
Cash EBITDA*	222,757	136,310	63.4%
Cash EBITDA margin	20.4%	18.5%	1.9%
Net profit	170,269	159,934	6.5%
Basic EPS (RMB)	3.55 cents	3.33 cents	6.6%

FINANCIAL POSITION

	As at		
	31 December 2012 RMB'000	30 June 2012 RMB'000	Changes %
Biological assets	4,977,300	4,185,600	18.9%
Cash and cash equivalents	276,650	518,277	-46.6%
Total assets	10,159,237	8,651,814	17.4%
Total borrowing	3,307,407	2,590,789	27.7%
Gearing ratio (Total borrowing/Total assets)	32.6%	29.9%	2.7%

* EBITDA before gain arising from changes in fair value less costs to sell of dairy cows and government grants.

Management Discussion and Analysis

BUSINESS REVIEW

The Group is primarily engaged in the production and sale of raw milk, which it sells to customers for processing into dairy products. The demand for high-end dairy products has continued to grow at a rapid pace in China due to various factors in the China market, including the rising per capita disposable income, increasing awareness of food safety. This is a key driver for the demand of our quality raw milk product. Since the dairy farming industry in China is largely fragmented and the supply of high-end quality raw milk is very limited, there are significant growth opportunities for the Group to expand its market share.

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. For the six months ended 31 December 2012 (“the interim period”), the Group’s operating results reached historical high, due to the increase in productivity and rising demand for high-end dairy products in China. As of 31 December 2012, the Group had 22 farms in operation in China with 176,264 dairy cows in total. Our farms are situated across the PRC in strategic geographical locations that have close proximity to downstream dairy product processing plants and feed supply sources required by our farms. Total sales volume of the Group amounted to 260,906 tons, representing an increase of 33.6% from 195,321 tons in the corresponding period of 2011, which indicated that the Group has established a strong and leading market position in China’s raw milk market.

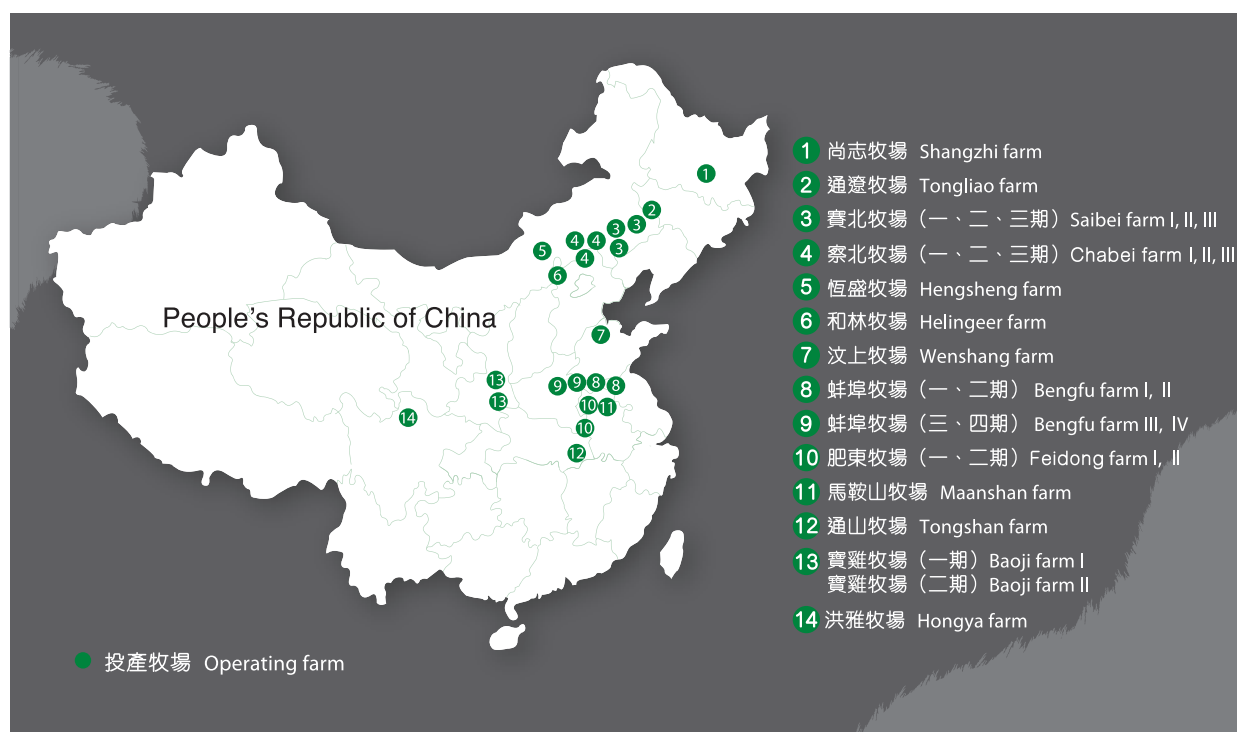
We achieved an average annual milk yield per milkable cow of 7.94 tons during the six months ended 31 December 2012, representing an increase of 1.8% from 7.8 tons in the corresponding period last year. Such results are attributable to our advanced herd management, continued genetic improvement of our cows and increase in number of cows reaching the peak stage of lactation.

