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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board (the "Board") of directors (the "Directors") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the year ended 31 December 2014** *RMB'000* *(Audited)*	**For the year ended 31 December 2013** *RMB'000* *(Unaudited)*	**For the 6 months ended 31 December 2013** *RMB'000* *(Audited)*
Revenue	4	5,026,706	3,289,281	1,901,248
Cost of sales before biological fair value adjustment		(3,161,345)	(2,304,022)	(1,280,342)
Biological fair value adjustment included in cost of sales		(1,666,242)	(860,258)	(542,821)
Loss arising from changes in fair value less costs to sell of dairy cows	11	(329,069)	(82,751)	(16,408)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		1,666,242	860,258	542,821
Other income		40,213	69,505	15,902
Selling and distribution costs		(111,909)	(56,845)	(33,595)
Administrative expenses		(214,561)	(151,820)	(84,678)
Share of loss of an associate		(6,791)	(25)	(872)
Share of profit (loss) of joint ventures		7,004	(287)	(287)
Other gains and losses		(209,648)	(33,940)	(37,562)
Other expenses		(4,635)	(3,148)	(769)
Profit before finance costs and tax	5	1,035,965	725,948	462,637
Finance costs	6	(265,601)	(208,383)	(113,505)
Profit before tax		770,364	517,565	349,132
Income tax charge	7	(7,476)	(10,571)	(5,875)
Profit and total comprehensive income for the year/period		762,888	506,994	343,257
Profit and total comprehensive income attributable to:				
Owners of the Company		735,317	481,050	327,487
Non-controlling interests		27,571	25,944	15,770
		762,888	506,994	343,257
Earnings per share (RMB)	9			
Basic		15.23 cents	9.99 cents	6.79 cents
Diluted		15.08 cents	9.89 cents	6.72 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2014 RMB'000 (Audited)	As at 31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,457,970	4,032,642
Land use rights		64,868	66,261
Goodwill		310,426	310,426
Interest in an associate		18,931	25,722
Interest in joint ventures		95,208	32,829
Biological assets	11	6,530,814	5,954,363
Other financial assets		93,743	34,517
		11,571,960	10,456,760
CURRENT ASSETS			
Inventories		640,581	691,108
Trade and other receivables	12	826,772	544,710
Land use rights		1,667	1,667
Pledged bank balances		612,909	430,535
Cash and bank balances		556,964	369,041
		2,638,893	2,037,061
CURRENT LIABILITIES			
Trade and other payables	13	1,403,003	1,474,250
Tax payable		2,787	9,161
Borrowings — due within one year		1,858,398	1,788,799
Short-term debenture		1,100,000	1,200,000
Deferred income		11,493	10,913
		4,375,681	4,483,123
NET CURRENT LIABILITIES		(1,736,788)	(2,446,062)
TOTAL ASSETS LESS CURRENT LIABILTIIES		9,835,172	8,010,698

	Notes	As at 31 December 2014 RMB'000 (Audited)	As at 31 December 2013 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital		415,261	415,261
Share premium and reserves		6,094,978	5,327,763
Equity attributable to owners of the Company		6,510,239	5,743,024
Non-controlling interests		145,713	117,710
		6,655,952	5,860,734
NON-CURRENT LIABILITIES			
Borrowings — due after one year		2,829,450	1,959,867
Deferred income		108,928	113,949
Other financial liabilities		240,842	76,148
		3,179,220	2,149,964
		9,835,172	8,010,698

NOTES

1. **General information**

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, KYI-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 and liquid milk products.

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

2. **Basis of Presentation**

During the prior financial period, the reporting period end date of the Group was changed from 30 June to 31 December, because the Directors determined to bring the annual reporting period end date of the Group in line with that of the Group's subsidiaries established in the PRC. Accordingly, the corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a six-month period from 1 July 2013 to 31 December 2013 and therefore are not comparable with amounts shown for the current year.

In presenting the consolidated financial statements of profit or loss and other comprehensive income for the year ended 31 December 2014, the Directors has changed the analysis and presentation of expenses recognised in profit or loss from using the classification by nature to using the classification by function. Comparative information for the six months ended 31 December 2013 has been presented on the same basis.

In preparation the consolidated financial statements for the year ended 31 December 2014, the Directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB1,736,788,000 as at 31 December 2014 (31 December 2013: RMB2,446,062,000). Having considered the secured credit facilities of approximately RMB 8,089,553,000 (including credit facilities that will expire after 31 December 2015 of RMB 2,271,570,000) which remains unutilised as at 31 December 2014, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been presented on a going concern basis.

3. **Application of New and Revised International Financial Reporting Standards**

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

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

Amendments to IFRS 10 IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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

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

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

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]

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

2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016. IFRS 14 is not applicable to the Group as the Group is not a first-time adopter of IFRSs.

3 Effective for annual periods beginning on or after 1 January 2017

4 Effective for annual periods beginning on or after 1 July 2014

5 Effective for annual periods beginning on or after 1 January 2016

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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

IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

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

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

The Directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9 are described below:

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

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2014.

4. **Principal accounting policies**

The consolidated financial statements have been prepared in accordance with the IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap. 32).

The annual results have been prepared on the historical cost basis except for (i) the biological assets, which are measured at fair value less costs to sell, (ii) Financial assets at fair value through profit or loss (FVTPL) and Financial Liabilities at FVTPL, which are measured at fair value. The accounting policies used in the annual results are consistent with those followed in the preparation of the Group's consolidated financial statements for the six months ended 31 December 2013.

5. **Segment information**

The Group's most senior executives is identified as the chief operating decision maker (the "CODM") of the Group for the purposes of resources allocation and performance assessment. For the Group's dairy farming and liquid milk businesses, the CODM reviews operating results and financial information on an entity by entity basis and each entity is identified as an operating segment. Since the group companies engaged in the dairy farming business and liquid milk business are operating in similar business model with similar target group of customers, and under the same regulatory environment, respectively, they are aggregated as two reportable segments.

