

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 2011



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. DENG Jiuqiang
Ms. GAO Lina
Mr. HAN Chunlin

Non-executive Directors

Mr. WOLHARDT Julian Juul
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

Mr. WOLHARDT Julian Juul (*Chairman*)
Prof. GUO Lianheng
Prof. LI Shengli

COMPANY SECRETARY

Ms. WONG Lai Wah, FCPA

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 LLP

As to Cayman Islands Law
Maples and Calder

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

WEB SITE

www.moderndairyir.com

STOCK CODE

Hong Kong Stock Exchange 1117

Financial Highlights

OPERATING RESULTS

	Six months ended 31 December		
	2010 RMB'000	2009 RMB'000	Changes %
Sales of milk produced	457,220	265,127	72.5%
Operating profit before finance cost and tax	114,616	49,806	130.1%
Net profit	86,873	38,931	123.1%
Operating margin before finance cost and tax	25.1%	18.8%	6.3%
Net profit margin	19.0%	14.7%	4.3%
Basic EPS (RMB)	1.85 cents	0.94 cent	96.8%

FINANCIAL POSITION

	As at		
	31 December 2010 RMB'000	30 June 2010 RMB'000	Changes %
Fair value of biological assets	2,183,162	1,742,891	25.3%
Cash and cash equivalents	2,009,457	250,959	700.7%
Net current assets/ (liabilities)	1,440,142	(237,389)	N/A
Total borrowings	1,735,016	1,225,117	41.6%
Total assets	7,011,428	4,204,150	66.8%
Total liabilities	2,445,067	1,634,411	50.0%
Total equity	4,566,361	2,569,739	77.7%
Gearing ratio (total borrowings to total assets)	24.7%	29.1%	-4.4%

Management Discussion and Analysis

BUSINESS REVIEW

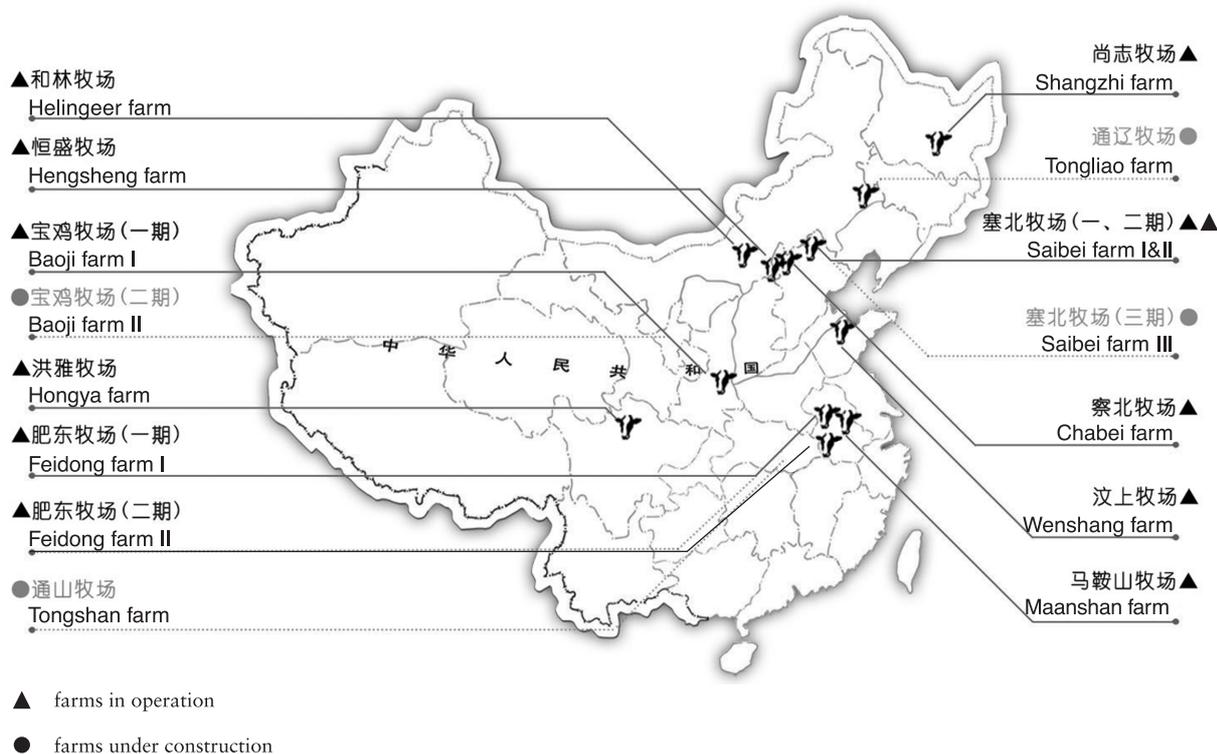
The Company is primarily engaged in the production and sale of raw milk, which it sells to customers for processing into dairy products. Given various factors in the China market, including the rising per capita disposable income, increasing awareness of food safety, the demand for high-end dairy products has continued to grow at a rapid pace in China. 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 large-scale farms with modern technology and farming processes, such as ourselves, to expand market share.