The Group’s sales of milk produced for the interim period was RMB1,092.5 million, which represented an increase of 48.5% from RMB735.6 million recorded in last corresponding period. Profit before finance costs and tax increased by 25.3% from RMB191.9 million in last corresponding period to RMB240.4 million for the interim period. Cash EBITDA (EBITDA before gain arising from changes in fair value less costs to sell of dairy cows and government grants) increased by 63.4% from RMB136.3 million in the corresponding period last year to RMB222.8 million for the interim period. Cash EBITDA margin increased from 18.5% in the corresponding period last year to 20.4% for the interim period. Profit attributable to owners of the Company was RMB170.3 million, as compared with RMB159.9 million in the corresponding period of last year.

In the fourth quarter of 2012, the Group signed up with several new customers to further expand and optimize our sales channels. As a result of the Group’s continuous effort in increasing our customer base as part of our long term development plan, the proportion of milk that was sold to China Mengniu Dairy Company Limited (“Mengniu”), the Group’s primary customer, decreased relatively. Further, the raw milk produced from the Group are mainly used for the production of Mengniu’s high-end milk (such as Milk Deluxe).

Meanwhile, there was considerable growth in the sales of UHT milk packs of our own brand, which were introduced at the beginning of 2012, especially in the cities, including Beijing, Shanghai, Huhehaote, Baotao, Hefei and Nanjing, and accounted for 5% of our total sales. The development of dairy products of our own brand reduces our product concentration risk. The freshness and purity of our products are highly valued by our customers.

Our Farms



Milk Yield

Our financial results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the costs for production decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield per milkable cows of 7.94 tons for the six months ended 31 December 2012, representing an increase of 1.8% from 7.8 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation.

Herd size

	As of	
	31 December 2012 Heads	30 June 2012 Heads
Milkable cows	77,953	70,793
Heifers and calves	98,311	88,554
Total dairy cows	176,264	159,347

The Group purchased 11,442 heifers and milkable cows for the six months ended 31 December 2012. As at 31 December 2012, the current herd size is 176,264 compared to 159,347 in 30 June 2012. From January 2013 onwards, the Group shall cease to import heifers and rely on organic growth. This strategy will help the Group in reducing capital expenditure on purchase of dairy cows and enhance adjustments to the mix of herds in order to realize high core profits for the Company.

Sales of milk produced

The Company entered into a 10-year agreement on raw milk supply with our primary customer Mengniu in October 2008. As of the six months ended 31 December 2012, 86.7% of the sales of milk produced by the Group were sold to Mengniu (2011: 98.5%). Meanwhile, the Group signed up with several new customers who subscribed raw milk from the Group and have continuously expanded the Group's market share of products of our own brand. Such expansion of sales channels from new customers alleviates the Group's single customer risk. Our total sales of milk produced increased by 48.5% from RMB735.6 million in last corresponding period to RMB1,092.5 million for the six months ended 31 December 2012. The increase in sales revenue is mainly due to an increase in sales volume of milk by 33.6% from 195,321 tons in the last corresponding period to 260,906 tons for the six months period ended 31 December 2012. The increase in sales volume is attributable to the expansion of our herd size and increase in average milk yield per cow. Currently, the raw milk produced from the Group are mainly used for the production and processing of Mengniu's Milk Deluxe and other high-end milk of Mengniu Group.

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

As at 31 December 2012, the biological assets of the Group were revalued at RMB4,977.3 million (30 June 2012 (valued by an independent professional valuer): RMB4,185.6 million) by the directors of the Company. Gain arising from changes in the fair value of biological assets decreased by 56.4% from RMB63.5 million in last corresponding period to RMB27.7 million in the six months ended 31 December 2012. The decrease was primarily due to the gradually stabilized herd mix.

Other Income

Other income for the interim period mainly consists of government grants of RMB48.0 million (2011: RMB34.3 million) and bank interest income of RMB3.6 million (2011: RMB10.5 million). A majority of the government grants was unconditional government subsidies for purchase of quality breed heifers. The remaining part consists of other national subsidy items for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy, straw utilization subsidy and sizable farm subsidy, etc.), and such subsidy categories will continue to increase as the State emphasizes on the importance of the agricultural sector.