The Group's reportable segments for segment reporting purpose are as follows:

- Dairy farming: breeding dairy cows to produce and sell raw milk;

- Liquid milk products: producing and sell processed liquid milk.

Segment revenue, results, assets and liabilities

	Dairy farming *RMB'000*	Liquid milk products *RMB'000*	Total *RMB'000*
For the year ended 31 December 2014 (audited)			
Segment revenue	4,672,151	832,686	5,504,837
Less: Inter-segment revenue	(478,131)	—	(478,131)
Net external revenue	4,194,020	832,686	5,026,706
Segment cost of sales before biological fair value adjustment	2,938,876	695,999	3,634,875
Less: Inter-segment cost of sales	(473,530)	—	(473,530)
Net external cost of sales before biological fair value adjustment	2,465,346	695,999	3,161,345
Reportable segment profit	1,226,082	78,354	1,304,436
Elimination of inter-segment results			(4,601)
Loss arising from changes in fair value less costs to sell of dairy cows			(329,069)
Share of loss of an associate			(6,791)
Share of profit of joint ventures			7,004
Unallocated other income			25,502
Unallocated other gains and losses			(123,243)
Unallocated expenses			(102,874)
Profit before tax			770,364
As at 31 December 2014 (audited)			
Segment assets	12,207,104	937,065	13,144,169
Elimination of inter-segment balances			(560,024)
Unallocated assets			1,626,708
Consolidated assets			14,210,853
Segment liabilities	7,137,792	676,946	7,814,738
Elimination of inter-segment balances			(555,423)
Unallocated liabilities			295,586
Consolidated liabilities			7,554,901

	Dairy farming *RMB'000*	Liquid milk products *RMB'000*	Total *RMB'000*
For the year ended 31 December 2013 (unaudited)			
Segment revenue	3,105,154	321,324	3,426,478
Less: Inter-segment revenue	(137,197)	—	(137,197)
Net external revenue	2,967,957	321,324	3,289,281
Segment cost of sales before biological fair value adjustment	2,206,645	234,574	2,441,219
Less: Inter-segment cost of sales	(137,197)	—	(137,197)
Net external cost of sales before biological fair value adjustment	2,069,448	234,574	2,304,022
Reportable segment profit	661,012	82,564	743,576
Elimination of inter-segment results			—
Loss arising from changes in fair value less costs to sell of dairy cows			(82,751)
Share of loss of an associate			(25)
Share of loss of joint venture			(287)
Unallocated other income			15,945
Unallocated other gains and losses			(42,939)
Unallocated expenses			(115,954)
Profit before tax			517,565
As at 31 December 2013 (audited)			
Segment assets	11,129,939	446,997	11,576,936
Elimination of inter-segment receivables			(223,193)
Unallocated assets			1,140,078
Consolidated assets			12,493,821
Segment liabilities	6,469,099	282,367	6,751,466
Elimination of inter-segment payables			(223,193)
Unallocated liabilities			104,814
Consolidated liabilities			6,633,087

	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
For the six months ended 31 December 2013 (audited)			
Segment revenue	1,786,814	204,322	1,991,136
Less: Inter-segment revenue	(89,888)	—	(89,888)
Net external revenue	1,696,926	204,322	1,901,248
Segment cost of sales before biological fair value adjustment	1,222,661	147,569	1,370,230
Less: Inter-segment cost of sales	(89,888)	—	(89,888)
Net external cost of sales before biological fair value adjustment	1,132,773	147,569	1,280,342
Reportable segment profit	437,211	57,240	494,451
Elimination of inter-segment results			—
Loss arising from changes in fair value less costs to sell of dairy cows			(16,408)
Share of loss of an associate			(872)
Share of loss of joint ventures			(287)
Unallocated other income			8,308
Unallocated other gains and losses			(42,939)
Unallocated expenses			(93,121)
Profit before tax			349,132

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without loss arising from changes in fair value less costs to sell of dairy cows, fair value gain and loss from derivative financial instruments, share of loss of an associate, share of profit (loss) of joint ventures, gain on disposal of subsidiary and head office and corporate income and expenses that are not directly attributable to operating segments. This is the measure reported to CODM for the purposes of resource allocation and assessment of segment performance.

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

- all assets are allocated to operating segments other than interests in an associate, interests in joint ventures, other financial assets, goodwill and head office or corporate assets; and

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

Geographic information

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

Information about major customers

Included in revenue arising from sales of raw milk of RMB 4,194,020,000 (for the six months ended 31 December 2013: 1,696,926,000) are revenue of approximately RMB3,006,934,000 (for the six months ended 31 December 2013: RMB 1,345,269,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2014 and six months ended 31 December 2013.

5. **Profit before finance costs and tax**

	For the year ended 31 December 2014	**For the year ended 31 December 2013**	**For the six months ended 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Profit before finance cost and tax	1,035,965	725,948	462,637
Add: Depreciation	225,544	168,862	91,482
Add: Loss arising from changes in fair values less costs to sell of dairy cows	329,069	82,751	16,408
Add: Fair value loss from derivative financial liabilities	164,694	76,148	76,148
Less: Fair value gain from derivative financial assets	(59,226)	(34,517)	(34,517)
Add: Net loss on disposal of property, plant and equipment	28,758	1,965	786
Add: Impairment of property, plant and equipment	42,628	—	—
Cash EBITDA[1] - unaudited	1,767,432	1,021,157	612,944

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

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

	For the year ended 31 December 2014	For the year ended 31 December 2013	For the six months ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Cost of sales before biological fair value adjustment:			
Breeding costs to produce raw milk	2,465,346	2,069,448	1,132,773
Production costs for liquid milk products	695,999	234,574	147,569
	3,161,345	2,304,022	1,280,342
Biological fair value adjustment included in cost of sales	1,666,242	860,258	542,821
Other gains and losses:			
Fair value gain from derivative financial assets	(59,226)	(34,517)	(34,517)
Fair value loss from derivative financial liabilities	164,694	76,148	76,148
	105,468	41,631	41,631
Gains arising on disposal of a subsidiary	(2,226)	—	—
Net foreign exchange loss (gain)	28,976	(9,656)	(4,855)
Loss from disposal of property, plant and equipment, net	28,758	1,965	786
Impairment of property, plant and equipment	42,628	—	—
Others	6,044	—	—
	209,648	33,940	37,562