The Group's sales of raw milk produced for the interim period ended 31 December 2010 (the "interim period") was RMB457.2 million, which represented an increase of 72.5% from RMB265.1 million recorded in last corresponding period. Profit before taxation for the interim period increased by 122.9% to RMB86.9 million from RMB39.0 million in the same period last year. Net profit for the period ended 31 December 2010 reached RMB86.9 million, represented an increase of 123.1% from last corresponding period of RMB38.9 million. Profit attributable to shareholders was RMB71.3 million for the interim period. Basic earnings per share was RMB1.85 cents, up 96.8% from the same period last year of RMB0.94 cent.

Acquisition of additional 47.63% equity interest in Modern Farm

With a view to further increasing our shareholding interests and consolidating control in the operating subsidiary, Modern Farming (Group) Co. Ltd. ("Modern Farm") and its subsidiaries, Aquitair Holdings Limited (our wholly-owned subsidiary) entered into an equity transfer agreement with a group of PRC selling shareholders on 17 September 2010 to purchase from them an aggregate of 47.63% equity interests in Modern Farm for a consideration of RMB903,116,860. The acquisition was completed on 5 November 2010.

Our Farms



As of 31 December 2010, we operated 12 farms across China with an aggregate gross land area of approximately 39,595,070 square meters.

In addition, we have substantially finished constructions of 4 new farms during the interim period which will start operation by the end of 2011 and could have commercial production by the end of 2012.

Herd size

During the six months ended 31 December 2010, the Group's herd size continued to expand due to natural growth and import of quality Holstein heifers from Australia. As of 31 December 2010, total numbers of our milkable cows, heifers and calves are: —

	As of	
	31 December 2010 Heads	30 June 2010 Heads
Milkable cows	35,732	26,607
Heifers and calves	51,764	45,584
Total	87,496	72,191

Milk Yield

Our results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the amount of feed needed to produce a certain amount of milk decreases. Milk yield is affected by a number of factors which include a cow's stage of lactation, breed, genetics, feed and other factors. We achieved an average annual milk yield of 7.55 tons during the six-month period ended 31 December 2010, represented a 3.4% increase from 7.30 tons in the corresponding period last year. This is a result of effective herd management and genetic improvement of our cows through generations.

Sales of milk produced

99.0% of the sales of milk produced were sold to a primary customer, China Mengniu Dairy Company Limited ("Mengniu") (2009 corresponding period: 97.0%). Our total sales of raw milk produced increased by 72.5% from RMB265.1 million in the last corresponding period to RMB457.2 million in the six months ended 31 December 2010. The increase in sales revenue is mainly due to increase in sales volume of raw milk by 59.8% from 73,408 tons in the last corresponding period to 117,285 tons in the six months ended 31 December 2010 and an increase in average selling price of raw milk. The increase in sales volume is attributable to the expansion of our herd size and increase in average milk yield per cow.

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

As at 31 December 2010, the biological assets of the Group were revalued at RMB2,183.2 million (30 June 2010 (valued by independent professional valuer): RMB1,742.9 million) by Directors. Gain arising from changes in the fair value of biological assets increased by 6.3% from RMB40.6 million in last corresponding period to RMB43.1 million in the six months ended 31 December 2010. The increase was primarily due to increases in price of raw milk and heifers, and milk yield, which are important inputs to derive the fair value of dairy cows.

Other Income

Other income for the interim period mainly consists of government grants of RMB17.9 million, comparing with the government grant income of RMB27.5 million for the last corresponding period. A majority of the government grants was unconditional government subsidies for purchase of heifers. The decrease in government grants received for the six-month period ended 31 December 2010 was mainly attributable to the decrease in purchase of heifers during the interim period.

Farm Operating Expenses

	Six months ended	
	31 December	
	2010	2009
	RMB'000	RMB'000
	unaudited	unaudited
Feeds	252,664	181,426
Utilities	10,277	7,018
Other farm operating expenses	31,841	32,557
Total	294,782	221,001

Cost of feeds contributed approximately 86% of the farm operating expenses. 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 2010 increased to RMB252.7 million from RMB181.4 million in the last corresponding period, representing an increase of 39.3%. Because of our continuous improvement in herd management in terms of milk yield, feed management and effective feed and transportation cost control measures, average cost of feeds per ton of raw milk sold dropped during the six months ended 31 December 2010. Other farm operating expenses consist mainly utilities, other materials, repair and maintenance and insurance expenses which increased together with our operation scale.