Farm Operating Expenses

	Six months ended 31 December	
	2012 RMB'000 unaudited	2011 RMB'000 unaudited
Feeds	661,486	462,636
Utilities	24,496	16,734
Other farm operating expenses	70,293	43,760
Total	756,275	523,130

With the expansion of our herd size and general increase in market price of feeds, total feed costs for the six months ended 31 December 2012 increased to RMB661.5 million, from RMB462.6 million for the same period last year, representing an increase of 43%.

Employee benefit expenses

As of 31 December 2012, the Group has 4,378 employees, representing an increase of 26.9% headcount since 31 December 2011. Total employee benefits expenses increased by 37.8% from RMB56.4 million in last corresponding period to RMB77.7 million in the six months ended 31 December 2012. The increase was mainly related to increased headcounts for new farms, the proportion of milkable cows to total number of dairy cows has also increased and general increase in base salary.

Depreciation

Depreciation expenses increased by 37.7% from RMB42.2 million in last corresponding period to RMB58.1 million for the interim period ended 31 December 2012. This is because more farms have been put into operation and the proportion of milkable cows to total number of dairy cows has also increased.

Other expenses

Other expenses mainly consist of professional fees, milk transportation cost, travel expenses and other office administrative expenses. The increase in other expenses is mainly due to inclusion of milk transportation cost of RMB 16.4 million in the six months ended 31 December 2012 (2011: RMB11.4 million offsetting the Sales of milk product).

Finance costs

Finance costs increased from RMB28.7 million for the last corresponding period to RMB58.8 million for the six months ended 31 December 2012, which was mainly attributable to the increase in bank loans and stop of capitalized of interest expense on the bank borrowing after construction in progress has been basically transferred to property, plant and equipment.

Profit Attributable to the Owners of the Company

Taking into account of all the above factors, the profit attributable to the owners of the Company was RMB170.3 million for the six months ended 31 December 2012, representing an increase of 6.5% from RMB159.9 million for same period last year.

Basic earnings per share were approximately RMB3.55 cents (2011: RMB3.33 cents).

Capital Structure, Liquidity and Financial Resources

For the six months ended 31 December 2012, the Group's net cash inflow from operating activities increased to RMB299.7 million from of RMB126.8 million in same period last period.

At 31 December 2012, the Group's available and unutilised banking facilities amounted to approximately RMB1,396.7 million. The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

Management Discussion and Analysis

The table below sets forth the short-term and long-term borrowings of the Group as at 31 December 2012.

	As at	
	31 December 2012 RMB'000 unaudited	30 June 2012 RMB'000 audited
Bank borrowings	3,306,715	2,589,982
Other borrowings	692	807
	3,307,407	2,590,789
Carrying amount repayable:		
Within one year	1,665,967	664,217
Between one to two years	618,160	643,442
Between two to five years	1,023,280	1,180,200
Over five years	—	102,930
	3,307,407	2,590,789
Less: amount due within one year included in current liabilities	(1,665,967)	(664,217)
Borrowings due after one year	1,641,440	1,926,572
Secured borrowings	1,673,206	1,440,330
Unsecured borrowings	1,564,201	1,080,459
Guaranteed borrowings	70,000	70,000
	3,307,407	2,590,789

As at 31 December 2012, gearing ratio, being the ratio of total borrowings to total assets was 32.6% (30 June 2012: 29.9%). The annual interest rate of the bank borrowings during the six months ended 31 December 2012 varied from 1.78% to 7.05% (30 June 2012: 2.45% - 7.05%). As at 31 December 2012 and 30 June 2012, all bank and other borrowings were denominated in Renminbi.

PLEDGE OF ASSETS

As at 31 December 2012, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.4 million (30 June 2012: RMB10.5 million), RMB63.8 million (30 June 2012: RMB66.1 million) and RMB3,529.2 million (30 June 2012: RMB2,372.8 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2012, the Group has capital commitments of RMB262.3 million related to acquisition of property, plant and equipment and nil for purchase of heifers. The Group will stop import heifers since January 2013 and herd size will grow organically.

The Group did not have any significant contingent liabilities as at 31 December 2012 and 30 June 2012.

FINANCIAL MANAGEMENT POLICIES

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

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 4,378 employees in Mainland China and Hong Kong as at 31 December 2012. Total staff cost for the six month ended 31 December 2012, excluding Directors' fees, was approximately RMB76.0 million (2011: RMB54.3 million).

The Group values recruiting and training quality personnel. We recruit talent from universities and technical schools, providing them with pre-employment and on-the-job training. The Group also offers remuneration at competitive rates with the aim of retaining quality personnel. In line with industry and market practice, the Group also offered a share option scheme to encourage and reward employees to contribute in terms of company performance.