6. **Finance costs**

	For the year ended 31 December 2014	For the year ended 31 December 2013	For the six months ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Interest expenses on:			
Bank borrowings wholly repayable within five years	236,412	219,526	113,210
Other borrowings wholly repayable after five years	—	3,084	692
Short-term debenture repayable within five years	67,228	29,370	20,249
Total borrowing costs	303,640	251,980	134,151
Less: Capitalised amount for construction of property, plant and equipment	(38,039)	(43,597)	(20,646)
	265,601	208,383	113,505

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

7. **Income tax expenses**

	For the year ended 31 December 2014	For the year ended 31 December 2013	For the six months ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Income tax recognised in profit or loss:			
Current tax:			
PRC Enterprise Income Tax	7,476	10,571	5,875

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

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

Dividend income of Acquitair from Modern Farming (Group) Co., Ltd ("Modern Farm") is subject to Irish Income Tax at 25%. As at 31 December 2014, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was RMB2,370,760,000 (31 December 2013: RMB1,460,987,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

8. **Dividends**

		2014	**2013**
	Notes	*RMB'000*	*RMB'000*
Declared and paid during the year			
Equity dividends on ordinary shares		—	—
Proposed for approval at the AGM			
Equity dividends on ordinary shares:			
Proposed final — RMB0.01 (2013: Nil) per ordinary share	(a)/(b)	48,273	—

Notes:

(a) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM"). This dividend was not recognised as a liability in the consolidated financial statements as at 31 December 2014.

(b) The proposed final dividend for the year is appropriated from the Company's distributable share premium.

9. **Earnings per share**

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

	For the year ended 31 December 2014	For the year ended 31 December 2013	For the six months ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Audited)*
Earnings			
Earnings for the purpose of basic and diluted earnings per share	735,317	481,050	327,487
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,827,338,751	4,814,718,166	4,820,592,960
Effect of share options issued by the Company	49,890,418	50,451,605	51,866,777
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,877,229,169	4,865,169,771	4,872,459,737

10. **Property, plant and equipment**

During the year ended 31 December 2014, the Group acquired property plant and equipment amounted to RMB880,363,000 (six months ended 31 December 2013: RMB428,293,000) in order to increase its production capacity.

11. **Biological assets**

The Group's dairy cows were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory which comprises a group of independent professional valuers with experience and expertise in relation to biological assets valuation. Their team consists of professional valuers and agricultural experts who work together in a wide array of biological assets to ensure the reliability and fairness of their valuation results. The fair value less costs to sell of the heifers and calves are determined with reference to the market-determined prices of items with similar age, breed and genetic merit, if the market-determined prices are available. Due to the fact that the market-determined prices of milkable cows are not available, JLL has applied the net present value approach to calculate the fair value less cost to sell of these items. The resulting loss arising from changes in fair value less costs to sell of dairy cows of RMB329,069,000 (six months ended 31 December 2013: RMB16,408,000) has been recognised directly in profit or loss for the year ended 31 December 2014.

12. **Trade and other receivables**

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

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

	As at	
	31 December 2014	**31 December 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Trade receivables		
- Within 120 days based on invoice date	636,715	462,775
Advances to suppliers	126,425	69,464
Receivable for disposal of dairy cows	27,469	—
Interest receivable	22,850	8,190
Others	13,313	4,281
	826,772	544,710

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

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

The Group does not have any past due trade receivables at December 2014 (31 December 2013: nil). Management closely monitors the credit quality of trade receivables and considers the trade receivables were at good credit quality and no impairment loss was recognised at 31 December 2014 (31 December 2013: nil).

13. **Trade and other payables**

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

	As at	
	31 December 2014	**31 December 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Trade payables		
Within 60 days based on invoice date	696,563	644,377
Over 60 days based on invoice date	40,786	38,307
Bill payables (Note)	104,827	130,500
	842,176	813,184
Payable for acquisition of property, plant and equipment	382,405	479,318
Accrued staff costs	56,960	45,321
Interest payable	56,480	35,447
Advance payment from customers	28,941	55,949
Others	36,041	45,031
	560,827	661,066
	1,403,003	1,474,250

The credit period taken for the settlement of trade purchases is generally 60 days. Payables for the acquisition of property, plant and equipment were mainly payables for capital expenditure. Such payments will be made according to the progress of the construction works, and the remaining quality assurance deposit will be paid upon the expiry of the construction warranty period.

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

14. **Operating lease commitments**

The Group as lessee

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

	As at	
	31 December 2014	**31 December 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Within one year	1,197	579
In the second to fifth year inclusive	729	364
Over five years	—	748
	1,926	1,691

Operating lease payments represent rentals payable by the Group for certain of its property, plant and vehicles which are negotiated for terms ranging from 2 to 5 years and rentals are fixed.

The minimum lease payments paid under operating lease during the current year are approximately RMB7,437,000 (six months ended 31 December 2013: RMB8,451,000).

INDUSTRY OVERVIEW

In general, 2014 is a challenging year for the PRC dairy product industry. In this year, as milk prices in the overseas market declined significantly, and imported bulk milk powder and imported liquid milk products flooded into the PRC market, a large amount of imported milk powder was reconstituted into reconstituted milk, resulting in the phenomenon that "bad money drives out good", which disrupted the PRC dairy market. In addition, the domestic dairy enterprises went abroad to acquire or cooperated with overseas ranches, and substantial procurement demands were shifted to the overseas, which intensified the mismatch between supply and demand of domestic dairy products. Within only one year, milk supply shortage was transformed into oversupply, triggering an enormous drop in pricing of the local raw milk in the PRC. Under the plight of continuous drop in milk price, a large number of dairy farmers withdrew from the market and dairy farmers dumped milk and killed cows in some regions. To address the issue which farmers dumped milk and killed cows due to significant decline in raw milk prices, the Ministry of Agriculture of the PRC issued "An Urgent Circular on Coordinating and Handling Difficulty in Selling Milk to Stabilize the Production of Dairy Industry" (《關於協調處理賣奶難穩定奶業生產的緊急通知》) on 7 January 2015, pursuant to which all levels of agro-pastoral departments under the leadership of local government shall in best effort manner take immediate action to adopt effective measures in facilitating and dealing with difficulties in selling milk to stabilize dairy production in order to protect the interests of dairy farmers and the long-term development of the industry. On the other hand, scale farms showed greater advantages due to its stability and security in the supply of raw milk. According to industry statistics, the breeding ratio of current scale farm has exceeded 40%.