Employee benefit expenses

As of 31 December 2010, our Group has 2,711 employees, representing an increase of 13.2% headcount since 31 December 2009. Our employee benefits expenses increased by 28.8% from RMB31.1 million in last corresponding period to RMB40.0 million in the six-month period ended 31 December 2010. The increase was mainly related to increased headcount for new farms and general increase in basic salary.

Depreciation

Depreciation charge incurred for raising heifers and calves are capitalised as biological assets, until such time as the heifers and calves begin to produce milk and the depreciation of which will be charged to profit and loss. Depreciation expenses increased by 82.3% from RMB17.1 million in last corresponding period to RMB31.1 million for the six months ended 31 December 2010 primarily due to the proportion of milkable cows over total herd size increased.

Other expenses

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
Other operating expenses	16,257	17,467
Transaction costs attributable to issue of shares	24,356	—
	40,613	17,467

Other expenses mainly consist of professional fees, travel expenses and other office administrative expenses. The increase of 132.5% from RMB17.5 million in last corresponding period to RMB40.6 million for the six months ended 31 December 2010 was mainly due to part of the transaction costs incurred for listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") amounted to RMB24.4 million were charged to income statement for the six months ended 31 December 2010 (2009 corresponding period: Nil).

Finance costs

Finance costs increased from RMB10.8 million for the last corresponding period to RMB27.7 million for the six months ended 31 December 2010, which was mainly attributable to the increase in bank loans for construction of new farms.

Net Profit and Profit Attributable to Equity Shareholders

For the six months ended 31 December 2010, the Group recorded a net profit of RMB86.9 million, up 123.1% from net profit recorded in last corresponding period of RMB38.9 million. The Group's profit attributable to equity shareholders was RMB71.3 million for the interim period, representing an increase of 271.6% from the last corresponding period. The increase was attributable to the increase in operating profits and the acquisition of additional 47.63% equity interest in an operating subsidiary, Modern Farm, during the interim period. Basic earnings per share were approximately RMB1.85 cents (2009 corresponding period: RMB0.94 cent).

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2010 (2009 corresponding period: Nil).

Capital Structure, Liquidity and Financial Resources

For the six months ended 31 December 2010, the Group's net cash outflow from operating activities amounted to RMB7.3 million, compared to an outflow of RMB61.0 million in same period last year. Net cash balances (cash and bank balances net of total bank loans) reached RMB333.5 million as at 31 December 2010 from negative cash balances of RMB937.8 million as at 30 June 2010 due to additional funding raised from our initial public offering in November 2010. At 31 December 2010, the Group's available and unutilised banking facilities amounted to approximately RMB950 million. The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

The table below sets forth our short-term and long-term borrowings as of 31 December 2010.

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Bank borrowings	1,730,779	1,216,992
Other borrowings	4,237	8,125
	1,735,016	1,225,117
Repayable:		
Within one year	558,579	384,647
Between one to two years	156,715	162,264
Between two to five years	809,092	407,206
Over five years	210,630	271,000
	1,735,016	1,225,117
Less: amount due within one year included in current liabilities	(558,579)	(384,647)
Amount due after one year	1,176,437	840,470

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Secured	1,112,104	941,251
Unsecured	580,922	209,696
Guaranteed	41,990	74,170
	1,735,016	1,225,117

At 31 December 2010, gearing ratio, being the ratio of total borrowings to total assets was 24.7% (30 June 2010: 29.1%). The annual interest rate of the bank borrowings during the period ended 31 December 2010 varied from 1.92% to 6.40% (2009 corresponding period: 2.40% to 7.56%). As of 31 December 2010 and 30 June 2010, all bank borrowings were denominated in Renminbi.

PLEDGE OF ASSETS

As at 31 December 2010, land use rights, buildings and equipment, and biological assets with carrying value of RMB15.0 million (30 June 2010: RMB14.2 million), RMB135.4 million (30 June 2010: RMB144.9 million) and RMB1,540.4 million (30 June 2010: RMB1,315.6 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2010, the Group has capital commitments of RMB259.1 million related to expenditures in respect of the acquisition of property, plant and equipment and of RMB217.0 million, for purchase of heifers.

The Group did not have any significant contingent liabilities as at 31 December 2010 and 30 June 2010.

FINANCIAL MANAGEMENT POLICIES

The Group continues to control 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. With the funds raised through the initial public offering in November 2010, the Group has financial resources that are sufficient to meet its daily operations and future development.