PROSPECTS

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

In recent years, the central government guided and directed the healthy and sustainable growth of the dairy product industry through various successive policies. In January 2013, the General Office of the State Council issued Central File No. 1, which expressly stated that "the implementation of a new round Non-staple Food Project will be enhanced and the construction scale of pilot fields for standardized raising and breeding of livestock and poultry will be expanded, the fine breeding project for planting and raising industry will be promoted and the construction of the planting and manufacturing base for crops and pilot fields for the introduction of new species will be accelerated". In September 2011, the government issued the "Twelfth Five Year Plan for National Livestock Development (2011-2015) (《全國畜牧業發展第十二個五年規劃(2011-2015年)》)", which expressly stated that during the "Twelfth Five" period, the target for the development of livestock industry is to achieve significant improvement in the quality of livestock industry and the development of standardized scale raising and breeding is the focus. By 2015, the proportion of national scale breeding of livestock and poultry is expected to increase by 10 to 15 percent, and herds with more than 100 dairy cows are expected to exceed 38%. The document also emphasized that China will continue to increase the financial support to key projects for development of the livestock industry such as improving grassland ecological environment, fine breeding and forage production. At the end of 2011, the government further issued the "National Strategies for the Grain-saving Animal Husbandry Industry (2011-2020) (全國節糧型畜牧業發展規劃(2011-2020年))". The Strategies state that since the dairy industry is a key part of the country's grain-saving animal husbandry, it calls for better infrastructure for original and fine breed farms of grain-saving livestock and poultry (including dairy cattle). Greater proprietary breeding capabilities should be promoted, and it has been reiterated that the government will continue to provide greater support to the dairy product industry by expanding subsidies to fine breeding. The implementation and promotion of these two important documents have effectively propelled industry consolidation and ensured maximization of scale breeding of livestock and poultry as well as environmental benefits, which further secured consumer confidence in Chinese brand dairy products and provided a firm foundation to ensure the Group's leading position in the industry and its future development.

Management Discussion and Analysis

Leveraging on this, the Group will focus on nurturing its own quality dairy breeds, and adopt comprehensive, modern and scientific breeding and feeding techniques to constantly improve the quality of raw milk. The size of dairy cows will be expanded through organic growth of the existing cows, by shifting the focus of expansion from simple sizable farms for over 10,000 cows to sustainable growth of the head number of herd. This strategy will not only help the Group gradually reduce capital expenditure on purchase of dairy cows and sustained development of new farms, but also realize maximization of the scale and operational efficiency of our farms. In respect of farm management, we will further implement our comprehensive, modern and scientific farm management practices to enhance operating efficiency; and also develop new business initiatives and products to diversify our revenue stream.

During the fourth quarter of 2012, the Group successfully signed up with several new customers, and is expected to further increase the Company's milk production for supply to the newly signed customers. Entering into partnerships with new customers is an important step of the Group in 2012, as it will not only help continuous support of Mengniu's business, but also expand the Group's sales channels of raw milk through which quality raw milk can be supplied to more outstanding downstream dairy enterprises. Moreover, the Group has also launched UHT milk packs of its own brand. Such products were sold primarily in a few cities in China.

We believe our raw milk is amongst the highest quality and safest milk in China. As we continued to enhance the management skills of large-scale dairy farms and realize full integration of the Group's upstream and downstream operations, under the leadership of our experienced management, the overall capabilities of the Group will set to further improve and our Shareholders and investors will also benefit from our healthy development.

Other Information

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

At 31 December 2012, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Ms. GAO Lina ⁽¹⁾	Interest in controlled corporation	218,157,733	4.54%
	Beneficial owner	32,276,916 ⁽²⁾	0.67%
Mr. HAN Chunlin	Beneficial owner	31,276,916 ⁽²⁾	0.65%

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

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

Saved as disclosed above, as at 31 December 2012, none of the Directors and the chief executive 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2012, the interests or short positions of substantial shareholders, other than the Directors or the chief executive of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
Yinmu Holdings Co. Ltd.	Beneficial interest	739,559,117	15.41%
Xinmu Holdings Co. Ltd.	Beneficial interest	711,021,025	14.81%
Advanced Dairy Company Limited	Beneficial interest	1,152,248,682	24.01%
KKR Asian Fund L.P. ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Associates Asia L.P. ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%

Other Information

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
KKR SP Limited ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Asia Limited ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Fund Holdings L.P. ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Fund Holdings GP Limited ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Group Holdings L.P. ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Group Limited ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR & Co. L.P. ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
KKR Management LLC ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
Mr. Henry R. Kravis and Mr. George R. Roberts ⁽¹⁾	Interest in controlled corporation	1,152,248,682	24.01%
Crystal Dairy Holdings (CDH) Limited	Beneficial interest	384,104,918	8%
CDH Guard Limited ⁽²⁾	Interest in controlled corporation	384,104,918	8%
CDH China Fund III, L.P. ⁽²⁾	Interest in controlled corporation	384,104,918	8%
CDH III Holdings Company Limited ⁽²⁾	Interest in controlled corporation	384,104,918	8%
China Diamond Holdings III, L.P. ⁽²⁾	Interest in controlled corporation	384,104,918	8%
China Diamond Holdings Company Limited ⁽²⁾	Interest in controlled corporation	384,104,918	8%