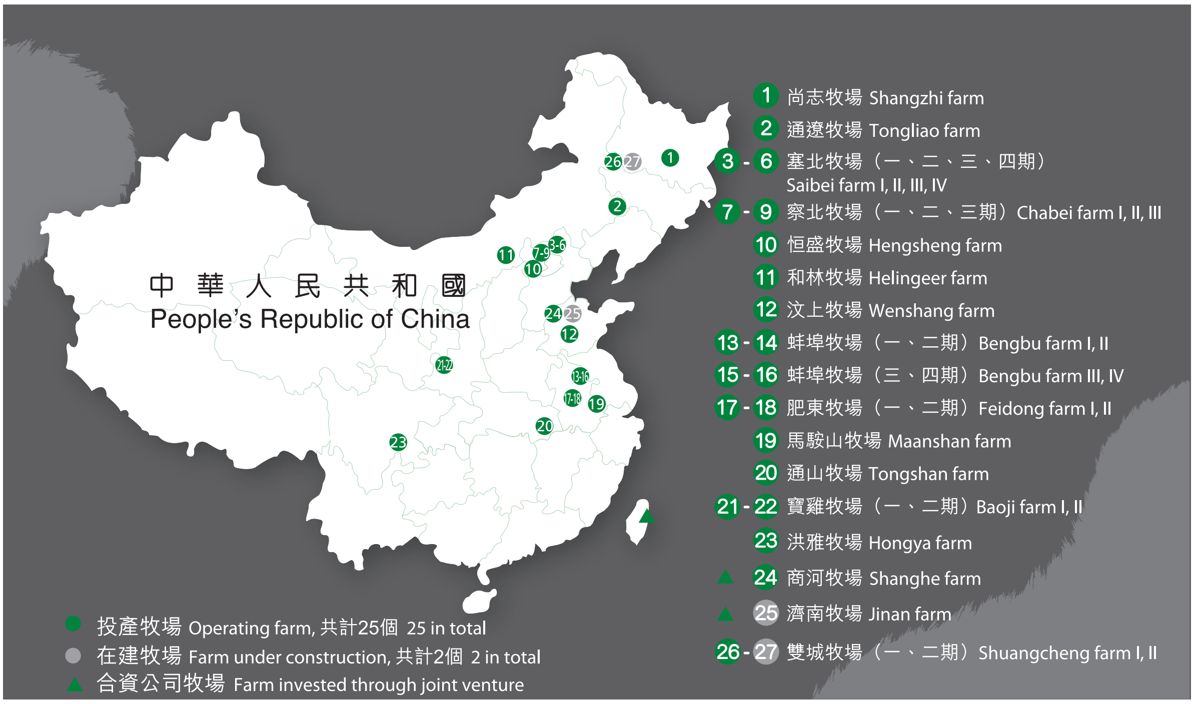
In the second half of 2014, the transformation and upgrading pressures faced by the domestic dairy industry increased sharply. Scale farms have become the focus of public attentions. We believe that scale farms are a scientific model and will be the trend in the future. The PRC government officially promulgated the "Poultry Farming Pollution Prevention Regulation" (《畜禽規模養殖污染防治條例》) on 1 January 2014 to drive the development of the poultry farming industry by promoting scientific planning layout and strengthening environmental-friendly facilities construction to achieve industrial optimization and advancement through environmental protection so as to provide powerful system support for the harmony and unity between the industrial development and environmental protection of the livestock and poultry industry. China Modern Dairy ranks top in the industry in term of environmental capital expenditure. The Company has invested an enormous amount of capital to construct feces treatment facilities when constructing ranches at early stages. Through technical means such as separation of dry and wet feces, biogas processing, cow dungs recycled as cow beds and production of organic fertilizer, the reduce, recycle and the innocuousness of feces are achieved. This enhances the leading position of the Company in the industry and lays a solid foundation for the future development in comply with national policies.

BUSINESS REVIEW

The Group is primarily engaged in two principal business segments, including: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products; and (ii) our own brand of liquid milk products business, under which we mainly produce and sell liquid milk products. During 2014, the Group's operating results reached a historical high due to increases in productivity and the increased demand for high-end dairy products in the PRC. For the year ended 31 December 2014, the Group recorded a total revenue of RMB5,027 million, representing an increase of 52.8% over the same period last year.

For the year ended 31 December 2014, dairy farming business, which remains the backbone business of the Group, recorded a year-on-year growth of 41.3% and accounted for 83.4% of the total revenue of the Group. In terms of herd size, we are the largest dairy farming company as well as the largest raw milk producer in the PRC. During the year ended 31 December 2014, the Group had 24 farms self-operating and one farm under construction in the PRC with approximately 201,507 dairy cows in total; the Group had 2 joint ventured farms (one farm operating, one farm under construction) with 7,831 dairy cows in total. Our farms are situated across 8 provinces of the PRC in strategic geographical locations that are close to renowned downstream dairy product processing plants and adequate feed supply sources. Total sales volume of raw milk for the Group amounted to 931,334 tons for the year ended 31 December 2014. This represented an increase of 37.0% from 679,722 tons in 2013. For the year ended 31 December 2014, the total volume of raw milk purchase by Mengniu Group in the Group accounted for 72.7% of our total external sales volume of raw milk. Most of the raw milk purchased by Mengniu Group were used in the production of premium dairy products. Meanwhile, for the third-party downstream production and processing plants, our raw milk is also used for the production of their premium milk.