The Directors consider the Group has limited foreign currency exposure in respect of its operations because 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. But meanwhile, the Group still exposes to foreign currency risks associated with its net proceeds from the global offering which are denominated in Hong Kong dollars and placed in financial institutions mainly as Hong Kong dollar deposits. In view of the minimal foreign currency exchange risk related to operations and it is our plan to translate those net proceeds from the global offering into Renminbi in the coming months, the Group does not employ any financial instruments for hedging purposes.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 2,711 employees in Mainland China and Hong Kong as at 31 December 2010. Total staff costs during the period, excluding directors' fees, were approximately RMB38.5 million (2009: RMB29.6 million).

The Group placed great emphasis on recruiting and training quality personnel. We recruit talents from universities and technical schools and provide pre-employment and on-the-job training to our employees. The Group also offered competitive remuneration with the aim to retain quality personnel.

USE OF PROCEEDS

The shares of the Company were listed on the main board of the Stock Exchange on 26 November 2010 with net proceeds from the global offering of approximately HK\$2,198 million (after deducting underwriting commissions and related expenses). The net proceeds will be used in the following manner.

Purpose of net proceeds	Percentage	Amount of net proceeds HK\$ Million
Import high-quality Holstein dairy heifers from Australia or New Zealand	40%	879
Construction of new farms	30%	659
Purchase of suitable farm facilities including, among other things, milking systems, feed processing machinery, electricity generating machines and herd management software	20%	440
Working capital and other general corporate purposes	10%	220
	100%	2,198

Up to 31 December 2010, the Group has not utilized any of the net proceeds and the net proceeds were deposited in reputable financial institutions. The Directors intend to apply the net proceeds in the manner as set out in the prospectus of the Company dated 15 November 2010.

PROSPECTS

We have enjoyed significant growth in previous few years, driven largely by our ability to expand rapidly by replicating our business model in new domestic markets and the rising demand for high-quality and safe raw milk in the PRC market. We believe there are still significant opportunities in the PRC dairy product market due to sustained growth of milk consumption, a scarcity of high quality raw milk and a growing demand for large-scale dairy farms in China. We believe we are well-positioned to capitalise these opportunities.

We expect to further strengthen our market leading position in the dairy farming industry in the PRC. As of 31 December 2010, we have 16 dairy farms, 12 of which have had commercial production with nearly 90,000 heads of dairy cows.

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

At 31 December 2010, 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	29,276,916 ⁽²⁾	0.61%
Mr. HAN Chunlin	Beneficial owner	29,276,916 ⁽²⁾	0.61%

(1) Ms. Gao holds approximately 49.10% 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 granted by the Company. For details of the Management Options, please refer to details of Share Options Scheme below.

The Directors of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share Option Scheme" below.

Saved as disclosed above, as at 31 December 2010, 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 2010, 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 Ltd.	Beneficial interest	739,559,117	15.41%
Xinmu Holdings 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%
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:

- (1) 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.
- (2) 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 2010.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Management Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The following share options were outstanding under the Management Option Scheme 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 2010.

As at 31 December 2010, the number of shares to be issued upon the exercise of the outstanding options under the Management Option Scheme is 87,412,507 shares, representing 1.82% of the issued share capital of the Company as at that date.

CORPORATE GOVERNANCE

The Company has, throughout the six months ended 31 December 2010 complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, all directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 31 December 2010.

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 2010.

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements of the Group for the six months ended 31 December 2010 have not been audited but have been reviewed by Deloitte Touche Tohmatsu, the auditors and audit committee of the Company (the "Audit Committee").

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

On behalf of the Board
China Modern Dairy Holdings Ltd.
DENG Jiuqiang
Chairman

Hong Kong, 25 February 2011

Report on Review of Interim Financial Information



TO THE BOARD OF DIRECTORS OF CHINA MODERN DAIRY HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 30, which comprises the condensed consolidated statement of financial position of China Modern Dairy Holdings Ltd. (the “Company”) and its subsidiaries as at 31 December 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and 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 are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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” (“HKSRE 2410”) issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information 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 the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months ended 31 December 2009 and the relevant explanatory notes, disclosed in the interim financial information have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25 February 2011

Condensed Consolidated Statement Of Comprehensive Income (unaudited)