Notes

- Each of KKR Asian Fund L.P. (as the controlling shareholder of Advanced Dairy Company Limited); KKR Associates Asia L.P. (as the general partner of KKR Asian Fund L.P.); KKR SP Limited (as the voting partner of KKR Associates Asia L.P.); KKR Asia Limited (as the general partner of KKR Associates Asia L.P.); KKR Fund Holdings L.P. (as the sole member of KKR Asia Limited); KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.); KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited); KKR Group Limited (as the general partner of KKR Group Holdings L.P.); KKR & Co. L.P. (as the sole shareholder of KKR Group Limited); KKR Management LLC (as the general partner of KKR & Co. L.P.); and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) be deemed to be interested in the Shares. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares.
- CDH Guard Limited (as the sole shareholder of Crystal Dairy Holdings (CDH) Limited); CDH China Fund III L.P. (as the sole shareholder of CDH Guard Limited), CDH III Holdings Company Limited (as the general partner of CDH China Fund III L.P.); China Diamond Holdings III, L.P. (as the holding company of CDH III Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings III, L.P.) is deemed to be interested in the Shares.

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 as at 31 December 2012.

MANAGEMENT OPTIONS

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

Name of grantee	Date of grant	Number of underlying shares	Exercise price HK\$
Ms. GAO Lina	31 October 2010	29,276,916	0.86
Mr. HAN Chunlin	31 October 2010	29,276,916	0.86
Mr. SUN Yugang	31 October 2010	28,858,675	0.86
		87,412,507	

These options are exercisable during the period commencing from the listing date 26 November 2010 until 10 years from the date of offer. No share option was granted, cancelled, lapsed or exercised during the six-month period ended 31 December 2012.

As at 31 December 2012, the number of shares to be issued upon the exercise of the outstanding Management Options is 87,412,507 shares, representing 1.82% of the issued share capital of the Company as at that date.

SHARE OPTION SCHEME

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

Name or category of participant	Number of shares which may be issued pursuant to the share options scheme					
	As at 1 July 2012	Granted during the Review Period	Exercised during the Review Period	Cancelled and lapsed during the Review Period	As at 31 December 2012	As at Option period
Directors						
Ms. GAO Lina	—	3,000,000	—	—	3,000,000	12.12.2012-30.6.2020
Mr. HAN Chunlin	—	2,000,000	—	—	2,000,000	12.12.2012-30.6.2020
Subtotal	—	5,000,000	—	—	5,000,000	
Other employees						
In aggregate	—	35,000,000	—	—	35,000,000	12.12.2012-30.6.2020
Total	—	40,000,000	—	—	40,000,000	

Notes:

- 1) All the share option were granted on 12 December 2012 and the exercise price is HK\$2.89.
- 2) the share options granted to each Grantee (the “Granted Options”) are deemed to be divided into three tranches, each of which consists of one third of the Granted Options and will be associated with a performance target within a specific financial period (the “Performance Target”). The Performance Target has been determined by the Board and specified in the offer letter to each Grantee. The financial period for the first tranche will be the financial year ending 30 June 2013; the financial period for the second tranche will be the financial year ending 30 June 2014; and the financial period for the third tranche will be the financial year ending 30 June 2015. The corresponding tranche will accrue if the Performance Target set for the relevant financial period is met.
- 3) The Granted Options accrued in accordance with the above paragraph shall vest on a one-off basis within 30 days after the date of publication of the results announcement for the financial year ending 30 June 2015. Any Granted Options not accrued as a result of non-fulfillment of any Performance Target shall automatically lapse.
- 4) The share options represent personal interest held by the relevant Directors as beneficial owners.

Save as disclosed above, at no time during the Review Period 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.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 to the Listing Rules. The Company has, throughout the six months ended 31 December 2012 complied with the code provisions set out in the CG Code, except for the deviations from code provisions A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Hui Chi Kin Ma, a non-executive Director and Mr. Lei Yongsheng, an independent non-executive Director, did not attend the extraordinary general meeting and the annual general meeting of the Company held on 30 November 2012 due to dealing with other personal business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 31 December 2012.

CHANGES OF DIRECTOR’S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, the change of directors’ information of the Company since the date of the 2012 Annual Report are as follows:

Mr. Lee Kong Wai Conway was appointed as an independent non-executive director of NVC Lighting Holding Limited, a company listed on both the Stock Exchange of Hong Kong Limited (stock code: 2222), commencing from 28 November 2012.