Our farms



Our financial results are directly affected by our milk yield per cow. In general, as the milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield per cow of 8.9 tons for the year ended 31 December 2014. This represents an increase of 6.0% from 8.4 tons for the same period last year.

Despite overall weak consumer demand in the PRC dairy products retail market in 2014, the Group still recorded strong growth in liquid milk products business exceeded its goal of reaching sales of RMB600 million. For the year ended 31 December 2014, the sales amount of the Group's liquid milk products business amounted to RMB833 million, representing an increase of 159.1% over the same period last year. The liquid milk products business accounted for 16.6% of the total revenue of the Group. For the year ended 31 December 2014, the proportion of raw milk used in the production of the Group's liquid milk products business, as a percentage of our total raw milk production volume, increased significantly from 4.4% in 2013 to 10.2%. The rapid growth of own brand of liquid milk has enriched the business portfolio and improved the flexibility of the Group on one hand, and has also enlarged profit and increased shareholder returns on the other hand.

As both of the sales income and operating profit margin increased, the Cash EBITDA[(1)] increased by 73.1% from RMB1,021.2 million last year to RMB1,767.4 million for the year ended 31 December 2014. Cash EBITDA margin increased from 31.0% in the same period last year to 35.2% for the year ended 31 December 2014.

In addition, the Group expects to relocate all dairy cows from Hubei Provincial Tongshan County Farm ("Tongshan Farm") by 26 November 2015. As at 31 December 2014, approximately 4,000 cows had been relocated to other farms of the Group, that means about half of the cows had been relocated from Tongshan Farm. The event at Tongshan Farm is special in nature, but also reflects that our works in organic fertilizer promotion, site selection, local facilities standardization and internal management could be improved. The size of farm is not the essential factor. Instead, the strict control procedures and systematic management are the most important factors. Firstly, we will improve the farm site selection by taking into account of the surrounding forage planting and the slurry digestion capacity in the future. Secondly, we will pay more attention to the cow dung utilization and will make efforts to popularize knowledge on organic fertilizer among the surrounding farmers.

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

While domestic dairy farming industry is facing challenges as a result of industry restructuring, the Group as a pioneer in large-scale farming in the PRC has won recognition in domestic and overseas food industries as well as science and technology industries. At the meeting held by the International Institute for Quality Selections on 2 June 2014, the Company was awarded gold prize in the food category for 2014 by Monde Selection, the International Institute for Quality Selections. As an independent international organization jointly established by the European Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利時經貿部) in 1961, the International Institute for Quality Selections is currently one of the oldest, the most representative and the most authoritative food quality testing organization in the world. Its prizes are awarded for the purpose of monitoring food quality. The meeting awards prizes after conducting strict reviews and inspections of the safety, taste, packaging and raw materials of food products. This gold prize further proves that the Group's own branded milk has won recognition for its high quality in purity and freshness from authoritative persons across the world. On 22 October 2014, the Group won "Health Leader Award" in the 4th Awards for Outstanding Contribution in Food Safety and Public Health (中國食品健康七星獎), which demonstrated the recognition of the Group's product quality and overall capability. The Group will continue to aim to produce high standard milk and actively promote its brand value. On 9 January 2015, "Efficient Application of Cow Feeds and the Development and Application of Precise Feeding Technology" (奶牛飼料高效利用及精准飼養技術創建與應用), a collaborative research project jointly conducted by the Group and several institutions including China Agricultural University, won the Second Prize in the State Science and Technology Awards (國家科學技術獎勵), which is also the only project relating to dairy industry that won the State Science and Technology Awards. Such full recognition of the Group by national authorities also has positive effect on the PRC dairy industry. On 25 January 2015, the Group was recognized as one of the Top 10 Innovative PRC Enterprises (中國經濟十大創新企業) at the China Economic Summit Forum 2014 & the 12th Annual Meeting of China Economic Characters, and our CEO Ms. GAO Lina was recognized as one of the Top 10 Business Leaders in China. The Group is the only enterprise which has received awards at the meeting in terms of both enterprise and individual, which indicates the recognition of the Group's business model and brings new drivers for the Group's future development.

PROSPECTS

Looking forward, with per capita consumption level continuously rising in the PRC, as well as increasing demand in the market, the demand for high-end quality raw milk in the PRC will maintain strong growth. The product mix within the industry will be further upgraded, with high-priced and high value-added products gradually attracting market attention. The government and media constantly promote standardized development of the dairy industry by strengthening the regulations and supervision. Since 1 January 2015, due to drought and other factors, the auction price of whole milk and skim milk powder of New Zealand have risen significantly. The drop in average price of domestic raw milk have stabilized recently. In the long run, the demand for high-end raw milk will exceed its supply. Therefore, it is expected that there is still room for an increase in prices of domestic raw milk in the long term.

As the largest dairy farming company as well as the largest raw milk producer in the PRC (in terms of herd size), the Group has been committed to providing quality customers with premium raw milk. In the future, the Group will actively seek opportunities for the development and construction of new dairy farms, and strive to improve the milk yield of our dairy cows in order to meet rising market demand. As the herd size and milk yield per cow both increased, we are confident that we will be able to achieve our target of producing one million tons of milk in 2015.

On the other hand, the Group will also actively expand its downstream business and enlarge its market share in the PRC dairy products retail market. In the past few years, our own brand of UHT milk were highly recognized by consumers in the PRC, recording considerable growth in average annual sales. Currently, the sales network of our branded milk has expanded to other cities from originally concentrating in northern China, eastern China, southern China and Shanxi. For the year ended 31 December 2014, the sales network of the Group has reached 28 provinces, 4 municipalities, 196 prefecture-level cities and 214 county-level cities across the country. We have more than 260,000 point of sales throughout China. With the continuous increase of the sales points, we believe that the market share and brand awareness of the Group's own branded liquid milk in the PRC dairy products retail market will be further enhanced.