Six months ended 31 December 2010

		Six months ended 31 December	
		2010	2009
		RMB'000	RMB'000
		unaudited	unaudited
	Notes		
Sales of milk produced	4	457,220	265,127
Gain arising from changes in fair value			
less costs to sell of dairy cows	12	43,149	40,590
Other income	5	20,059	29,897
Farm operating expenses		(294,782)	(221,001)
Employee benefits expenses		(39,993)	(31,050)
Depreciation		(31,134)	(17,083)
Other gains and losses		710	793
Other expenses		(40,613)	(17,467)
Profit before finance costs and tax	6	114,616	49,806
Finance costs	7	(27,735)	(10,826)
Profit before tax		86,881	38,980
Income tax charge	8	(8)	(49)
Profit and total comprehensive income for the period		86,873	38,931
Profit and total comprehensive income attributable to:			
Owners of the Company		71,297	19,185
Non-controlling interests		15,576	19,746
		86,873	38,931
Earnings per share (RMB)	10		
Basic		1.85 cents	0.94 cent
Diluted		1.84 cents	0.92 cent

Condensed Consolidated Statement of Financial Position (unaudited)

As at 31 December 2010

		As at	
		31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,924,061	1,578,395
Land use rights		63,581	63,616
Goodwill		310,426	301,354
Long-term prepaid rentals		194	194
Deposit for acquisition of biological assets		9,261	13,028
Biological assets	12	2,183,162	1,742,891
		4,490,685	3,699,478
CURRENT ASSETS			
Inventories		319,035	139,407
Trade and other receivables	13	131,788	76,772
Land use rights		1,417	1,184
Pledged bank balances		59,046	36,350
Bank balances and cash		2,009,457	250,959
		2,520,743	504,672
CURRENT LIABILITIES			
Trade and other payables	14	516,671	351,050
Amount due to a related party	21(a)	—	1,247
Interest payable		435	1,249
Borrowings - due within one year	15	558,579	384,647
Deferred income		4,916	3,868
		1,080,601	742,061
NET CURRENT ASSETS/ (LIABILITIES)		1,440,142	(237,389)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,930,827	3,462,089
CAPITAL AND RESERVES			
Share capital	16	413,075	272
Reserves		4,097,634	1,436,462
Equity attributable to owners of the Company		4,510,709	1,436,734
Non-controlling interests		55,652	1,133,005
		4,566,361	2,569,739
NON-CURRENT LIABILITIES			
Borrowings - due after one year	15	1,176,437	840,470
Long-term other payable		100,000	—
Deferred income		88,029	51,880
		1,364,466	892,350
		5,930,827	3,462,089

Condensed Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 31 December 2010

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserve	Share option reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 July 2009 (Audited)	272	—	1,391,441	—	(8,111)	1,383,602	1,077,461	2,461,063
Profit and total comprehensive income for the period	—	—	—	—	19,185	19,185	19,746	38,931
Balance at 31 December 2009 (Unaudited)	272	—	1,391,441	—	11,074	1,402,787	1,097,207	2,499,994
Balance at 1 July 2010 (Audited)	272	—	1,391,441	—	45,021	1,436,734	1,133,005	2,569,739
Profit and total comprehensive income for the period	—	—	—	—	71,297	71,297	15,576	86,873
Shares repurchased and cancelled and replaced by new shares (Note 16 (iii))	170	—	(170)	—	—	—	—	—
Issue of shares (Note 16 (v))	421	902,696	—	—	—	903,117	—	903,117
Shares capitalization (Note 16 (vi))	343,923	(343,923)	—	—	—	—	—	—
New issue of shares by way of public offering (Note 16 (vii))	68,289	1,905,644	—	—	—	1,973,933	—	1,973,933
Transaction costs attributable to issue of shares	—	(73,256)	—	—	—	(73,256)	—	(73,256)
Recognition of equity-settled share-based payment (Note 17)	—	—	—	9,072	—	9,072	—	9,072
Acquisition of non-controlling interest (Note 18)	—	—	189,812	—	—	189,812	(1,092,929)	(903,117)
Balance at 31 December 2010 (Unaudited)	413,075	2,391,161	1,581,083	9,072	116,318	4,510,709	55,652	4,566,361

Note:

- (i) Other reserve balance at 1 July 2009 represented the contribution from the owners for the operation of the Group.

Condensed Consolidated Statement of Cash Flows (unaudited)

Six months ended 31 December 2010

	Six months ended 31 December	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Net cash used in operating activities	(7,320)	(61,000)
Net cash used in investing activities		
Purchases of property, plant and equipment	(295,244)	(388,824)
Addition in biological assets	(389,324)	(319,188)
Other investing cash flows	36,001	106,342
	(648,567)	(601,670)
Net cash generated from financing activities		
Gross proceeds from issue of shares by way of public offering (Note 16(vii))	1,973,933	—
Issue of shares (Note 16 (v))	903,117	—
Acquisition of additional interest in a subsidiary (Note 18)	(903,117)	—
New bank borrowings raised	1,667,483	363,400
Repayment of bank borrowings	(1,157,584)	(205,384)
Other financing cash flows	(69,447)	(17,444)
	2,414,385	140,572
Net increase (decrease) in cash and cash equivalents	1,758,498	(522,098)
Cash and cash equivalents at 1 July	250,959	733,720
Cash and cash equivalents at 31 December, represented by bank balances and cash	2,009,457	211,622

Notes to the Unaudited Condensed Consolidated Interim Financial Information

1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the “Company”) is a public limited liability company and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 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 raw 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 Company operate (the “functional currency”).