In response to the Group’s performance and the market condition, the Board has resolved to increase the remuneration of the independent non-executive Directors for the year ending 31 December 2013. The annual remuneration of each independent non-executive Director would be increased from RMB80,000 to RMB100,000.

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 31 December 2012.

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements of the Group for the six months ended 31 December 2012 have not been audited but have been reviewed by the Group’s auditors, Deloitte Touche Tohmatsu, and the audit committee of the Company (the “Audit Committee”).

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

On behalf of the Board
China Modern Dairy Holdings Ltd.
WOLHARDT Julian Juul
Chairman

Hong Kong, 26 February 2013

Report on Review of Condensed Consolidated Financial Statements



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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 32, which comprise the condensed consolidated statement of financial position as of 31 December 2012 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 February 2013

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2012

		Six months ended 31 December	
NOTES	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	
Sales of milk produced	4	1,092,528	735,640
Gain arising from changes in fair value less costs to sell of dairy cows	12	27,744	63,508
Other income	5	52,740	45,337
Farm operating expenses		(756,275)	(523,130)
Employee benefits expenses		(77,705)	(56,371)
Depreciation		(58,092)	(42,175)
Share of profit (loss) of an associate		2,524	(966)
Net foreign exchange gain (loss)		4,326	(4,967)
Other gains and losses		(1,221)	(840)
Other expenses		(46,154)	(24,107)
Profit before finance costs and tax	6	240,415	191,929
Finance costs	7	(58,801)	(28,690)
Profit before tax		181,614	163,239
Income tax charge	8	(3,355)	—
Profit and total comprehensive income for the period		178,259	163,239
Profit and total comprehensive income attributable to:			
Owners of the Company		170,269	159,934
Non-controlling interests		7,990	3,305
		178,259	163,239
Earnings per share (RMB)	10		
Basic		3.55 cents	3.33 cents
Diluted		3.51 cents	3.30 cents

Condensed Consolidated Statement Of Financial Position

As at 31 December 2012

	NOTES	As at	
		31 December 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	3,583,323	2,964,585
Land use rights		66,768	67,577
Goodwill		310,426	310,426
Interest in an associate		25,747	15,483
Long-term prepaid rentals		545	65
Deposit for acquisition of biological assets		—	9,024
Biological assets	12	4,977,300	4,185,600
		8,964,109	7,552,760
CURRENT ASSETS			
Inventories		440,326	263,882
Trade and other receivables	13	283,037	181,037
Land use rights		1,680	1,696
Pledged bank balances		193,435	134,162
Bank balances and cash		276,650	518,277
		1,195,128	1,099,054
CURRENT LIABILITIES			
Trade and other payables	14	1,401,702	821,230
Amount due to an associate	19(a)	6,763	7,888
Tax payable		2,069	—
Borrowings - due within one year	15	1,665,967	664,217
Deferred income		12,407	7,764
		3,088,908	1,501,099
NET CURRENT LIABILITIES		(1,893,780)	(402,045)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,070,329	7,150,715

Condensed Consolidated Statement Of Financial Position

As at 31 December 2012

		As at	
		31 December 2012	30 June 2012
		RMB'000 (Unaudited)	RMB'000 (Audited)
CAPITAL AND RESERVES			
		413,075	413,075
		4,823,910	4,653,415
		5,236,985	5,066,490
		91,766	66,226
		5,328,751	5,132,716
NON-CURRENT LIABILITIES			
	15	1,641,440	1,926,572
		100,138	91,427
		1,741,578	2,017,999
		7,070,329	7,150,715

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2012

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 July 2011 (Audited)	413,075	2,390,483	1,585,752	9,072	269,626	4,668,008	54,700	4,722,708
Profit and total comprehensive income for the period	—	—	—	—	159,934	159,934	3,305	163,239
Contributions from non-controlling interest arising from a new subsidiary	—	—	—	—	—	—	2,700	2,700
Balance at 31 December 2011 (Unaudited)	413,075	2,390,483	1,585,752	9,072	429,560	4,827,942	60,705	4,888,647
Balance at 1 July 2012 (Audited)	413,075	2,390,483	1,585,752	9,072	668,108	5,066,490	66,226	5,132,716
Profit and total comprehensive income for the period	—	—	—	—	170,269	170,269	7,990	178,259
Contributions from non-controlling interest of subsidiary	—	—	—	—	—	—	17,550	17,550
Recognition of equity-settled share-based payment (note 16 (a))	—	—	—	226	—	226	—	226
Balance at 31 December 2012 (Unaudited)	413,075	2,390,483	1,585,752	9,298	838,377	5,236,985	91,766	5,328,751

Note: Other reserve balance at 1 July 2011 represented the contribution from the owners for the operation of the Group.