In addition, leveraging on the high quality raw milk supplied from our upstream business, we are able to upgrade downstream products mix based on the demand of market and consumers and produce higher value-added products with high gross profit, such as pasteurized milk and chilled yoghurt. As pasteurized milk keeps the high nutrient composition of milk, good taste and other features, it has received more and more market attention in recent years, which has made its growth rate even exceed the development process of the whole dairy industry. However, with its short shelf life and strict requirement for cold chain transportation equipment, the raw milk must be sourced nearby. Currently, the pasteurized milk is primarily sold under urban and local brands, but without any national well-known brands. The inherent advantages of nationwide coverage of dairy farms of Modern Dairy enables the Group to become national branded manufacturer of pasteurized milk in China at present. In fact, the Group's pasteurized milk has successfully launched in over 30 large-scale supermarkets in Beijing at the end of December 2014. The Group's pasteurized milk series is named as "Two Hours", which means that the production is completed within two hours from milking to final products, so as to ensure the freshness and high nutrition of the products. We believe that the our expansion to pasteurized milk market will further enrich the product portfolio of the Group's liquid milk business, and will lay the foundation for the Group to build a dairy giant with integrated business model.

FINANCIAL OVERVIEW

Herd size

	As at 31 December 2014 Head (Audited)	As at 31 December 2013 Head (Audited)
Dairy cows		
Milkable cows	107,578	98,791
Heifers and calves	93,929	88,047
Total dairy cows	201,507	186,838

As at 31 December 2014, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. As at 31 December 2014, the current herd size is 201,507 compared to 186,838 as at 31 December 2013.

Milk Yield

Our financial results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 8.9 tons for the year ended 31 December 2014, representing an increase of 6.0% from 8.4 tons for the same period last year. 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.

Financial Overview

Revenue

The following table sets out the breakdown of our consolidated revenue by our two operating segments for the year ended 31 December 2014, year ended 31 December 2013 and six months ended 31 December 2013:

	For the year ended 31 December 2014			For the year ended 31 December 2013			For the six months ended 31 December 2013		
	External Sales	Internal Supplies	Subtotal	External Sales	Internal Supplies	Subtotal	External Sales	Internal Supplies	Subtotal
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sales of raw milk business	4,194,020	478,131	4,672,151	2,967,957	137,197	3,105,154	1,696,926	89,888	1,786,814
Sales of liquid milk products business	832,686	—	832,686	321,324	—	321,324	204,322	—	204,322
Consolidated turnover	5,026,706	478,131	5,504,837	3,289,281	137,197	3,426,478	1,901,248	89,888	1,991,136

Our revenue increased by 52.8% from RMB3,289.3 million for the year ended 31 December 2013 to RMB5,026.7 million for the year ended 31 December 2014 primarily due to significant increase in our sales of raw milk and liquid milk products.

- *Dairy farming business*

  Revenue from our dairy farming business increased substantially primarily due to growth of our cow herd and increase in average selling price of our quality raw milk.

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

	For the year ended 31 December 2014			**For the year ended 31 December 2013**			**For the six months ended 31 December 2013**		
	Sales Amount	**Sales Volume**	**ASP**	**Sales Amount**	**Sales Volume**	**ASP**	**Sales Amount**	**Sales Volume**	**ASP**
	RMB'000	*Tonne*	*RMB'000/ Tonne*	*RMB'000*	*Tonne*	*RMB'000/ Tonne*	*RMB'000*	*Tonne*	*RMB'000/ Tonne*
Raw Milk									
External Sales	4,194,020	837,232	5,009	2,967,957	650,093	4,565	1,696,926	354,347	4,789
Internal Supplies	478,131	94,102	5,081	137,197	29,629	4,630	89,888	18,934	4,747
Subtotal	4,672,151	931,334	5,017	3,105,154	679,722	4,568	1,786,814	373,281	4,787

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

- *Liquid milk products business*

  Revenue from our liquid milk products business increased by 159.2% from RMB321.3 million for the year ended 31 December 2013 to RMB832.7 million for the year ended 31 December 2014, which accounted for 16.6% and 9.8% of our consolidated revenue for the year ended 31 December 2014 and 2013, respectively.

  The strong growth of our liquid milk products business was a result of strong market demand for our liquid milk products. The total volume of liquid milk sold increased by 203.8% from 28,669 tonnes for the year ended 31 December 2013 to 87,096 tonnes for the year ended 31 December 2014.

Cost of sales before biological fair value adjustment

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

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

	For the year ended 31 December 2014		For the year ended 31 December 2013		For the six months ended 31 December 2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Costs of sales before biological fair value adjustment of dairy farming business:						
Feeds cost	2,298,893	78.2%	1,733,519	78.6%	967,705	79.2%
Labor cost	151,007	5.1%	107,705	4.9%	58,542	4.8%
Utilities	70,095	2.4%	59,252	2.7%	31,176	2.5%
Depreciation	169,806	5.8%	117,354	5.3%	64,126	5.2%
Other costs of farms	249,075	8.5%	188,815	8.6%	101,112	8.3%
Subtotal of costs of sales before biological fair value adjustment of dairy farming business	2,938,876	100.0%	2,206,645	100.0%	1,222,661	100.0%
Inter-segment cost	(473,530)		(137,197)		(89,888)	
Costs of sales before biological fair value adjustment of dairy farming business external, net	2,465,346		2,069,448		1,132,773	

With the expansion of our herd size and the increase in sales of raw milk, total feed costs (before eliminating the internal relative costs of sales of the supply of raw milk) for the year ended 31 December 2014 increased to RMB2,298.9 million from RMB1,733.5 million last year, representing an increase of 32.6%. Sales of raw milk (before eliminating the internal relative sales income from the supply of raw milk) increased by 50.5% to RMB4,672.2 million for the year ended 31 December 2014 from RMB3,105.2 million last year.

Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before eliminating the internal relative costs of sales of the supply of raw milk) decreased by 3.3% from RMB3,074 last year to RMB2,973 for the year ended 31 December 2014, mainly due to the increase in the annual milk yield per cow by 6.0% from 8.4 tons last year to 8.9 tons for the year ended 31 December 2014.