2. BASIS OF PREPARATION

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 of Hong Kong Limited and 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 costs to sell. The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s financial statements for the year ended 30 June 2010.

In the current interim period, the Group has applied, for the first time, a number of amendments and interpretation (“new or revised IFRSs”) issued by the International Accounting Standards Board. The application of these new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting period.

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

IFRSs (Amendments)	Improvements to IFRSs 2010 that are effective for annual periods beginning on or after 1 January 2011 ¹
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets ²
IFRS 9	Financial Instruments ³
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁴
IAS 24 (Revised)	Related Party Disclosures ⁵
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁵

¹ Effective for annual periods beginning on or after 1 January 2011.

² Effective for annual periods beginning on or after 1 July 2011.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 January 2011.

The directors of the Company (the “Directors”) anticipate that the application of these new and revised standard amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SALES OF MILK PRODUCED AND SEGMENT INFORMATION

Sales of milk produced represented mainly the fair value of milk produced less costs to sell 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 president of the Group (the "President"), 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.

In prior period, the information reported to the President for the purpose of resources allocation and assessment of performance does not contain the gain arising from changes in fair value less costs to sell of dairy cows, and the President reviewed the profit before tax, assets and liabilities as a whole. The difference between the profit before tax and assets reported under International Financial Reporting Standards ("IFRSs") and those reported to the President is mainly arising from the difference of the accounting treatment of the dairy cows. The dairy cows are stated at cost less depreciation under the report to the President but the dairy cows are stated at their fair value less costs to sell under IFRSs.

During the current period, the information reported to the President for the purpose of resources allocation and assessment of performance has contained the gain arising from changes in fair value less costs to sell of dairy cows, and the President reviewed the profit before tax, assets and liabilities as a whole which are same as the amounts reported under IFRS.

The difference of the profit (loss) before tax and assets reported to the President and IFRSs for both periods are as follows:

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
Profit (loss) before tax reported to the President	86,881	(1,610)
Add: Gain arising from changes in fair value less costs to sell of dairy cows	N/A	40,590
Profit before tax under IFRSs	86,881	38,980

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Assets reported to the President	7,011,428	3,196,845
Add: Gain arising from changes in fair value less costs to sell of dairy cows	N/A	1,007,305
Assets under IFRSs	7,011,428	4,204,150

5. OTHER INCOME

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
Government grant related to:		
Biological assets (note i)	13,475	26,268
Income (note ii)	2,503	910
Other assets	1,886	322
Bank interest income	1,394	1,219
Others	801	1,178
	20,059	29,897

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 financial support to the Group's operations.

6. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
Auditors' remuneration	673	698
Transaction costs attributable to issue of shares	24,356	—
Exchange (gain) loss	(1,068)	631
Loss (gain) on disposal of property, plant and equipment	358	(1,424)
Release of land use rights	708	516

7. FINANCE COSTS

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
Interest expenses on:		
Bank borrowings wholly repayable within five years	32,379	14,451
Bank borrowings wholly repayable after five years	5,621	2,022
Other borrowings wholly repayable within five years	87	85
Total borrowing costs	38,087	16,558
Less: capitalized amount	(10,352)	(5,732)
	27,735	10,826

Borrowing costs are capitalized in construction in progress.

8. INCOME TAX CHARGE

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
The charge comprises:		
Current tax: PRC enterprise income tax	8	49

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

9. DIVIDEND

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

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	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
<i>Earnings</i>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	71,297	19,185
Adjustment to the share of profit of Modern Farming Group Co., Ltd. ("Modern Farm") and its subsidiaries based on dilution of their earnings per share (Note 17)	(283)	(405)
Earnings for the purpose of diluted earnings per share	71,014	18,780

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,849,121,739	2,049,600,000
Effect of share options issued by the Company (Note 17)	19,988,361	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,869,110,100	2,049,600,000

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share for the six months ended 31 December 2009 and 2010 has been determined assuming 5,124,000 ordinary shares were allotted and credited to Advanced Dairy I Company Limited ("Advanced Dairy I") and the capitalization issue as set out in note 16 (vi) occurred on the date of incorporation of the Company.