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2012

	Six months ended 31 December	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Net cash generated from operating activities	299,697	126,750
Net cash used in investing activities		
Purchases of property, plant and equipment	(444,291)	(488,915)
Addition in biological assets	(804,572)	(583,781)
Increase in pledged bank balances	(59,273)	(56,202)
Investment in an associate	(7,740)	(13,500)
Other investing cash flows	127,178	36,217
	(1,188,698)	(1,106,181)
Net cash generated from financing activities		
New bank borrowings raised	992,619	873,758
Repayment of bank borrowings	(270,450)	(193,340)
Contributions from non-controlling interest of subsidiary	17,550	—
Other financing cash flows	(92,345)	(48,530)
	647,374	631,888
Net decrease in cash and cash equivalents	(241,627)	(347,543)
Cash and cash equivalents at 1 July	518,277	1,021,691
Cash and cash equivalents at 31 December, represented by bank balances and cash	276,650	674,148

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2012

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

In preparing the condensed consolidated financial statements for the six months ended 31 December 2012, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB1,893.8 million as at 31 December 2012 (30 June 2012: net current liabilities of RMB402.0 million). Having considered (i) secured credit facilities of approximately RMB1,510.5 million which remains unutilised as at date of the issuance of these condensed consolidated financial statements and (ii) the Group has non-pledged property, plant and equipment and biological assets of RMB3,520 million and RMB1,448 million, respectively as at 31 December 2012 which were available to the Group to apply for additional banking facilities. Accordingly, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for biological assets (which are measured at fair value less cost to sell). Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2012 are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 30 June 2012.

In the current interim period, the Group has also applied, for the first time, amendments to a standard issued by the International Accounting Standards Board. The application of the amendment had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting period.

4. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced represented mainly the fair value of milk produced at the point of harvest.

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

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

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

Sales of milk produced of RMB947,312,000 is from a single external customer (six months ended 31 December 2011: RMB724,460,000).

5. OTHER INCOME

	Six months ended 31 December	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Government grant related to		
- Biological assets (Note i)	41,600	30,017
- Income (Note ii)	2,505	1,745
- Other assets	3,901	2,524
Bank interest income	3,628	10,460
Others	1,106	591
	52,740	45,337

Note 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.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2012

6. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 31 December	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Auditors' remuneration	860	949
Loss on disposal of property, plant and equipment, net	1,221	840
Release of land use rights	825	742

7. FINANCE COSTS

	Six months ended 31 December	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	94,399	41,789
Bank borrowings wholly repayable after five years	—	13,812
Total borrowing cost	94,399	55,601
Less: capitalized amount	(35,598)	(26,911)
	58,801	28,690

The borrowing costs was capitalised based on the terms of the specific bank borrowings.

8. INCOME TAX CHARGE

	Six months ended 31 December	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	3,355	—

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

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

As at 31 December 2012, deferred taxation has not been provided for in the condensed consolidated financial statements in respect of undistributed profits of relevant PRC subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the profits generated since 1 July 2009 will not be distributed in the foreseeable future and there was no undistributed profit of relevant PRC subsidiaries as at 30 June 2009. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB911,879,000 (30 June 2012: RMB732,865,000) as at 31 December 2012.

9. DIVIDEND

No dividends were paid, declared or proposed during the current reporting period (six months ended 31 December 2011: Nil). The Directors do not recommend the payment of an interim dividend.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2012

10. EARNINGS PER SHARE

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

	Six months ended 31 December	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	170,269	159,934
	Six months ended 31 December	
	2012 (Unaudited)	2011 (Unaudited)
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	4,800,000,000	4,800,000,000
Effect of Modern Farm Scheme share options (as defined in note 16 (b) below)	50,703,246	49,463,858
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,850,703,246	4,849,463,858

The computation of diluted earnings per share does not assume the exercise of the Company's Share Options (as defined in note 16 (a) below) because the exercise price of those options was higher than the average market price of the Company's shares for six months ended 31 December 2012.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2012, the Group acquired property, plant and equipment amounted to RMB735,617,000 (six months ended 31 December 2011 (unaudited): RMB494,783,000) in order to increase its production capacity.

12. BIOLOGICAL ASSETS

The Group's dairy cows were fair valued by the directors of the Company at 31 December 2012 while the fair value of the Group's dairy cows at 30 June 2012 has been arrived at on the basis of a valuation carried out by independent qualified professional valuer. As at 31 December 2012 the fair value less costs to sell of heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices for milkable cows are not available, the directors of the Company have applied net present value approach to calculate the fair value less cost to sell of these items. The resulting gain arising from changes in fair value less costs to sell of dairy cows of RMB27,744,000 (six months ended 31 December 2011 (unaudited): RMB63,508,000) has been recognized directly in profit or loss for the six months ended 31 December 2012.

The principal valuation assumptions affecting the estimation of the fair value of dairy cows by applying the net present value approach are the same as those set out in note 21 of Group's consolidated financial statements for the year ended 30 June 2012.

13. TRADE AND OTHER RECEIVABLES

The Group allows credit period of 60 to 90 days to its trade customers (30 June 2012: 60 days).

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

	As at	
	31 December 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Audited)
Trade receivables		
- within 90 days based on invoice date	221,324	138,652
- over 90 days based on invoice date	2,628	—
	223,952	138,652
Advances to suppliers	53,288	35,844
Others	5,797	6,541
	283,037	181,037

14. TRADE AND OTHER PAYABLES

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

	As at	
	31 December 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Audited)
Trade payables		
Within 60 days based on invoice date	593,312	344,886
Over 60 days based on invoice date	32,152	17,312
	625,464	362,198
Bills payable	91,020	20,392
Payable for acquisition of property, plant and equipment	529,655	267,738
Accrued staff costs	39,523	31,606
Advance payment from customers	90,362	103,770
Payable for transaction cost	—	6,139
Others	25,678	29,387
	1,401,702	821,230

15. BORROWINGS

During the current period, the Group obtained new bank borrowings amounting to RMB992,619,000 (six months ended 31 December 2011 (unaudited): RMB873,758,000) and repaid RMB270,450,000 (six months ended 31 December 2011 (unaudited): RMB193,340,000).

The annual interest rate of the bank borrowings during the period ranged from 1.78% to 7.05% (Year ended 30 June 2012: 2.45% to 7.05%). As at 31 December 2012, the Group's interest-bearing bank borrowings were denominated in Renminbi.

16. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Company's Share Option Scheme

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

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

The Share Options shall entitle the Grantees to subscribe for an aggregate of 40,000,000 new shares upon the exercise of the Share Options in full at an exercise price of HK\$2.89 per share. Out of the aggregate of 40,000,000 Share Options, 3,000,000 and 2,000,000 Share Options were granted to Gao Lina and Han Chunlin, directors of the Company, respectively.

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

16. SHARE-BASED PAYMENT TRANSACTIONS (continued)**(a) Company's Share Option Scheme** (continued)

A summary of the grant is set out below:

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

Out of the aggregate of 40,000,000 Share Options, 5,000,000 Share Options were granted to two directors of the Company ("Share Option A") and the remaining Share Options were granted to 128 eligible employees ("Share Option B"), respectively. The following table discloses movements of the Share Option during the period:

Category	Outstanding as at 1 July 2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 31 December 2012
Share Option A	—	5,000,000	—	—	—	5,000,000
Share Option B	—	35,000,000	—	—	—	35,000,000
	—	40,000,000	—	—	—	40,000,000

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

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

	Share Option A	Share Option B
Grant date share price	HK\$1.97	HK\$1.97
Exercise price	HK\$2.89	HK\$2.89
Tranche	33.33%	33.33%
Expected volatility	41.79%	41.79%
Dividend yield	—	—
Risk-free interest rate	0.4%	0.4%
Sub-optional factor	2.8	2.2

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

The Company recognised a share option expense of RMB226,000 during the current period (six month ended 31 December 2011: N/A). No Share Options was exercisable as at 31 December 2012.

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

(b) Modern Farm Option Scheme

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

At 30 June 2010, the amount of paid-in capital in respect of which MF Grantees can subscribe for and remained outstanding under the 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 MF Grantees a total of 87,412,507 share options of the Company for nil consideration and each with an exercise price of HK\$0.86 (HK\$1 = RMB0.74) per share ("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 MF Options granted and the incremental fair value caused by the replacement of MF Options with Management Options is insignificant.

No Management Options was exercised during each of the period ended 31 December 2012 and 31 December 2011.

17. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	As at	
	31 December 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Audited)
Within one year	777	1,022
In the second to fifth year inclusive	367	368
Over five years	839	885
	1,983	2,275

18. CAPITAL COMMITMENTS

	As at	
	31 December 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Audited)
Capital expenditure contracted but not provided for in respect of the acquisition of:		
- property, plant and equipment	262,304	653,287
- biological assets	—	191,961
	262,304	845,248

19. RELATED PARTY TRANSACTIONS**(a) Name and relationship with a related party is as follows:**

Name	Relationship
Qiusi Grass Industry Co., Ltd. ("Qiusi")	Company owned by family members of directors and an associate of the Group

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

Amount due to a related party

	As at	
	31 December 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Audited)
Trade payable to Qiusi	6,763	7,888

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

	Six months ended 31 December	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Purchase raw material from Qiusi	52,235	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2012

19. RELATED PARTY TRANSACTIONS *(continued)*

(c) Remuneration of key managements personnel

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

	Six months ended 31 December	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	2,498	1,988
Recognition of equity-settled share-based payment	50	—
Retirement benefits scheme contributions	69	37
	2,617	2,025