Costs of sales of liquid milk product business

	For the year ended 31 December 2014		For the year ended 31 December 2013		For the six months ended 31 December 2013	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Raw materials	617,050	88.7%	188,804	80.5%	122,142	82.8%
Labor cost	20,252	2.9%	12,419	5.3%	7,026	4.8%
Depreciation	24,772	3.6%	19,586	8.3%	9,984	6.8%
Utilities	13,127	1.9%	5,974	2.5%	3,716	2.5%
Other processing costs	20,798	2.9%	7,791	3.4%	4,701	3.1%
	695,999	100.0%	234,574	100.0%	147,569	100.0%

With the increase in sales volume of liquid milk and the price hike of raw milk, raw material cost for the year ended 31 December 2014 increased from RMB188.8 million last year to RMB617.1 million, representing an increase of 226.8%. Sales of liquid milk increased by 159.2% to RMB832.7 million for the year ended 31 December 2014 from RMB321.3 million last year.

Due to the price hike of raw milk, cash cost (excluding depreciation) per ton of liquid milk sold increased by 2.8% from RMB7,499 for the same period last year to RMB7,707 for the year ended 31 December 2014.

Gross profit and gross margin

The following table sets forth the breakdown of our gross profit before biological fair value adjustment by our two operating segments as well as their respective gross margin before biological fair value adjustment, for the years/period indicated:

	For the year ended 31 December 2014		For the year ended 31 December 2013		For the six months ended 31 December 2013	
	Gross Profit	**Gross Margin**	**Gross Profit**	**Gross Margin**	**Gross Profit**	**Gross Margin**
	RMB'000		*RMB'000*		*RMB'000*	
Dairy farming business						
Before elimination	1,733,275	37.1%	898,509	28.9%	564,153	31.6%
After elimination	1,728,674	41.2%	898,509	30.3%	564,153	33.2%
Liquid milk products business	136,687	16.4%	86,750	27.0%	56,753	27.8%

- *Dairy farming business*

  Gross profit of our daily farming business before biological fair value adjustment (before eliminating the internal relative costs of sales of the supply of raw milk) increased by 92.9% from RMB898.5 million for the year ended 31 December 2013 to RMB1,733.3 million for the year ended 31 December 2014. The increase was primarily due to the substantial increase in the sales volume and the average selling price of our raw milk.

  Gross margin of our dairy farming business before biological fair value adjustment (before eliminating the internal relative costs of sales of the supply of raw milk) remained at a high level at 37.1% for the year ended 31 December 2014 compared to 28.9% for the year ended 31 December 2013, primarily due to increase of average selling price of raw milk and milk yield per cow.

- *Liquid milk products business*

  Gross profit of our liquid milk products business increased by 57.6% from RMB86.8 million for the year ended 31 December 2013 to RMB136.7 million for the year ended 31 December 2014. The increase was primarily due to the increase in sales volume of our branded milk products.

  Gross margin of our liquid milk products business decreased from 27.0% for the year ended 31 December 2013 to 16.4% for the year ended 31 December 2014, mainly due to the increase of market price of raw milk and greater promotion efforts in order to expand market share.

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

As at 31 December 2014, the biological assets of the Group were valued at RMB6,530.8 million (31 December 2013: RMB5,954.4 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal And Advisory Limited. Loss arising from changes in the fair value of biological assets was RMB329.1 million for the year ended 31 December 2014 (for year ended 31 December 2013: loss arising from changes in fair value less costs to sell of dairy cows was RMB82.8 million). This was mainly attributable to the fact that after milk production by milkable cows and along with an increase in the lactation period, impairment will occur as cash flow generated in the future will be reduced.

Gain arising on initial recognition of raw milk at fair value less cost to sell at the print of harvest

Our gains arising on initial recognition of raw milk at fair value less cost to sell at the print of harvest increased by 93.7% from RMB860.3 million for the year ended 31 December 2013 to RMB1,666.2 million for the year ended 31 December 2014. The increase was primarily due to the increase in production volume and average selling price of our raw milk.

According to the IFRSs, raw milk that had been harvested shall be initially measured at market fair value, and shall be recognized in profit or loss at the differences between market fair value and its actual cost. Meanwhile, consumed raw milk initially recognized at market fair value is recognized under costs of sale in profit or loss.

Other Income

For the year ended 31 December 2014, other income amounted to RMB40.2 million (for year ended 31 December 2013: RMB69.5 million). Other income mainly consisted of government grants and interest income, among others, interest income for the year ended 31 December 2014 amounted to RMB22.1 million (for year ended 31 December 2013: RMB14.7 million), and government grants for the year ended 31 December 2014 amounted to RMB14.0 million (for year ended 31 December 2013: RMB50.4 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the year ended 31 December 2014	**For the year ended 31 December 2013**	**For the six months ended 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Unaudited)*	*(Unaudited)*
Selling and distribution cost	111,909	56,845	33,595
Administrative expenses	214,561	151,820	84,678
Total operating expenses	326,470	208,665	118,273

Our operating expenses increased from RMB208.7 million for the year ended 31 December 2013 to RMB326.5 million for the year ended 31 December 2014. Selling and distribution cost mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among others, transportation costs was increased from RMB48.0 million in the corresponding year to RMB99.3 million for the year ended 31 December 2014, mainly due to increase in sales volume of raw milk and liquid milk products.

Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, etc., the increase of which for the year is mainly due to the recognition of share option expenses.

Equity-based share option expenses included in the administrative expenses for the year increased from RMB6.2 million for same period last year to RMB31.9 million for the year ended 31 December 2014, mainly due to the granting of 80 million options to employees pursuant to the employee share option incentive scheme on 6 June 2014.

Other Gains and Losses

Losses arising from other gains and losses amounted to RMB209.6 million (for the year ended 31 December 2013: losses arising from other gains and losses amounted to RMB33.9 million). This is mainly due to a loss of RMB105.5 million (for the year ended 31 December 2013: loss of RMB41.6 million) arising from net effect of fair value measurement of the put options and call options at year end. Those two types options were the put options granted to Success Dairy II Limited by the Company and the call options granted to the Company by the Success Dairy II Limited pursuant to the agreement entered into between the Company and Success Dairy II Limited for the establishment of two joint venture companies on 23 September 2013.