There were no potential dilutive ordinary shares of the Company in existence for the six months ended 31 December 2009.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2010, the Group spent RMB395,648,000 (six months ended 31 December 2009 (unaudited): RMB384,244,000) to acquire property, plant and equipment in order to increase its production capacity.

12. BIOLOGICAL ASSETS

The Group's dairy cows were fair valued by the Directors at 31 December 2010 while the fair value of the Group's dairy cows at 30 June 2010 has been arrived at on the basis of a valuation carried out by independent qualified professional valuer. As at 31 December 2010 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 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 RMB43,149,000 (six months ended 31 December 2009 (unaudited): RMB40,590,000) has been recognized directly in profit or loss for the six months ended 31 December 2010.

13. TRADE AND OTHER RECEIVABLES

The Group allows credit period of 60 days (30 June 2010: 60 days) to its trade customers. The following is an analysis of trade and other receivables at the end of respective reporting periods:

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Trade receivables		
– Within 60 days based on invoice date	96,003	44,301
– Over 60 days based on invoice date	77	353
	96,080	44,654
Advances to suppliers	29,749	17,228
Others	5,959	14,890
	131,788	76,772

14. TRADE AND OTHER PAYABLES

The credit period taken for the settlement of trade purchase is 60 days. The following is an analysis of trade and other payables at the end of the respective reporting periods.

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Trade payables		
Within 60 days based on invoice date	187,500	111,507
Over 60 days based on invoice date	18,039	3,532
	205,539	115,039
Payable for acquisition of property, plant and equipment	251,889	150,238
Consideration payable for acquisition of subsidiary	—	5,150
Accrued staff costs	20,650	14,644
Advanced payments from customers	2,619	57,977
Payable for listing fee	27,135	—
Others	8,839	8,002
	516,671	351,050

15. BORROWINGS

During the current period, the Group obtained new bank loans amounting to RMB1,667,483,000 (six months ended 31 December 2009 (unaudited): RMB363,400,000) and repaid RMB1,157,584,000 (six months ended 31 December 2009 (unaudited): RMB205,384,000).

The annual interest rate of the bank borrowings during the period varied from 1.92% to 6.40% (Year ended 30 June 2010: 2.40% to 7.65%). As at 31 December 2010, the Group's interest-bearing bank borrowings were denominated in Renminbi.

16. SHARE CAPITAL

	Notes	Number of shares '000	Share capital US\$'000
Ordinary shares of US\$1.00 each ("US\$ Shares")			
Authorized			
At 1 July 2010	(i)	50	50
Cancelled during the period	(iv)	(50)	(50)
At 31 December 2010		—	—
Issued and fully paid			
At 1 July 2010	(i)	40	40
US\$ Shares repurchased and cancelled	(iii)	(40)	(40)
At 31 December 2010		—	—
		Number of shares '000	Share capital HK\$'000
Ordinary Shares of HK\$ 0.1 each ("HK\$ Shares")			
Authorized			
On incorporation		—	—
Increase in authorized capital on 29 July 2010	(ii)	10,000	1,000
Increase in authorized capital on 30 October 2010	(vi)	9,990,000	999,000
At 31 December 2010		10,000,000	1,000,000
Issued and fully paid			
On incorporation		—	—
Issue of HK\$ Shares to owners	(iii)	5,124	512
Issue of HK\$ Shares	(v)	4,876	488
Shares capitalization	(vi)	3,990,000	399,000
New issue of HK\$ Shares by way of public offering	(vii)	800,000	80,000
At 31 December 2010		4,800,000	480,000
			RMB'000
Presented as			413,075

16. SHARE CAPITAL (continued)

Notes:

- (i) On 30 July 2008, the Company was incorporated in the Cayman Islands as a limited liability company with authorized share capital of US\$50,000 divided into 50,000 shares of a par value of US\$1.00 each and one US\$ Share was allotted, issued and credited as fully paid to Mapcal Limited as the initial subscriber. On 18 August 2008, Mapcal Limited transferred one US\$ Share to Advance Dairy I at consideration of US\$1.00 and 39,999 US\$ Shares were allotted and issued credited as fully paid to Advanced Dairy I at a consideration of US\$39,999.
- (ii) On 29 July 2010, the authorized share capital of the Company was increased from US\$50,000 divided into 50,000 shares of a par value of US\$1.00 each to the aggregate of US\$50,000 and HK\$1,000,000 divided into (i) 50,000 shares with a par value of US\$1.00 each and (ii) 10,000,000 ordinary shares with a par value of HK\$0.1 each, respectively, by the creation of 10,000,000 ordinary shares with a par value of HK\$0.1 each.
- (iii) On 30 July 2010, 5,124,000 HK\$ Shares were allotted, issued and credited to Advanced Dairy I at par value and then the 40,000 issued US\$ Shares held by Advanced Dairy I were repurchased and cancelled by the Company. The difference between the par value of US\$ Shares and HK\$ Shares of RMB170,000 was transferred from other reserve.
- (iv) On 30 July 2010, all of the 50,000 authorized but unissued US\$ Shares were cancelled and the amount of the authorized share capital was diminished by the amount of the US\$ Shares so cancelled.
- (v) On 30 July 2010, 573,647 HK\$ Shares, 1,944,632 HK\$ Shares, 1,869,546 HK\$ Shares and 488,175 HK\$ Shares were allotted and issued as nil paid by the Company to Jinmu Holdings Co Ltd. ("Jinmu"), Yinmu Holdings Co Ltd. ("Yinmu"), Xinmu Holdings Co Ltd. ("Xinmu") and Youmu Dairy Holding Co Ltd. ("Youmu"), respectively with the payment of the subscription monies of RMB903,117,000 being settled in November 2010.
- (vi) Pursuant to written resolutions on 31 October 2010, the authorized share capital of the Company was increased from HK\$1,000,000 divided into 10,000,000 shares of a par value of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each by the creation of an additional 9,990,000,000 shares of HK\$0.10 each. In addition, the Directors authorized, and resolved to capitalize HK\$399,000,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 3,990,000,000 HK\$ Shares.
- (vii) In connection with the Company's initial public offering, 800,000,000 HK\$ Shares of HK\$0.10 each were issued at a price of HK\$2.89 per share for a total cash consideration, before expenses, of approximately HK\$2,312,000,000 (equivalent to RMB1,973,933,000). Dealings in these HK\$ Shares on the Main Board of the Stock Exchange commenced on 26 November 2010.

17. SHARE-BASED PAYMENT TRANSACTION

Modern Farm's option scheme (the "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 Scheme, Modern Farm's directors 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 with 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.

No Management Options was exercised during the period ended 31 December 2010.

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. Amount of RMB9,072,000 has been recognised is share option reserve.

18. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

Pursuant to an equity transfer agreement between Aquitair Holdings Limited (“Aquitair”), 31 individual equity holders of Modern Farm and Laoniu (Helingeer) Farming Development Co., Ltd. (“Laoniu Farming”) (the “PRC Selling Equity Holders”) on 17 September 2010, Aquitair purchased from the PRC Selling Equity Holders an aggregate of 47.63% equity interests in Modern Farm (comprising an aggregate 42.86% held by 31 individual equity holders of Modern Farm and 4.77% equity interest held by Laoniu Farming) for consideration of RMB903,116,860 (the “Onshore Acquisition”).

With a view to financing the Onshore Acquisition and, at the same time, enabling the PRC Selling Equity Holders to continue their investments in the Company’s business, the Company entered into a subscription agreement with Jinmu, Yinmu, Xinmu and Youmu (companies setup by the PRC Selling Equity Holders or their ultimate equity holders) on 29 July 2010 pursuant to which the Company agreed to issue an aggregate of 4,876,000 HK\$ Shares at a total subscription price of RMB903,116,860 as described in note 16(v).

Non-controlling interests

The amount of the non-controlling interest (47.63% in Modern Farm) of RMB1,092,929,000 was measured by reference to the proportionate share of Modern Farm and its subsidiaries’ net assets value and the effect is shown as follows:

	RMB’000
Consideration transferred	903,117
Less: non-controlling interests acquired	(1,092,929)
Recognized in other reserve	(189,812)

19. 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 2010 RMB’000 unaudited	30 June 2010 RMB’000 audited
Within one year	1,355	941
In the second to fifth year inclusive	800	787
Over five years	1,496	5,770
	3,651	7,498

20. CAPITAL COMMITMENTS

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Capital expenditure contracted but not provided for in respect of the acquisition of:		
– Property, plant and equipment	259,064	261,573
– Biological assets	217,016	303,152
	476,080	564,725

21. RELATED PARTY TRANSACTIONS

- (a) Name and relationship with a related party is as follows:

Name	Relationship
內蒙古九強機械有限公司	Company owned by a director

At the end of the reporting period, the Group had the following balances with related party:

Amount due to a related party

	As at	
	31 December 2010 RMB'000 unaudited	30 June 2010 RMB'000 audited
Other payable nature		
內蒙古九強機械有限公司 (Note)	–	1,247

Note: The amount mainly represents the construction cost payable at the end of the reporting period. It was interest-free, unsecured and repayable on demand.

- (b) Remuneration of key managements

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

	Six months ended 31 December	
	2010 RMB'000 unaudited	2009 RMB'000 unaudited
Salaries and other benefits	1,510	1,445
Retirement benefits scheme contributions	20	20
	1,530	1,465