In addition, as the Company expects to relocate all cows from Hubei Provincial Tongshan County Farm during this year, a one-off impairment of RMB42.6 million on property, plant and equipment has been included for the current financial year in order to fully reflect the principle of prudence. The specific usage of the farm will be discussed after the relocation.

Finance costs

Finance costs increased from RMB208.4 million last year to RMB265.6 million for the year ended 31 December 2014. This was mainly attributable to the increase in bank loans and interest expense no longer being capitalised following the transfer of construction in progress to property, plant and equipment.

Profit attributable to owners of the Company

Taking into account all of the above factors, the Group's profit attributable to the owners of the Company was RMB735.3 million for the year ended 31 December 2014. This represents an increase of 52.9% from RMB481.1 million for the same period last year.

Basic earnings per share were approximately RMB15.23 cents (for year ended 31 December 2013: RMB9.99 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2014, the Group's net cash generated from operating activities amounted to RMB1,580.0 million, as compared to RMB584.2 million for the same period last year.

As at 31 December 2014, the Group's available and un-utilised banking facilities amounted to approximately RMB8,089.6 million (including credit facilities that will expire after 31 December 2015 of RMB2,271.6 million). The Group's management are of the opinion that the working capital available to the Group is sufficient for its present needs.

The table below sets forth our short-term and long-term borrowings as at 31 December 2014.

	As at	
	31 December 2014	**31 December 2013**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Bank borrowings	4,687,848	3,748,666
Unsecured borrowings	885,818	1,533,139
Secured borrowings	3,335,030	1,964,527
Guaranteed borrowings	467,000	251,000
	4,687,848	3,748,666
Carrying amount repayable:		
Within one year	1,858,398	1,788,799
Between one to two years	792,538	1,042,337
Between two to five years	2,036,912	917,530
	4,687,848	3,748,666
Less: Amounts due within one year shown under current liabilities	(1,858,398)	(1,788,799)
	2,829,450	1,959,867

As at 31 December 2014, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 40.7% (31 December 2013: 39.6%). The annual interest rate of the banks and other borrowings for the year ended 31 December 2014 varied from 1.73% to 7.05% (for the year ended 31 December 2013: 2.0%-7.05%). As at 31 December 2014, all borrowings were denominated in Renminbi and United States Dollar ("USD").

BUSINESS STRATEGIES

Continue to enhance the sales of branded milk

We will continue to expand our sales regions and widen the sales channels of our branded milk, which in turn will increase the Group's profitability as a whole. The Company has gradually expanded the sales of branded milk into most parts of China in 2014. As more customers recognize its product quality and our sales network is further expanded, the Company believes it will record even higher revenue in the future. We actively promote our sales of pasteurized milk. Currently our distribution channels in Beijing have expanded from home delivery to supermarkets and have generated desirable performance as expected. In the near future we will further expand our sales region by gradually expanding into northern China, eastern China and southern China.

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

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

Continue to enhance feed nutrients and optimize the mix of feed by continuing the research on feed mix

We will continue to work closely with local farmers and agricultural institutes to conduct research and grow plants and crops that are suitable for our dairy cows. In addition, based on the location of our farms, we will collaborate with local farmers in specific regions to establish a tailor-made feed supply chain with an aim to reduce the cost of transporting feed while maintaining the quality, nutritional content and stable supply of feed.

Refine our herd mix

Our refined management improve as the size of our herd mix grows. Starting from this year, we will gradually establish our own core herd and strive to improve the profitability per cow.

PLEDGE OF ASSETS

As at 31 December 2014, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.9 million (31 December 2013: RMB10.2 million), RMB54.6 million (31 December 2013: RMB59.2 million) and RMB3,316.2 million (31 December 2013: RMB4,087.5 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2014, the Group has capital commitments of RMB205.4 million relating to the acquisition of property, plant and equipment and capital contribution to a joint ventures.

The Group did not have any significant contingent liabilities as at 31 December 2014.

FINANCIAL MANAGEMENT POLICIES

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

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 5,417 employees (31 December 2013: 5,288) in the PRC and Hong Kong as at 31 December 2014. Total staff costs for the year ended 31 December 2014 (including staff compensation capitalised to biological assets) were approximately RMB360.8 million (for the year ended 31 December 2013: RMB303.7 million).

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

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.01 (2013: Nil) per ordinary share for the year ended 31 December 2014. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Friday, 26 June 2015 to shareholders whose names appear on the register of members of the Company on Tuesday, 16 June 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Wednesday, 3 June 2015 to Friday, 5 June 2015, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) closed from Friday, 12 June 2015 to Tuesday, 16 June 2015, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM of the Company to be held on Friday, 5 June 2015, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 2 June 2015.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 11 June 2015.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules. The Company has, throughout the year ended 31 December 2014, complied with the code provisions set out in the CG Code except for the deviations from code provision A.6.7.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of Shareholders. One executive Director, two non-executive Directors and one independent non-executive Director were not able to attend the annual general meeting of the Company held on 5 June 2014 due to other prior business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2014.

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 for the year ended 31 December 2014.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2014 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu to the amounts set out in the Group's audited consolidated financial statements for the same year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements as issued by the Hong Kong Institute of Certified Public Accountants. Consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises two independent non-executive directors, Mr. LEE Kong Way Conway and Mr. ZOU Fei, as well as an non-executive director, Mr. HUI Chi Kin Max. During the year ended 31 December 2014, the Audit Committee has held meeting to review internal controls and financial reporting matters. The financial results for the year ended 31 December 2014 have been reviewed by the Audit Committee.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for year ended 31 December 2014 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO Lina
Deputy Chairman, Chief Executive Officer
and Executive Director

Hong Kong, 23 March 2015

As of the date of this announcement, the executive Directors are Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang, the non-executive Directors are Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max, and Mr. WU Jingshui, the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei.