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

ANNUAL REPORT 2010/2011

MODERN FARMING

现代牧业

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. DENG Jiuqiang *(Chairman)*
Ms. GAO Lina *(Chief Executive Officer)*
Mr. HAN Chunlin *(Chief Operation Officer)*

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

AUTHORISED REPRESENTATIVES
Ms. GAO Lina
Ms. WONG Lai Wah

COMPANY SECRETARY
Ms. WONG Lai Wah, *FCPA*

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

REGISTERED OFFICE
Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HONG KONG OFFICE
Unit 2402, 24/F, Alliance Building
130-136 Connaught Road Central
Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Maples Finance Limited
PO Box 1093, Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISORS
As to Hong Kong Law
Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to PRC Law
Commerce & Finance Law Offices

As to Cayman Islands Law
Maples and Calder

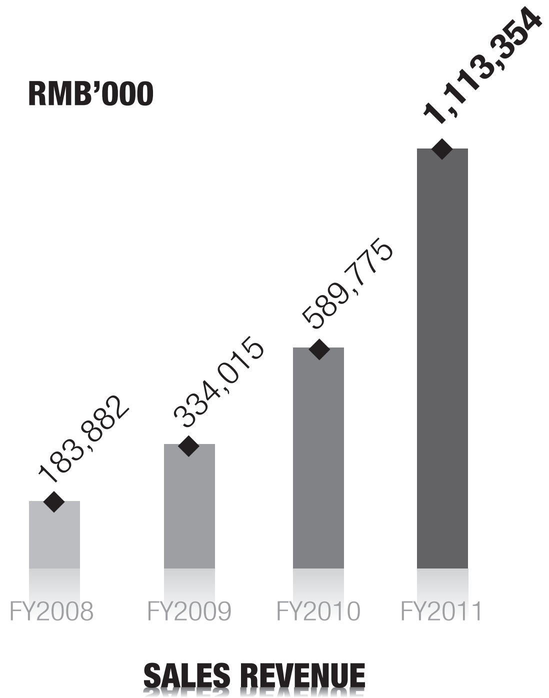
AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

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

STOCK CODE
The Stock Exchange of Hong Kong Limited: 1117

WEBSITE
http://www.moderndairyir.com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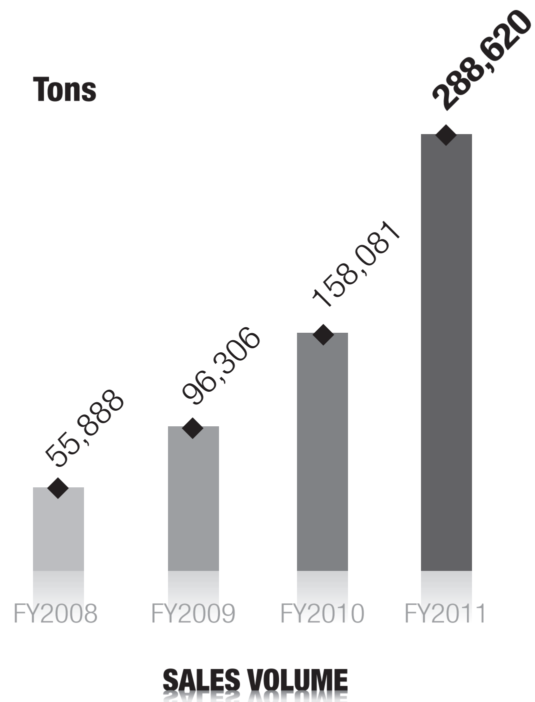
FY2008
FY2009
FY2010
FY2011
SALES REVENUE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FY2008
FY2009
FY2010
FY2011
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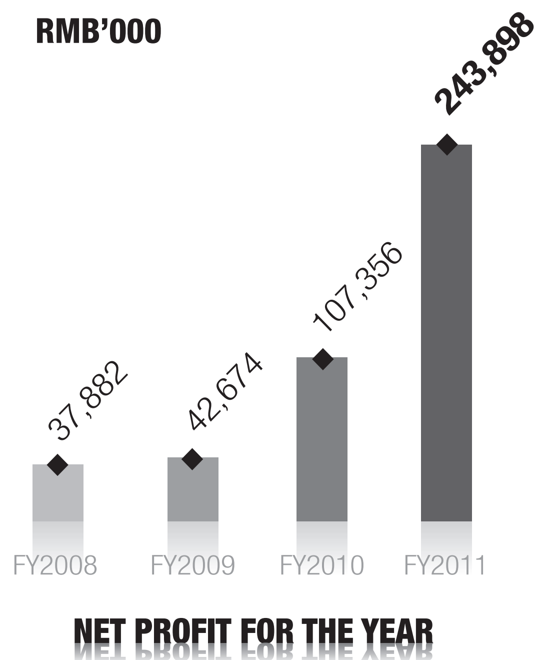
RMB'000
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42,674
107,356
243,898
FY2008
FY2009
FY2010
FY2011
NET PROFIT FOR THE YEAR

RESULTS

	Year ended 30 June	
	2011 RMB'000	2010 RMB'000
Sales of milk produced	**1,113,354**	589,775
Earnings before interest and tax	**303,047**	137,194
Operating margin	**27.2%**	23.3%
Net profit	**243,898**	107,356
Net profit margin	**21.9%**	18.2%

FINANCIAL POSITION

	As at 30 June	
	2011 RMB'000	2010 RMB'000
Biological assets	**2,651,407**	1,742,891
Cash and cash equivalents	**1,021,691**	250,959
Total assets	**6,906,933**	4,204,150
Total debts	**1,522,934**	1,225,117
Gearing ratio (Total debts/ Total assets)	**22.0%**	29.1%

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or the "Directors") of China Modern Dairy Holdings Ltd. ("Modern Dairy" or the "Company"), together with its subsidiaries (the "Group"), I am pleased to present the annual results of Modern Dairy for the year ended 30 June 2011 (the "year under review") to our shareholders ("Shareholders").

PUBLIC LISTING

2010 represents an important milestone for the development of the Group. With the joint effort of all parties, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2010. The Group is able to successfully access the international capital market, strengthen its financial position and pursue business expansion opportunities.

BUSINESS REVIEW

In 2010 and the first half of 2011, China's economy maintained sustainable growth, while accelerated urbanization and increasing disposable income per capita promoted continuous improvement of the macro business environment in the domestic dairy industry. During the year under review, in spite of the various challenges faced by Chinese dairy industry, the Group successfully maintained stable growth by leveraging on its strong foundation, strict adherence to safety and quality standards in producing high-end quality raw milk, as well as its construction of new farms.

For the twelve months ended 30 June 2011, the Group completed the construction of five new farms. As of 30 June 2011, the Group had a total of 16 farms in operation and one farm under construction in China. The construction of these new farms were mainly financed by the Group's internal resources and bank borrowings. For the twelve months ended 30 June 2011, we achieved an average milk yield per milkable cow of 7.73 tons/annum, increased by 5.9% from 7.30 tons/annum in the previous year. Driven by the increase in milk yield and effective cost control measures, EBIT margin of the Group increased from 23.3% to 27.2% during the year under review, while net profit increased by 127.2% to RMB243.9 million. During the year under review, total revenue of the Group reached RMB1,113.4 million, up 88.8% from RMB589.8 million in the previous year. Profit attributable to Shareholders was RMB224.6 million, up 322.7% from RMB53.1 million in the previous year. Basic earnings per share were RMB5.20 cents, representing an increase of 100.8% from that of last year being RMB2.59 cents.

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. We intend to use the proceeds raised from the listing to fund the construction of new farms, import high quality Holstein dairy heifers from Australia, New Zealand and Uruguay, purchase of suitable farm facilities and general working capital purposes.

OUR COMPETITIVE STRENGTH

We are among the first companies in China to adopt a large-scale industrialized free-stall dairy farming business model. All of our standardized dairy farms are designed and constructed with a capacity of raising up to 10,000 dairy cows per farm. Currently, we have expanded to all the 6 regions in China. Our farms are situated in strategic geographic locations in the PRC, which are close to downstream dairy product processing plants and the feed supply sources required by our farms.

As an industry leader in the dairy farming sector in China, we are well-positioned to benefit from the increasing demand for dairy products and government support for the large-scale dairy industry. We have a proven and replicable business model with highly visible growth prospects. Leveraged on our comprehensive, modern and scientific operations, we are capable of producing high-end quality milk with high milk yields, thereby improving cost efficiency; while safety of our milk products is assured with stringent standards of quality and safety. We have formed a strategic partnership with China Mengniu Dairy Company Limited ("Mengniu"), a leading dairy product manufacturer in China, which facilitates our eco-friendly production methods at lower operation costs.

In addition, our experienced management team is committed to the long-term development of the Group, and our staff is dedicated to working under their leadership to realize the strategic goals of the Group, and allowing the Group to achieve continuous stable growth and gain support from high quality investors.

PROSPECTS

Reliable and stable supply of quality milk from upstream sources is critical to the dairy products industry, which also helps to maintain the long-term sustainable and stable development of China's dairy industry. There was a rise in the public concern over quality and safety of raw milk following the melamine and other similar incidents in China's milk industry, thereby boosting the demand for high-quality and safe raw milk. To ensure the stable development of China's dairy industry, the Central Government issued several policies during the year under review, and through its production licensing reviews, it will eliminate milk processing companies that have small scale, unqualified production conditions or weak quality assurance to promote industry consolidation, and gradually enhance consumer confidence in Chinese dairy brands. With numerous policies of the Central Government regulating small and medium enterprises and supporting industry consolidation, the industry will be able to maintain its upward trend of sustainable development. We believe significant opportunities are present in China's dairy industry due to the sustained rapid growth of milk consumption and demand, a continuing scarcity of safe and high quality raw milk, and a growing demand for large-scale dairy farms in China. We believe we are well-positioned to capitalize these opportunities.

Looking into the future, our principal goal is to further strengthen our position as the market leader in China's large-scale dairy farming industry. We continuously seek opportunities to achieve sustainable growth of our business and to enhance Shareholders' value. As such, we will continue to replicate our successful business model across China and further broaden our customer base; improve our milk yield and quality by continuing to adopt and develop comprehensive, modern and scientific breeding and feeding techniques and know-how; enhance the operating efficiency of our farms by further improving comprehensive, modern and scientific farm management practices; and develop new business initiatives and products to diversify our revenue stream.

Currently, our farms are designed and constructed with modern and scientific layouts to ensure high milk yields and continuous improvement in cost efficiency. We believe our raw milk is amongst the highest quality and safest milk in China. We also believe that we operate large-scale dairy farms in China, with highly experienced management, comprehensive facilities and the advanced breeding, feeding and herd management technology.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my gratitude to our staff for their continuous contribution and dedication, and to every working party who has contributed to the Group's successful public listing in Hong Kong. My gratitude also goes to our Shareholders, customers and business partners for their support and trust.

Going forward, the Group will continue to adhere to its principles of "through harmonious development between man and nature, the most advanced farms nationwide and producing the highest quality milk nationwide are created". The Group will remain committed to the highest standards of product safety and quality, and will improve our milk yield and quality by continuing to adopt and develop comprehensive, modern and scientific breeding and feeding techniques and know-how, and to further strengthen our position as the market leader in China's large-scale dairy farming industry. The Group will continue to pursue business expansion opportunities by leveraging on the rapid growth of China's economy and the rising market demand to bring satisfactory return to our Shareholders, customers and business partners.

DENG Jiuqiang
Chairman

Hong Kong, 14 September 2011

INDUSTRY OVERVIEW

In 2010, our national economy has continued to grow. The living standard and purchasing power of the people has also increased. The meal structure of families in China has generally improved. The significant growth in the consumption of dairy products gave rise to the continuous increase in the demand for raw milk.

In the supply chain of dairy products, the production of raw milk is an upstream activity. Its quality control will directly determine the quality and safety of dairy products and also affect the production and consumption markets. In recent years, China have tightened safety control over the dairy industry. In 2010, 66 national food safety standards including those related to raw milk were revised and re-promulgated. The Notice on the Strengthening Measures regarding the Quality and Safety of Dairy Products (《關於進一步加強乳品質量安全工作的通知》) and the Detailed Rules Governing the Review of Permission Granted for the Production of Dairy Products (《乳製品生產許可審查細則》) were issued to regulate the dairy product market, and eliminate small-sized enterprises with unfavourable production conditions and weak quality assurance. This accelerates industry consolidation and gradually enhances consumer confidence in the dairy products produced by Chinese brands.

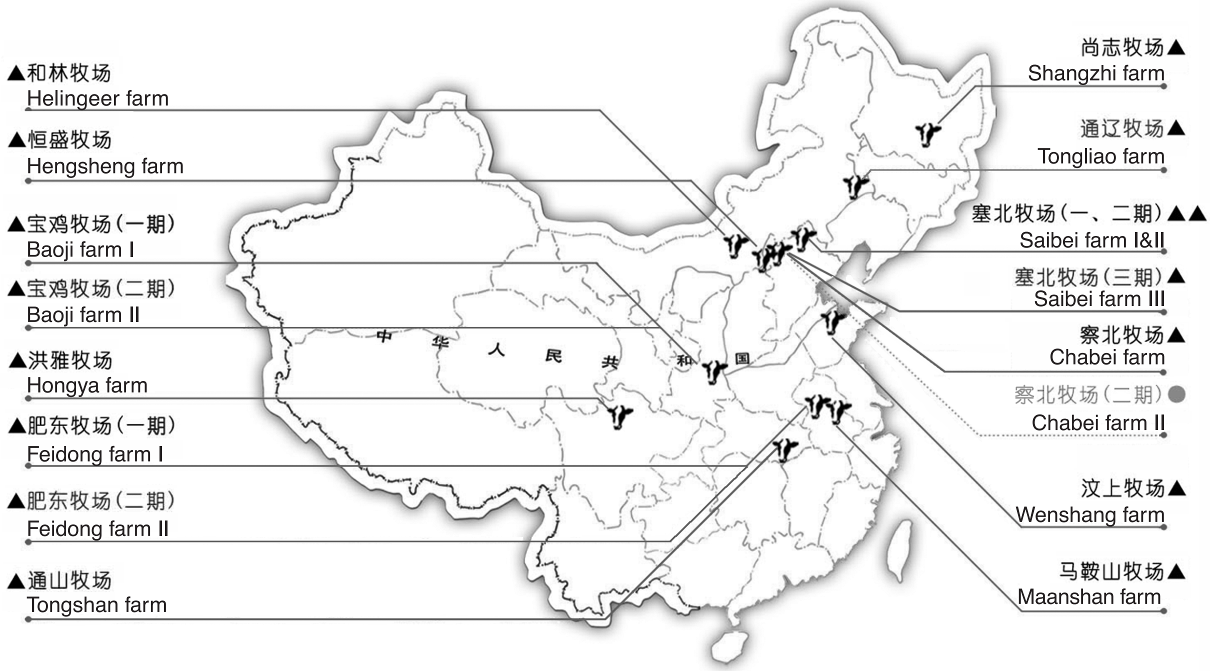
The dairy farming industry is mostly made up of farmers of dairy animals that are suppliers operating small-sized family businesses, hence, the industry as a whole in China appears to be relatively fragmented and scattered. This situation would improve with the industry's development, increased competition and further tightening quality controls imposed by the government on the dairy industry. It is expected that the integration of the dairy farming industry in China would accelerate in the coming ten to twenty years. The government has launched newly revised requirements on production licenses and has introduced incentive programmes in order to encourage the development of upstream integration among dairy product manufacturers. This would benefit major dairy farming companies in the future.

It is believed that various government policies on the regulation of small to medium sized enterprises and its support for the industry consolidation, the entire industry will be able to maintain a trend of sustainable development. As a well-known and leading enterprise in the dairy farming industry nationwide, we strictly carry out quality control, promote the construction of new farms and continue to identify new opportunities for the business development of the Group, thereby laying a solid foundation for the Group to consolidate our leading position and future development in the industry.

BUSINESS REVIEW

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association. During the year ended 30 June 2011, the Group completed the construction of five new farms. As of 30 June 2011, the Group had sixteen farms in operation and one farm under construction in China with approximately 110,000 dairy cows in total. Our farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources required by our farms.

Our farms



▲ 運營畜牧場 Operating farm

● 在建畜牧場 Farm under construction

Our financial results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the costs for production of a certain amount 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 7.73 tons for the year ended 30 June 2011, representing an increase of 5.9% from 7.30 tons 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.

Driven by the increase in our milk yield and effective cost control measures, the EBIT margin of the Group increased to 27.2% for the year ended 30 June 2011 from 23.3% last year, and the net profit margin increased to 21.9% for the year ended 30 June 2011 from 18.2% last year.

FINANCIAL REVIEW

Herd size

	As of	
Dairy cows	**30 June 2011 Head**	30 June 2010 Head
Milkable cows	**46,267**	26,607
Heifers and calves	**61,309**	45,584
Total dairy cows	**107,576**	72,191

Sales of milk produced

97.4% of the sales of milk produced by the Group were sold to our primary customer, Mengniu (2010: 97.6%). Our total sales of milk produced increased by 88.8% from RMB589.8 million in last fiscal year to RMB1,113.4 million for the year ended 30 June 2011. The increase in sales revenue is mainly due to increase in sales volume of milk by 82.6% from 158,081 tons in last fiscal year to 288,620 tons for the year ended 30 June 2011 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 fair value less costs to sell of dairy cows

As at 30 June 2011, the biological assets of the Group were valued at RMB2,651.4 million (2010: RMB1,742.9 million) by an independent qualified professional valuer, Jones Lang LaSalle Sallmanns Limited. Gain arising from changes in fair value of biological assets decreased by 8.4% from RMB60.6 million for last fiscal year to RMB55.5 million for the year ended 30 June 2011. The slight decrease was primarily due to change in the structure of our herd mix.

Other income

Other income for the year mainly consists of government grants of RMB88.7 million, (2010: RMB59.1 million). A majority of the government grants was unconditional government subsidies for the purchase of quality breed heifers.

Farm operating expenses

With the expansion of our herd size and general increase in market price of feeds, total feed costs during the year ended 30 June 2011 increased to RMB648.2 million from RMB396.2 million last fiscal year, representing an increase of 63.6%.

Meanwhile, cost (except employee benefit expenses and depreciation) per ton of raw milk sold dropped by 8.6% from RMB2,768 in last fiscal year to RMB2,530 in the year ended 30 June 2011. This was driven by the increase in average milk yield from 7.30 tons last fiscal year to 7.73 tons in the year ended 30 June 2011, as a result of the efficient adjustment of feed mix formula and improved production efficiency. The increase in milk yield is a result of the improvement in genetic quality of our dairy cows and effective farm management.

Employee benefit expenses

As of 30 June 2011, our Group has 3,067 employees, representing an increase of 16.9% in headcount since 30 June 2010. Our employee benefits expenses increased by 34.4% from RMB66.7 million last fiscal year to RMB89.6 million in the year ended 30 June 2011. The increase was mainly related to an increase in headcount for our new farms and the general increase in basic salary.

Depreciation

Depreciation expenses increased by 52.4% from RMB44.2 million last fiscal year to RMB67.3 million for the year ended 30 June 2011. This is mainly due to more farms being put into operation and the proportion of milkable cows to total number of dairy cows has also increased.

Other expenses

Other expenses mainly consist of transaction costs attributable to the issue of shares, professional fees, travel expenses and other office administrative expenses. The increase of 109.9% from RMB29.5 million last fiscal year to RMB61.9 million for the year ended 30 June 2011 was mainly a result of expanded operations and transaction costs attributable to the issue of shares that amounted to RMB24.7 million charged to income statement for the year (2010: Nil).

Finance costs

Finance costs increased from RMB29.8 million for last fiscal year to RMB59.1 million for the year ended 30 June 2011, which was mainly attributable to the increase in bank loans for acquisition of dairy cows and farm operation.

Net Profit and Profit Attributable to Equity Shareholders

For the year ended 30 June 2011, the Group recorded a net profit of RMB243.9 million, up 127.2% from net profit of RMB107.4 million recorded last fiscal year. This was mainly contributed to the increase in sales revenue and average milk yield and effective cost control measures.

The Group's profit attributable to equity shareholders was RMB224.6 million for the year ended 30 June 2011, representing an increase of 322.7% from RMB53.1 million for last fiscal year. The increase was attributable to the increase in net profits by 127.2% and the acquisition of additional 47.63% equity interest in an operating subsidiary, Modern Farming (Group) Co., Ltd. ("Modern Farm"), during the year.

Basic earnings per share were approximately RMB5.20 cents (2010: RMB2.59 cents).

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$2,197.0 million (after deducting underwriting commissions and related expenses). The net proceeds are expected to be used in the following manner:

Purpose of net proceeds	**Percentage**	**Amount of net proceeds** HK$'Million	**Utilised** HK$'Million	**Balance** HK$'Million
Import high-quality Holstein dairy heifers from Australia or New Zealand	40%	878.8	(210.0)	668.8
Construction of new farms	30%	659.1	(150.0)	509.1
Purchase of suitable farm facilities including, among other things, milking systems, feed processing machinery, electricity generating machines and herd management software	20%	439.4	(110.0)	329.4
Working capital and other general corporate purposes	10%	219.7	(219.7)	—
		2,197.0	(689.7)	1,507.3

At 30 June 2011, the remaining net proceeds were deposited in reputable financial institutions. The Directors intend to apply the remaining net proceeds in the manner as set out in the prospectus of the Company dated 15 November 2010 (the "Prospectus").

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 30 June 2011, the Group's net cash inflow from operating activities amounted to RMB310.8 million, as compared to RMB119.0 million in last fiscal year.

At 30 June 2011, the Group's available and unutilised banking facilities amounted to approximately RMB1,424.3 million (2010: RMB1,109.0 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 30 June 2011.

	As at 30 June	
	2011 RMB'000	2010 RMB'000
Bank borrowings	1,518,697	1,216,992
Other borrowings	4,237	8,125
	1,522,934	1,225,117
Carrying amount repayable:		
Within one year	303,797	384,647
Between one to two years	144,065	162,264
Between two to five years	817,842	407,206
Over five years	257,230	271,000
	1,522,934	1,225,117
Less: amounts due within one year shown under current liabilities	(303,797)	(384,647)
Amounts due after one year	1,219,137	840,470
Secured borrowings	1,223,305	941,251
Unsecured borrowings	210,922	209,696
Guaranteed borrowings	88,707	74,170
	1,522,934	1,225,117

At 30 June 2011, gearing ratio, being the ratio of total borrowings to total assets was 22.0% (2010: 29.1%). The annual interest rate of the bank and other borrowings during the year ended 30 June 2011 varied from 0.4% to 6.46% (2010: 2.40% - 7.47%). As of 30 June 2010, all bank borrowings were denominated in Renminbi. As of 30 June 2011, except one bank loan with carrying amount of RMB100 million was denominated in HK Dollars, all other borrowings were denominated in Renminbi.

PLEDGE OF ASSETS

As at 30 June 2011, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.8 million (2010:RMB14.2 million), RMB117.1 million (2010: RMB144.9 million) and RMB1,636.6 million (2010: RMB1,315.6 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENT AND CONTINGENCIES

As at 30 June 2011, the Group has capital commitments of RMB210.9 million related to acquisition of property, plant and equipment and of RMB34.5 million for purchase of heifers.

The Group did not have any significant contingent liabilities as at 30 June 2010 and 30 June 2011.

FINANCIAL MANAGEMENT POLICIES

The Group continues to closely manage financial risks to safeguard the interests of Shareholders. The Group applies its cash flows generated from operation and bank loans to meet its operation and investment needs. 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 that the Group has limited foreign currency exposure in respect of its operations since our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risks associated with import of heifers, concentrated feeds and farm facilities are not material. In view of the minimal foreign currency exchange risk related to operations, the Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk.

EMPLOYEES

The Group had approximately 3,067 employees (30 June 2010: 2,623) in Mainland China and Hong Kong as at 30 June 2011. Total staff costs for the year ended 30 June 2011, excluding directors' fees, were approximately RMB86.8 million (2010: RMB64.7 million).

The Group values recruiting and training quality personnel. We recruit talent from universities and technical schools and we provide them with pre-employment and on-the-job training. The Group also offers remuneration at competitive rates with the aim of retaining quality personnel.

PROSPECTS

In spite of recent global economic uncertainties and market fluctuations, China's economy is expected to maintain a strong growth. The market and business environment are expected to further improve as well. Driven by urbanization, income per capita of urban and rural families in China continues to increase, enabling the constant growth of consumers' purchasing power for quality dairy products. With the government's strengthened regulatory policies towards the dairy product industry, the demand for high quality dairy products remains strong. In 2010, the government introduced a series of favourable policies for integration of the industry, laying a solid foundation for the sustainable and steady development of China's dairy product industry and providing a conducive environment for the growth of quality dairy product companies.

As one of the first companies to adopt a large-scale industrialized free-stall dairy farming business model in China, our farms are designed and constructed with modern and scientific layouts. This is to ensure high milk yield and cost efficiency to ensure that our raw milk is among the highest quality and safest milk in China. With these favourable government policies in place, we could increase profitability of the Group and steadily develop our business by taking advantage of our high quality products, and pursue business opportunities brought by industry consolidation.

We believe that we operate the best large-scale dairy farms in China, with highly experienced management, comprehensive facilities and the advanced breeding, feeding and herd management technology. Under the current favourable economic and policy environment, we will further promote our successful farm operation model and construct new farms in the coming few years in order to strengthen our production capacity and consolidate our leading position in the dairy farming industry in China. Meanwhile, our professional management team will seize the significant opportunities brought by industry consolidation and achieve better financial performance.

BUSINESS STRATEGIES

Continue to replicate our successful business model across China and further broaden our customer base

We plan to build dairy farms in strategically selected regions in China, where we expect demand for high quality milk to continue to grow rapidly. While we will strengthen our strategic relationship with Mengniu, we also plan to further develop strategic relationships with new customers.

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

We have continued to improve our operations since the commencement of our business, resulting in rising average milk yield per annum. Currently, our average milk yield per annum per milkable cow is among the highest produced in China. We believe that the yield and raw milk quality of our milkable cows will continue to rise by improving the genetic mix of our herd for each generation, further increasing the ratio of milkable cows among our herd and optimizing 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 agriculture institutes to 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 the aim to reduce the cost of transporting feed and ensure the quality, nutritional content and stable supply of the feed.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. DENG Jiuqiang（鄧九強）, aged 60, is an executive Director and the Chairman of the Company and a director of Modern Farm. Mr. Deng has more than 10 years of experience in dairy industry and 15 years of experience in dairy-related industries in China. He joined our Group in December 2006 and was appointed as an executive Director of the Company on 14 November 2008. Mr. Deng was a co-founder and the former vice chairman of Inner Mongolia Mengniu Dairy (Group) Company Limited, a subsidiary of Mengniu, ("Mengniu (Inner Mongolia)") from August 1999 to May 2008, in charge of overseeing Mengniu's expansion plans. He worked as the engineering supervisor for the construction of more than 20 dairy production bases around China, directed and designed technological renovations in almost all of Mengniu's projects. Mr. Deng was also the founder of Inner Mongolia Jiuqiang Machinery Company Limited and has been its chairman since 1999. Mr. Deng has ceased to hold any positions with Mengniu since May 2008.

Ms. GAO Lina（高麗娜）, aged 54, is an executive Director and Chief Executive Officer of the Company. Ms. Gao is one of the founders of our Group and is currently a director of Modern Farm and 14 other subsidiaries of the Company. Ms. Gao has significant experience in cross-border trading, resource integration and administrative management. Prior to joining the Group in August 2005, Ms. Gao was the general manager of Taian Foreign General Trade Corporation（泰安市外貿總公司）between October 1993 to June 2005. Ms. Gao was the director general of Tai'an Municipal Trade Promotion Bureau（泰安市招商局）between October 2003 and June 2005. Ms. Gao developed her experience in managing dairy farms since joining our Group and she was appointed as an executive Director of the Company on 14 November 2008.

She was awarded "Tai'an City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao completed an undergraduate course at Tai'an Municipal CPC Party School（中共泰安市委黨校）majoring in economic management in December 1999. Ms. Gao holds approximately 49.10% of the interests in Jinmu Holdings Co Ltd ("Jinmu").

Mr. HAN Chunlin（韓春林）, aged 39, is an executive Director and the Chief Operating Officer of the Company. Mr. Han is also a director of Modern Farm and Helingeer Modern Farming Co., Ltd. ("Helingeer Modern Farm"). Mr. Han has more than 15 years of experience in food and beverage industry in China. Prior to joining the Group in September 2008 and his appointment as an executive Director of the Company on 14 November 2008, Mr. Han worked as the marketing vice general manager of Nowara Shinnosuke (Fujian) Food Industry Company from February 2006 to July 2008. From January 1999 to September 2004, he served at the Liquid Milk Department of Mengniu (Inner Mongolia) as marketing manager. Prior to that, Mr. Han was a branch-plant manager at the Milk Powder Department of Inner Mongolia Yili Industrial Group Company Limited from July 1994 to January 1999. Mr. Han received a bachelor's degree in biology from Inner Mongolia University in July 1994.

NON-EXECUTIVE DIRECTORS

Mr. WOLHARDT Julian Juul, aged 38, is a non-executive Director of the Company and a director of Modern Farm. Mr. Wolhardt is currently a partner of KKR Asia Limited focusing on private equity transactions in the Greater China region. He has been actively involved in advising on investments in Yageo Corporation, a company listed on the Taiwan Stock Exchange (stock code: 2327), Tianrui Group Cement Company Limited and International Far Eastern Leasing Company Limited since he joined KKR Asia Limited in 2006. Before joining KKR Asia Limited, Mr. Wolhardt was with Morgan Stanley Private Equity from 1998 to 2006 and was responsible for its private equity business in China. While at Morgan Stanley Private Equity, Mr. Wolhardt advised on investments in a number of highly successful companies in China, several of which, such as China Dongxiang (Group) Company Limited (stock code: 3818), Hengan International Group Company Limited (stock code: 1044), Mengniu, China Shanshui Cement Group Limited (stock code: 691) and Ping An Insurance (Group) Company of China, Limited (stock code: 2318), have been listed on the Main Board of the Stock Exchange. He is also a non-executive director of Mengniu. Mr. Wolhardt is a Certified Public Accountant and Certified Management Accountant. He received a bachelor's degree in accounting from the University of Illinois (Urbana-Champaign) in 1995. He joined our Group in July 2008 and was appointed as a non-executive Director of the Company on 30 July 2008, and has been involved in the corporate development and strategic planning of our Group.

Mr. HUI Chi Kin Max（許志堅）, aged 38, is a non-executive Director of the Company and a director of Modern Farm. Mr. Hui is currently a principal at CDH Investments Management (Hong Kong) Limited and is a director of Crystal Dairy Holdings (CDH) Limited. From 1999 to 2000, he worked with the private equity division of Morgan Stanley Asia Limited in Hong Kong and the investment banking department of Schroders & Co in New York. Prior to working in the financial industry, Mr. Hui was an engineer at the oil and gas pipeline division of Bechtel Corporation in San Francisco from 1997 to 1998. Mr. Hui graduated from the University of California, Berkeley in 1996 with a bachelor's degree in chemical engineering and received a master's degree of engineering from Princeton University in 1999. He joined our Group in February 2009 and was appointed as a non-executive Director of the Company on 23 February 2009, and has been involved in the corporate development and strategic planning of our Group.

Mr. LEI Yongsheng（雷永勝）, aged 49, is a non-executive Director of the Company and a director of Modern Farm. Mr. Lei is currently a managing director and the secretary-general of Lao Niu Foundation, a private fund engaged in social welfare activities in the PRC. He is also a director of Brightmoon Limited. Prior to joining Lao Niu Foundation in July 2008, Mr. Lei worked for Mengniu (Inner Mongolia) as the vice president and secretary to the board of directors and for China Mengniu (Hong Kong) Company Limited（中國蒙牛（香港）有限公司）as the chief executive officer from 2003. Prior to that, Mr. Lei worked for the general office of the Department of Finance of the Inner Mongolia Autonomous Region(內蒙古自治區財政廳綜合處)as a deputy head from 1999 to 2001. Mr. Lei also worked for the Valuation Management Centre of the State-owned Assets Administration Bureau of the Inner Mongolia Autonomous Region(內蒙古自治區國有資產管理局評估管理中心)as a deputy head from 1991 to 1998 and taught in the Department of Accountancy of the Inner Mongolia Finance and Economics College（內蒙古財經學院）from 1985 to 1990. Mr. Lei graduated from Inner Mongolia Finance and Economics College in 1985 with a bachelor's degree in economics. He joined our Group in July 2010 and was appointed as a non-executive Director of the Company on 27 July 2010, and has been involved in the corporate development and strategic planning of our Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. LI Shengli（李勝利）, aged 45, is an independent non-executive Director of the Company since 27 October 2010. Prof. Li graduated from Shihezi Agricultural College（石河子農學院）with a bachelor's degree in animal husbandry and veterinary science in July 1987. He then obtained his doctorate degree in animal nutrition science from China Agricultural University in July 1996. Since 2003, Prof. Li has been with China Agricultural University, working at various times as an assistant professor and professor. Prof. Li is currently vice-director (Animal Nutrition) of the State Key Laboratories, Director of the council of the directors' association of the Sino-US Dairy Research Center, chief scientist in national dairy products industry technology system(國家奶牛產業技術體系）, an advisor to the China School Milk Programme（國家學生飲用奶計劃）and a specialist in the Cattle and Poultry Research Centre of Beijing Sanyuan Breeding Technology Co,. Ltd.（北京三元種業科技股份有限公司畜牧研究院）. Prof. Li is a member of the Eighth Committee of the Ministry of Agriculture and Technology（第8屆科技農業部委員會）and an advisor to the Beijing Municipal Government in the development of agricultural sciences and technologies and the Working Committee of National Dairy Herd Improvement Programme (DHI)（全國奶牛生產性能測定工作委員會）of the Dairy Association of China（中國奶業協會））. In 2007, Prof. Li obtained a patent on Rubeili（乳倍利）, a type of high-energy and high-protein supplementary feed for dairy cows. Prof. Li was awarded the Second Prize and a Prize of the Beijing Science and Technology Award（北京市科學技術獎）in 2000 and 2007 respectively and was recognized by the Beijing Municipal Government as "Top 10 Scientists with Contribution to the Economic Development in Rural Villages of Beijing"（對北京農村經濟發展作出貢獻的「十佳」科學家）in 2009. Prof. Li was appointed as an independent director of Modern Farm in October 2006 and resigned in June 2009. He has been appointed as an independent director of Xinjiang Western Animal Husbandry Co., Ltd.（新疆西部牧業股份有限公司）, a company listed on China Venture Exchange (stock code: 300106) since July 2009.

Prof. GUO Lianheng（郭連恒）, aged 48, is an independent non-executive Director of the Company since 27 October 2010. Prof. Guo graduated from Peking University with a bachelor's degree in law in July 1985 and he has been a part-time lawyer since then. He completed a postgraduate course at the Minzu University of China in July 2004 majoring in economic law. Prof. Guo has been appointed as a member of the review committee for graduate theses and debates at Law School of Inner Mongolia University since 2000 and has become a law professor since 2004. Prof. Guo is currently a supervisor at the Higher Education Research Office of the Inner Mongolia Finance and Economic College, part-time lawyer at the Inner Mongolia Dianze Law Office（內蒙古典澤律師事務所）and an executive member and the chairman of the Legal Education Research Institute（法學教育研究會）of the Inner Mongolia Law Society. Prof. Guo held various roles with a number of legal education and research organizations, such as director of the Comparative Law Research Association and Law Education Research Association of China Law Society(中國法學會）, deputy leader of Teaching and Research Group of the economic law course in the National Industry and Commerce Management Training Programme, and Visiting Researcher at the Inner Mongolian Academy of Social Sciences, Institute of Law（內蒙古社會科學院法學研究所）. Prof. Guo has been an arbitrator of Huhehaote Arbitration Commission（呼和浩特仲裁委員會）since September 1995. Prof. Guo was an independent director of Inner Mongolia Yuan Xing Energy Company Limited（內蒙古遠興能源股份有限公司）, a company listed on the Shenzhen Stock Exchange (stock code: 000683), from March 2003 to March 2009. He also acted as a legal consultant for Mengniu (Inner Mongolia) from January 1999 to December 2002. Prof. Guo was awarded as an Outstanding Youth in Jurisprudence of Inner Mongolia（內蒙古優秀中青年法學家）by the Law Society of Inner Mongolia Autonomous Region in October 1999.

Mr. LEE Kong Wai Conway（李港衛）, aged 57, is an independent non-executive Director of the Company since 27 October 2010. Mr. Lee graduated from Kingston University (formerly known as Kingston Polytechnic) in London with a bachelor's degree in business studies in July 1980 and further obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young and held key leadership positions in the development of his firm in China. Mr. Lee is currently an independent non-executive director of China Taiping Insurance Holdings Company Limited (stock code: 966), West China Cement Limited (stock code: 2233), Chaowei Power Holdings Limited (stock code: 951), GOME Electrical Appliances Holding Limited (stock code: 493) and Tibet 5100 Water Resources Holdings Ltd (stock code: 1115), companies listed on the Main Board of the Stock Exchange, and Sino Vanadium Inc., a company listed on the Toronto Stock Exchange (stock code: SVX). Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Since 2007, Mr. Lee has been a member of Chinese People's Political Consultative Conference of Hunan Province.

SENIOR MANAGEMENT

Mr. SUN Yugang（孫玉剛）, aged 31, is the Chief Financial Officer of our Company, a director of Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd and a supervisor of 19 other subsidiaries of the Company. Prior to joining our Company in March 2007, Mr. Sun was a manager of the Finance and Investment Department of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd between May 2002 and March 2007. Mr. Sun passed the self-study exams for an undergraduate accounting course at Inner Mongolia Finance and Economics College and graduated in December 2003. Mr. Sun holds approximately 25.44% of the interests in Jinmu.

Mr. CHEN Hongbo（陳紅波）, aged 34, is a deputy general manager of operation of our Company. Mr. Chen joined our Group in September 2008 and has been responsible for our equipment operation ever since. Prior to joining our Group, Mr. Chen was with Mengniu from May 2002 to September 2008 during which he was in charge of several factories of Mengniu (Inner Mongolia) and worked as the manager of the Mengniu (Wuhan) Frealth Dairy Co., Ltd.（蒙牛（武漢）友芝友乳業有限公司）. Mr. Chen also worked for Inner Mongolia Yili Industrial Group Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600887), as an equipment supervisor from July 1996 to May 2002. Mr. Chen obtained a master's degree in light industry technology and engineering from Hubei University of Technology（湖北工業大學）in September 2010.

Mr. ZHANG Haiying（張海鷹）, aged 40, is a deputy general manager of operation of our Company. Mr. Zhang joined our Group in November 2008 and has been responsible for our feedstuff procurement ever since. Prior to joining our Group, Mr. Zhang was the manager of Shenyang Mengniu Dairy Sales Co., Ltd.（瀋陽蒙牛乳業銷售有限公司）from 2007 to 2008. Prior to that, Mr. Zhang was the sales director of Heilongjiang Wandashan Dairy Company Limited（黑龍江完達山乳業股份有限公司）from 2004 to 2007. Mr. Zhang also worked for Mengniu (Inner Mongolia) as a project manager in its yogurt department from 2001 to 2003. Mr. Zhang completed an undergraduate correspondence course at Inner Mongolia University of Technology majoring in business administration and graduated in July 2003.

Mr. REN Meicheng（任美成）, aged 42, is the general manager of sales of our Company. Mr. Chen joined our Group in May 2010 and is currently a full-time employee of the Group. He is responsible for our sales of dairy products in the PRC. He has more than 15 years of experience in corporate management in the PRC and is currently the chairman of MAS Technology Co., Ltd.(天擇科技有限公司）. Prior to joining our Group, Mr. Ren was the chairman of Shenzhen Jinhuan Tianlang Information Technology Service Co., Ltd.（深圳市金環天朗資訊技術服務有限公司）from September 2005. Prior to that, Mr. Ren had taken various managerial roles in several telecommunication companies in Beijing, such as Beijing Jinhuan Tianlang Communication Technology Company（北京金環天朗通信技術公司）, Beijing Huakangxun Communication Technology Company（北京華康訊通信技術公司）, Beijing Huaxunjinye Electronics Co., Ltd.（北京華訊電子金業電子有限公司）and Beijing Huaxun Group（北京華訊集團）, since March 1994. Mr. Ren graduated from the University of Science & Technology Beijing in July 1990 with a bachelor's degree in computer applications and later obtained a master's degree in finance from Peking University in June 2003. Mr. Ren holds approximately 25.44% of the interests in Jinmu.

Our Directors and management are committed to upholding a high standard of corporate governance to safeguard the interests of Shareholders and the Company as a whole.

The Company has complied with all code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to The Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange since the listing of the Company.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

THE BOARD

Role of Directors

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

Composition

The Board, which currently comprises of nine Directors, is responsible for supervising the management of the Group. Six of the nine Directors are non-executive Directors with three of them being independent non-executive Directors.

The diversified expertise and experience of the non-executive Directors contribute significantly in advising management on strategy and policy development. The non-executive Directors also serve to ensure that high standards in financial and other mandatory reporting are maintained and to provide adequate checks and balances for safeguarding the interests of the Shareholders and the Company as a whole. Having considered the functions of non-executive Directors, particularly their roles in respect to providing the checks and balances for the Company, it is considered that there is a reasonable balance between the executive and non-executive Directors on the Board.

The Directors have no other financial, business, family or other material/relevant relationships with each other.

Independent Non-executive Directors

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

Appointment, Re-election of Directors

All non-executive Directors have entered into letters of appointment with the Company for a specific term of one year.

In accordance with the Code and the Company's Articles of Association, all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. The composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profiles are set out on pages 15 to 18.

The Company has not established a nomination committee. The appointment of a new director is a matter for consideration and decision by the full Board. Reference would be made to the skills, experience, professional integrity and time commitment of the proposed director to the Company's needs and other applicable statutory requirements. The Board as a whole is responsible for the procedures of agreeing to the appointment of its members and for nominating appropriate person for election or re-election pursuant to the Articles of Association of the Company by Shareholders at the annual general meeting ("AGM").

Two board meetings were held during the year (i) to note and accept the resignation of Mr. Weng Xiangwei as a non-executive Director; (ii) to approve the appointment of Mr. Lei Yongsheng as a non-executive Director; and (iii) to approve the appointment of Prof. Li Shengli, Prof. Guo Liangheng and Mr. Lee Kong Wai, Conway as independent non-executive Directors.

Chairman and Chief Executive Officer

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

With the support of the Chief Executive Officer and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and that they receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

Directors' Duties

The Directors are continuously updated with the regulatory requirements, business activities and development of the Company that would facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Board Delegation

The Board, led by the Chairman, is responsible for setting overall corporate strategies; evaluating the performance of the Group and the management; and approving matters that are of a material or substantial nature. Supported by members of the senior management, the Chief Executive Officer is responsible for effective implementation of the Board's decisions and the day-to-day operations of the Group.

Board process

During the year ended 30 June 2011, the Board has held two regular board meetings since its listing on the Stock Exchange on 26 November 2010 (the "Listing Date"). The Directors participated in person or through electronic means of communication. The attendance of each Director is set out as follows:

Name of Director	Number of meetings attended/held
Executive Directors	
Mr. DENG Jiuqiang *(Chairman)*	2/2
Ms. GAO Lina *(Chief Executive Officer)*	2/2
Mr. HAN Chunlin	1/2
Non-executive Directors	
Mr. WOLHARDT Julian Juul	2/2
Mr. HUI Chi Kin, Max	2/2
Mr. LEI Yongsheng	1/2
Independent Non-executive Directors	
Prof. LI Shengli	1/2
Prof. GUO Lianheng	2/2
Mr. LEE Kong Wai, Conway	2/2

Our Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and may make inquiries if necessary. Director of the Company who considers it necessary to seek independent professional advice in order to perform his/her duties as a Director of the Company may convene, or request the Company Secretary to convene, a meeting of the Board to approve the consultation of independent legal or other professional advisor for advice. For regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors at least three days before the proposed date of a meeting.

Every Director is entitled to access the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are open for inspection by any Director during normal office hours with reasonable advance notice. Matters considered and decisions reached at Board and Committee meetings are recorded with sufficient detail in the meeting minutes. Draft and final versions of minutes of Board meetings have been sent to all Directors for their comments and record within a reasonable time after the relevant meeting was held.

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

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference, which are of no less than exact terms than those set out in the Code.

Remuneration Committee

The Chairman of the Remuneration Committee is Mr. WOLHARDT Julian Juul and other members are Prof. GUO Liheng and Prof. LI Shengli, the majority being independent non-executive Directors of the Company. The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for non-executive Directors, mainly comprising Directors' fees, is subject to annual assessment with reference to the market standard. Individual Directors and senior management would not be involved in deciding their own remuneration. The specific written terms of reference which follows closely the requirements of the provisions of the Code have been adopted by the Board and are available on the Company's website (www.moderndairyir.com).

No meeting of the remuneration committee was held from the Listing Date to 30 June 2011. Subsequent to 30 June 2011, the Remuneration Committee had assessed the performance of the executive Directors and the senior management, review the remuneration package of the executive Directors and the senior management, and made recommendations to the Board on their remuneration. From 1 July 2011 onwards, the Remuneration Committee will meet at least once per year.

Audit Committee

The Chairman of the Audit Committee is Mr. LEE Kong Wai, Conway and other members are Mr. HUI Chi Kin, Max and Prof. GUO Lianheng, the majority being independent non-executive Directors of the Company. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard. Other duties of the Audit Committee are set out in its specific written terms of reference which deal clearly with their authority and duties and are available on the Company's website (www.moderndiaryir.com).

During the year ended 30 June 2011, the Audit Committee held one meeting in which all members of the Audit Committee attended. At the meeting, the Audit Committee has reviewed the consolidated financial statements and interim report for the six months ended 31 December 2010. The Audit Committee had also reviewed the Group's accounting policies and practices, Listing Rules and statutory compliance, internal controls and financial reporting matters.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 30 June 2011, the remuneration to the auditor of the Company was approximately RMB1.9 million for audit services and RMB0.6 million for interim review services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The management provides the explanations and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. In preparing the financial statements for the year ended 30 June 2011, the requirements of the International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") issued by the International Accounting Standards Board and the applicable laws were complied with.

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

The reporting responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report".

INTERNAL CONTROL

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

During the year, management has conducted regular reviews on the effectiveness of the internal control system covering all material controls in area of financial and compliance controls and various functions for risk management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls, including financial, operational and compliance controls and risk management function for the year ended 30 June 2011. The Audit Committee is satisfied that the internal control system maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and proper accounting records are properly maintained.

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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. Confirmations have been sought from all Directors that they have complied with the required standards set out in the Model Code throughout the year ended 30 June 2011. The Board has also adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

COMMUNICATION WITH SHAREHOLDERS

Effective communication

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

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

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

Voting by way of poll

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the AGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to article 76 of the Articles of Association. The relevant details of the proposed resolutions, including biographies of each Director standing for re-election, will be included in the circular to Shareholders dispatched together with the annual report. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

The Board of Directors presents its annual report together with the audited financial statements for the year ended 30 June 2011.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the production and sale of raw milk in the PRC.

The particulars of the subsidiaries are set out in note 36 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 30 June 2011 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 30 to 80.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 28 to the financial statements.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the year ended 30 June 2011.

RESULTS AND RESERVES

The results of the Group for the year ended 30 June 2011 are set out in the consolidated statement of comprehensive income on page 32 of the annual report. The movements in reserves are in the consolidated statement of changes in equity on page 35 of the annual report.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2011 (2010: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 81 of the annual report.

FIXED ASSETS

During the year, the Group acquired property, plant and machinery for approximately RMB768.7 million. Details of the movements in fixed assets of the Group are set out in note 17 to the financial statements.

By reference to the property valuation carried out by Jones Lang LaSalle Sallmanns Limited set out in Appendix IV to the Prospectus, a revaluation surplus of approximately RMB73.5 million have not been included in the Group's consolidated financial statements. If the valuation surplus were included in the Group's consolidated financial statements, the depreciation charges per year would have increased by approximately RMB2.4 million.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 30 June 2011 are set out in note 25 to the financial statements.

RELATED PARTY TRANSACTIONS

Details of the Group's transactions with related parties are set out in note 35 to the financial statements. They are not regarded as connected transactions as defined under the Listing Rules.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. DENG Jiuqiang *(Chairman)*
Ms. GAO Lina *(Chief Executive Officer)*
Mr. HAN Chunlin

Non-executive Directors

Mr. WOLHARDT Julian Juul	
Mr. HUI Chi Kin, Max	
Mr. LEI Yongsheng	(appointed on 27 July 2010)
Mr. WENG Xiangwei	(resigned on 27 July 2010)

Independent Non-executive Directors

Prof. LI Shengli	(appointed on 27 October 2010)
Prof. GUO Lianheng	(appointed on 27 October 2010)
Mr. LEE Kong Wai, Conway	(appointed on 27 October 2010)

In accordance with Article 17.18 of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

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

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

At 30 June 2011, 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 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. 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 (the "Management Options") granted by the Company. For details of the Management Options, please refer to the section "Management Options" below.

The Directors of the Company have been granted options on 31 October 2010, details of which are set out in the section "Management Options" below.

Saved as disclosed above, as at 30 June 2011, none of the Directors and the chief executives of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year ended 30 June 2011 or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

MANAGEMENT OPTIONS

The Company issued the management options on 31 October 2010 to Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang. The following share options were outstanding during the year:

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 year ended 30 June 2011.

As at 30 June 2011, the number of shares to be issued upon the exercise of the outstanding options is 87,412,507 shares, representing 1.82% of the issued share capital of the Company as at that date.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2011, 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.	Interest in controlled corporation	1,152,248,682	24.01%
KKR SP Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR Asia Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR Fund Holdings L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR Fund Holdings GP Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR Group Holdings L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR Group Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR & Co. L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR Management LLC	Interest in controlled corporation	1,152,248,682	24.01%
Mr. Henry R. Kravis and Mr. George R. Roberts	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.	Interest in controlled corporation	384,104,918	8%
CDH III Holdings Company Limited	Interest in controlled corporation	384,104,918	8%
China Diamond Holdings III, L.P.	Interest in controlled corporation	384,104,918	8%
China Diamond Holdings Company Limited	Interest in controlled corporation	384,104,918	8%

Notes

1. Each of KKR Asian Fund L.P. (as the controlling shareholder of Advanced Dairy); 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); 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 30 June 2011.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the Group's primary customer, Mengniu accounted for approximately 97.4% (2010: 97.6%) of the Group's total turnover for the year ended 30 June 2011. The Group's five largest customers contributed in aggregate 99.0% (2010: 99.5%) of the Group's total turnover for the year ended 30 June 2011.

The aggregate purchase attributable to the Group's five largest suppliers accounted for approximately 13.8% (2010: 12.9%) and the largest supplier accounted for approximately 4.4% (2010: 3.3%) of the Group's total purchases for the year ended 30 June 2011.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

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

On behalf of the Board
DENG Jiuqiang
Chairman

Hong Kong, 14 September 2011

Deloitte.
德勤

TO THE MEMBERS OF CHINA MODERN DAIRY HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 80, which comprise the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

14 September 2011

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
Sales of milk produced	5	1,113,354	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	20	55,538	60,620
Other income	6	101,850	65,371
Farm operating expenses	7	(730,307)	(437,616)
Employee benefits expense	8	(89,649)	(66,695)
Depreciation		(67,304)	(44,174)
Net foreign exchange loss		(17,367)	(1,174)
Other gains and losses	9	(1,197)	561
Other expenses		(61,871)	(29,474)
Profit before finance costs and tax	10	303,047	137,194
Finance costs	11	(59,141)	(29,765)
Profit before tax		243,906	107,429
Income tax charge	12	(8)	(73)
Profit and total comprehensive income for the year		243,898	107,356
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		224,605	53,132
Non-controlling interests		19,293	54,224
		243,898	107,356
Earnings per share (RMB)	16		
Basic		5.20 cents	2.59 cents
Diluted		5.15 cents	2.54 cents

Consolidated Statement of Financial Position

At 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	2,221,265	1,578,395
Land use rights	18	62,863	63,616
Goodwill	19	310,426	301,354
Long-term prepaid rentals		130	194
Deposit for acquisition of biological assets		1,094	13,028
Biological assets	20	2,651,407	1,742,891
		5,247,185	3,699,478
CURRENT ASSETS			
Inventories	21	212,719	139,407
Trade and other receivables	22	136,779	76,772
Land use rights	18	1,440	1,184
Pledged bank balances	23	287,119	36,350
Bank balances and cash	23	1,021,691	250,959
		1,659,748	504,672
CURRENT LIABILITIES			
Trade and other payables	24	482,811	352,299
Amount due to a related party	35(b)	—	1,247
Borrowings - due within one year	25	303,797	384,647
Deferred income	26	4,943	3,868
		791,551	742,061
NET CURRENT ASSETS (LIABILITIES)		868,197	(237,389)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,115,382	3,462,089

At 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES			
Share capital	28	413,075	272
Reserves		4,254,933	1,436,462
Equity attributable to owners of the Company		4,668,008	1,436,734
Non-controlling interests		54,700	1,133,005
		4,722,708	2,569,739
NON-CURRENT LIABILITIES			
Borrowings - due after one year	25	1,219,137	840,470
Long-term other payable	27	100,000	—
Deferred income	26	73,537	51,880
		1,392,674	892,350
		6,115,382	3,462,089

The consolidated financial statements on pages 32 to 80 were approved and authorised for issue by the board of directors on 14 September 2011 and are signed on its behalf by:

GAO Lina	**HAN Chunlin**
Director	Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 July 2009	272	—	1,391,441	—	(8,111)	1,383,602	1,077,461	2,461,063
Profit and total comprehensive income for the year	—	—	—	—	53,132	53,132	54,224	107,356
Contributions from non-controlling interest	—	—	—	—	—	—	1,320	1,320
Balance at 30 June 2010	272	—	1,391,441	—	45,021	1,436,734	1,133,005	2,569,739
Profit and total comprehensive income for the year	—	—	—	—	224,605	224,605	19,293	243,898
Shares repurchased and cancelled and replaced by new shares (Note 28(iii))	170	—	(170)	—	—	—	—	—
Issue of shares (Note 28 (v))	421	902,696	—	—	—	903,117	—	903,117
Shares capitalization (Note 28 (vi))	343,923	(343,923)	—	—	—	—	—	—
New issue of shares by way of public offering (Note 28 (vii))	68,289	1,905,644	—	—	—	1,973,933	—	1,973,933
Transaction costs attributable to issue of new shares	—	(73,934)	—	—	—	(73,934)	—	(73,934)
Recognition of equity-settled share-based payment (Note 30)	—	—	—	9,072	—	9,072	—	9,072
Acquisition of non-controlling interest (Note 29b)	—	—	194,481	—	—	194,481	(1,097,598)	(903,117)
Balance at 30 June 2011	413,075	2,390,483	1,585,752	9,072	269,626	4,668,008	54,700	4,722,708

Note: Other reserve balance at 1 July 2009 represented the contribution from the owners for the operation of the Group.

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES			
Profit before tax		243,906	107,429
Adjustments for:			
Depreciation of property, plant and equipment		67,304	44,174
Release of land use rights and long-term prepaid rental		1,467	1,096
Interest income		(12,155)	(3,001)
Government grant credited to income		(3,998)	(967)
Finance costs		59,141	29,765
Write-off of bad debt		—	445
Payable written off		(615)	(887)
Loss (gain) on disposal of property, plant and equipment		1,197	(1,006)
Gain arising from changes in fair value less costs to sell of dairy cows		(55,538)	(60,620)
Operating cash flows before movements in working capital		300,709	116,428
Increase in inventories		(73,312)	(54,121)
(Increase) decrease in trade and other receivables		(57,386)	9,729
Increase in long-term other payable		100,000	—
Increase in trade and other payables		40,773	47,038
Cash generated from operations		310,784	119,074
Income taxes paid		(8)	(73)
NET CASH FROM OPERATING ACTIVITIES		310,776	119,001
INVESTING ACTIVITIES			
Interest received		9,912	3,001
Purchases of property, plant and equipment		(655,392)	(534,682)
Addition in biological assets		(843,004)	(743,534)
Addition in pledged bank balances		(287,119)	(36,350)
Release of pledged bank balances		36,350	48,696
Purchases of land use rights		(906)	(23,717)
Proceeds on disposal of property, plant and equipment		204	6,996
Proceeds on disposal of dairy cows		59,035	87,640
Settlement of consideration payable for acquisition of subsidiaries in prior years		(5,150)	(47,524)
Net cash inflow from acquisition of a subsidiary		—	1,938
Government grants received		26,730	56,715
NET CASH USED IN INVESTING ACTIVITIES		(1,659,340)	(1,180,821)

	Notes	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES			
Interest paid		(85,695)	(55,188)
New borrowings raised		2,342,475	1,010,653
Repayment of borrowings		(2,044,658)	(377,726)
Gross proceeds from issue of shares by way of public offering	28(vii)	1,973,933	—
Transaction costs attributable to issue of new shares		(66,759)	—
Issue of shares	28(v)	903,117	—
Cash outflow on aquisition of additional interest in a subsidiary	29(b)	(903,117)	—
Contribution from non-controlling interests		—	1,320
NET CASH FROM FINANCING ACTIVITIES		2,119,296	579,059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		770,732	(482,761)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		250,959	733,720
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		1,021,691	250,959

1. GENERAL INFORMATION

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

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

Advanced Dairy I Company Limited, Advanced Dairy Company Limited and KKR Asian Fund L.P. are the Company's immediate holding company, ultimate holding company, and ultimate controlling party respectively, during the period from 26 June 2009 to 29 July 2010. On 30 July 2010, the Company allotted and issued 4,876,000 ordinary shares to new shareholders as disclosed in note 28 (v) to the consolidated financial statements which diluted the interest of Advanced Dairy I Company Limited, Advanced Dairy Company Limited and KKR Asian Fund L.P. in the Company and thereafter, ceased to be the Company's immediate holding company, ultimate holding company and ultimate controlling party, respectively.

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

The Group has applied all the amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board, which are mandatorily effective for the Group's financial year beginning 1 July 2010.

The adoption of these new and revised IFRSs had no material effect on the amounts reported in these consolidated financial statements and/or the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised standards and amendments 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]
IFRS 10	Consolidated Financial Statements[3]
IFRS 11	Joint Arrangements[3]
IFRS 12	Disclosure of Interests in Other Entities[3]
IFRS 13	Fair Value Measurement[3]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 19 (as revised in 2011)	Employee Benefits[3]
IAS 24 (Revised)	Related Party Disclosures[1]

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

IAS 27 (as revised in 2011)	Separate Financial Statements[3]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[3]
IFRIC 14 (Amendments)	Prepayments of a minimum Funding Requirement[1]

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

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, there are two types of joint arrangements: joint ventures and joint operation. The classification in IFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under IAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

The Directors anticipate that the application of IFRS 9 and IAS 24 (Revised) may not have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities and the disclosure of consolidated financial statements.

Other than disclosed above, the Directors are in the process of making an assessment of the impact of these new and revised standards and amendments upon initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with 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.

The consolidated financial statements have been prepared under the historical cost basis except for the biological assets, which are measured at fair value less costs to sell, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregated amount of the fair value of the consideration received and the fair value of any retained interests and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

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

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests was initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

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

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

Revenue recognition

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

Revenue from sales of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessee

Rentals payable under operating leases payments are recognized as expenses on a straight-line basis over the term of the relevant lease. Contingent rental expenses, if any, are charged as expenses in the periods in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (the functional currency, i.e. RMB).

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

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

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognized in profit and loss in the year in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefits under the state-managed retirement benefit schemes in the People's Republic of China (the "PRC") are charged as an expense when employees have rendered service entitling them to the contribution.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Grants relating to biological assets

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

Other grants

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in the profit or loss in the year in which they become receivable. Other government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and released to profit or loss over the useful lives of the related assets.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing cost capitalized in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Land use rights

Land use rights are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible assets *(continued)*

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Biological assets

Dairy cows

Dairy cows, including milkable cows, heifers and calves are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognized in profit or loss for the year in which it arises. Costs to sell are the incremental costs directly attributable to the disposal of an asset, mainly transportation cost and excluding finance costs and income taxes. The fair value of dairy cows is determined based on its present location and condition and is determined independently by professional valuer.

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

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognized at the point of harvest at its fair value less costs to sell. The fair value of milk is determined based on market prices in the local area.The costs to sell are the incremental costs directly attributable to the sales of milk, mainly transportation cost, excluding finance cost and income taxes.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the far value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets represent loans and receivables.

Effective interest method

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

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognized on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including borrowings, trade and other payables and amount due to a related party are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Fair value of dairy cows

The Group's dairy cows are valued at fair value less costs to sell. The fair value of dairy cows is determined based on either the market-determined prices as at the end of reporting period adjusted with reference to the species, age, growing condition, costs incurred and expected yield of the milk to reflect differences in characteristic and/or stages of growth of the dairy cows; or the present value of expected net cash flows from the dairy cows discounted at a current market-determined rate, when market-determined prices are unavailable. Any change in the estimates may affect the fair value of the dairy cows significantly. The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of dairy cows. Details of assumptions used are disclosed in note 20.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2011, the carrying amount of goodwill are RMB310,426,000. Details of the recoverable amount calculation are disclosed in note 19.

5. 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 chairman of the Group (the "Chairman"), 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 year, the information reported to the Chairman 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 Chairman reviewed the profit before tax, assets and liabilities as a whole. The difference between the profit before tax and assets reported under IFRSs and those reported to the Chairman 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 Chairman but the dairy cows are stated at their fair value less costs to sell under IFRSs.

During the current year, the information reported to the Chairman 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 Chairman reviewed the profit before tax, assets and liabilities as a whole which are same as the amounts reported under IFRSs. The information of prior year is represented to consistent with the current basis.

5. SALES OF MILK PRODUCED AND SEGMENT INFORMATION *(continued)*

The profit before tax and assets reported to the Chairman and IFRSs for both years are as follows:

	2011 RMB'000	2010 RMB'000 (restated)
Profit before tax reported to the Chairman and profit before tax under IFRSs	243,906	107,429

	30 June 2011 RMB'000	30 June 2010 RMB'000 (restated)
Assets reported to the Chairman and assets under IFRSs	6,906,933	4,204,150
Liabilities reported to the Chairman and liabilities under IFRSs	2,184,225	1,634,411

All external sales of milk produced of the Group during the year are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Meanwhile, the Group's non-current assets are all located in the PRC by physical location of assets.

Sales of milk produced of RMB1,084,777,000 (2010: RMB575,441,000) is from a single external customer.

6. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Government grant related to		
– Biological assets (Note i)	62,001	34,390
– Income (Note ii)	22,666	23,766
– Other assets (Note 26)	3,998	967
Bank interest income	12,155	3,001
Write-off of payables	615	887
Others	415	2,360
	101,850	65,371

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

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

7. FARM OPERATING EXPENSES

	2011 RMB'000	2010 RMB'000
Feeds	648,243	396,225
Utilities	25,258	15,484
Other farm operating expenses	56,806	25,907
Total farm operating expenses	730,307	437,616

8. EMPLOYEE BENEFITS EXPENSE

	2011 RMB'000	2010 RMB'000
Salaries, bonuses and allowances	80,038	58,341
Contributions to retirement benefit schemes	9,611	8,354
	89,649	66,695

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the local government. The subsidiaries in the PRC are required to contribute a specified percentage of their basic payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The Group also participates a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The cost charged to the profit or loss represented contribution payable to the MPF Scheme by the Group at the rates specified in the rules of the MPF Scheme.

9. OTHER GAINS AND LOSSES

	2011 RMB'000	2010 RMB'000
Write-off of bad debt	—	445
Loss (gain) on disposal of property, plant and equipment	1,197	(1,006)
	1,197	(561)

10. PROFIT BEFORE FINANCE COSTS AND TAX

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

	2011 RMB'000	2010 RMB'000
Auditors' remuneration	2,571	951
Release of land use rights	1,403	1,032
Transaction cost for listing of shares	24,728	—

11. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	74,867	47,872
Bank borrowings wholly repayable after five years	10,026	6,612
Other borrowings wholly repayable within five years	241	529
Total borrowing cost	85,134	55,013
Less: Capitalized amount	(25,993)	(25,248)
	59,141	29,765

The weighted average interest rate on specific borrowings being capitalised was 3.35% (2010: 3.24%).

12. INCOME TAX CHARGE

	2011 RMB'000	2010 RMB'000
The charge comprises:		
Current tax:		
PRC enterprise income tax	8	73

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.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a uniform income tax rate of 25% was imposed for both domestic and foreign-invested enterprises from 1 January 2008. In addition, the New EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% or 10% withholding tax under the tax treaty or the domestic law.

12. INCOME TAX CHARGE *(continued)*

As at 30 June 2011, deferred taxation has not been provided for in the consolidated financial statements in respect of undistributed profits of relevant PRC subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the profits generated in 2011 will not be distributed in the foreseeable future. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognized was approximately RMB316,664,000 (2010: RMB54,332,000) as at 30 June 2011.

The income tax rates applicable to the Company and its subsidiaries are as follows:

	2011 (Note)	2010 (Note)
The Company	N/A	N/A
Advanced Dairy Company (Luxembourg) Limited ("Lux")	N/A	N/A
Aquitair Holdings Limited ("Acquitair")	N/A	N/A
Modern Farming (Group) Co., Ltd ("Modern Farm") *	Exempted	Exempted
Shandong Mengniu International Trading Co., Ltd.	25%	25%
Helingeer Modern Farm Co., Ltd. *	Exempted	Exempted
Zhangjiakou Saibei Modern Farm Co., Ltd. *	Exempted	Exempted
Wenshang Modern Farm Co., Ltd. *	Exempted	Exempted
Shangzhi Modern Farm Co., Ltd. *	Exempted	Exempted
Hongya Modern Farm Co., Ltd. *	Exempted	Exempted
Modern Farming Group (Anhui) Sijibao Organic Fertilizer Co., Ltd.	25%	25%
Modern Farming (Chabei) Co., Ltd. *	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd. *	Exempted	Exempted
Maanshan Modern Farming Feedstock Co., Ltd.	25%	25%
Modern Farm (Feidong) Co., Ltd. *	Exempted	Exempted
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd.	25%	25%
Feidong Sijibao Organic Fertiliser Co., Ltd.	25%	25%
Baoji Sijibao Organic Fertiliser Co., Ltd.	25%	25%
Hongya Sijibao Organic Fertiliser Co., Ltd.	25%	25%
Shangzhi Sijibao Organic Fertiliser Co., Ltd.	25%	25%
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.	25%	25%
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.	25%	25%
Wenshang Sijibao Organic Fertiliser Co., Ltd.	25%	N/A
Modern Farming (Tongshan) Co., Ltd. *	Exempted	N/A
Modern Farming (Tongliao) Co., Ltd. *	Exempted	N/A
Modern Farm (Chabei) Hengsheng Co., Ltd. *	Exempted	N/A

* According to the prevailing tax rules and regulation in the PRC, the entity which operates in agricultural business in the PRC is exempted from enterprise income tax.

12. INCOME TAX CHARGE *(continued)*

The tax charge for this year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	243,906	107,429
Tax at applicable income tax rate at 25%	60,977	26,857
Effect of non-deductible expenses	—	373
Effect of tax exemption granted to agricultural entities	(60,969)	(27,157)
Income tax charge	8	73

13. DIRECTORS' EMOLUMENTS

	2011 RMB'000	2010 RMB'000
Salaries, bonuses and allowances	2,799	1,911
Retirement benefits scheme contribution	70	70
	2,869	1,981
Executive directors		
Mr. Deng Jiuqiang	1,188	1,028
Mrs. Gao Lina	835	528
Mr. Han Chunlin	741	425
Non-executive directors		
Mr. Wolhardt Julian Juul	—	—
Mr. Hui Chi Kin Max	—	—
Mr. Weng Xiangwei (resigned on 27 July 2010)	—	—
Mr. Lei Yongsheng (appointed on 27 July 2010)	—	—
Independent non-executive directors		
Professor Li Shengli (appointed on 27 October 2010)	35	—
Professor Guo Lianheng (appointed on 27 October 2010)	35	—
Mr. Lee Kong Wai Conway (appointed on 27 October 2010)	35	—
	2,869	1,981

No directors waived or agreed to waive any emoluments during this year (2010: nil).

14. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three are directors of the Company (2010: three directors) whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining two individuals for the year (2010: two individuals) are as follows:

	Year ended 30 June 2011 RMB'000	Year ended 30 June 2010 RMB'000
Salaries, bonuses and allowances	1,020	497
Retirement benefits scheme contribution	33	46
	1,053	543

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2010: nil).

The emoluments of each of these two individuals (2010: two individuals) are below HK$1,000,000 during this year.

15. DIVIDENDS

No dividends were paid, declared or proposed during this year. The directors do not recommend the payment of dividend.

16. 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:

	2011 RMB'000	2010 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	224,605	53,132
Adjustment to the share of profit of Modern Farm and its subsidiaries based on dilution of their earnings per share (note 30)	(283)	(1,112)
Earnings for the purpose of diluted earnings per share	224,322	52,020
Number of Shares		
Weighted average of ordinary shares for the purpose of basic and diluted earnings per share	4,320,653,151	2,049,600,000
Effect of share options issued by the Company	38,325,183	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,358,978,334	2,049,600,000

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share for the years ended 30 June 2010 and 2011 have 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 28 (vi) occurred on the date of incorporation of the Company.

There were no potential ordinary shares of the Company in existence for the year ended 30 June 2010.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 July 2009	506,267	15,029	107,328	318,884	947,508
Additions	2,211	5,350	85,585	574,114	667,260
Acquisition of a subsidiary	436	—	4,644	39,653	44,733
Transfer	522,526	—	73,060	(595,586)	—
Disposals	(7,023)	(67)	(2,290)	—	(9,380)
At 30 June 2010	1,024,417	20,312	268,327	337,065	1,650,121
Additions	—	4,741	66,031	697,878	768,650
Transfer	625,090	—	66,103	(691,193)	—
Disposals	—	(228)	(2,890)	—	(3,118)
At 30 June 2011	1,649,507	24,825	397,571	343,750	2,415,653
ACCUMULATED DEPRECIATION					
At 1 July 2009	—	—	—	—	—
Charge for the year	45,582	1,702	27,832	—	75,116
Eliminated on disposals	(1,881)	(35)	(1,474)	—	(3,390)
At 30 June 2010	43,701	1,667	26,358	—	71,726
Charge for the year	77,723	2,429	44,227	—	124,379
Eliminated on disposals	—	(217)	(1,500)	—	(1,717)
At 30 June 2011	121,424	3,879	69,085	—	194,388
CARRYING AMOUNT					
At 30 June 2010	980,716	18,645	241,969	337,065	1,578,395
At 30 June 2011	1,528,083	20,946	328,486	343,750	2,221,265

Certain of the Group's buildings and plant and equipment with an aggregate carrying amount of RMB117,085,000 (2010: RMB144,890,000) have been pledged as security for bank and other loans of the Group (Note 25).

As at 30 June 2011 the Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB1,439,457,000 (2010: RMB884,853,000).

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

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimated residual value, as follows:

Buildings	20 years
Motor vehicles	5 years
Plant and equipment	5 - 10 years

During the year ended 30 June 2011, depreciation charge amounting to RMB57,075,000 (2010: RMB30,942,000) have been capitalized in biological assets.

18. LAND USE RIGHTS

	RMB'000
At 1 July 2009	42,115
Additions	23,717
Release to profit or loss	(1,032)
At 30 June 2010	64,800
Additions	906
Release to profit or loss	(1,403)
At 30 June 2011	64,303

	2011 RMB'000	2010 RMB'000
Analysed for reporting purpose as:		
– Current assets	1,440	1,184
– Non-current assets	62,863	63,616
	64,303	64,800

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

As at 30 June 2011 land use rights with carrying amount of RMB10,775,000 (2010: RMB14,184,000) were pledged against certain bank for facilities granted to the Group (Note 25).

19. GOODWILL

	RMB'000
Cost	
At 1 July 2009 and 30 June 2010	301,354
Arising on replacement of share-based payment with subsidiary	9,072
At 30 June 2011	310,426

As explained in note 5, the information reported to the Group's chairman for the purpose of resource allocation and assessment of performance is based on the overall operation of farms, which is the only operating segment reported internally. Accordingly, for the purposes of impairment testing, goodwill has been allocated to the single cash generating unit ("CGU").

As at the end of the reporting period, management of the Group determines that there are no impairments of its CGU containing goodwill with indefinite useful lives.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of one year approved by management and discount rate of 9.79% (2010: 9.24%). Cash flows beyond the budgeted period are extrapolated using a 6% growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of its CGU.

20. BIOLOGICAL ASSETS

A - Nature of Activities

The Group's subsidiaries are milk production companies that principally engaged in production and sales of milk. Dairy cows are primarily held to produce milk.

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

	2011 head	2010 head
Dairy cows		
Milkable cows	46,267	26,607
Heifers and calves	61,309	45,584
Total dairy cows	107,576	72,191

	2011 KG	2010 KG
Volume of sales of milk produced	288,619,627	158,080,873

20. BIOLOGICAL ASSETS *(continued)*

A - Nature of Activities *(continued)*

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

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately 9 month pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before approximately 60 days dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sales of dairy cows is not one of the Group's principal activities and is not included as revenue. The sales of dairy cows is determined based on the actual selling price.

B - Value of Dairy Cows

The value of dairy cows at end of reporting period was:

	2011 RMB'000	2010 RMB'000
Dairy cows	2,651,407	1,742,891

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
At 1 July 2009	439,974	496,842	936,816
Acquisition of subsidiaries	13,563	20,703	34,266
Increases due to purchase	451,424	—	451,424
Increase due to raising (Feeding cost and others)	347,405	—	347,405
Transfer	(534,448)	534,448	—
Decrease due to sales	(7,762)	(79,878)	(87,640)
Gains (loss) arising from changes in fair value less costs to sell	180,438	(119,818)	60,620
At 30 June 2010	890,594	852,297	1,742,891
Increases due to purchase	404,671	271	404,942
Increase due to raising (Feeding cost and others)	507,071	—	507,071
Transfer	(1,050,757)	1,050,757	—
Decrease due to sales	(8,065)	(50,970)	(59,035)
Gains (loss) arising from changes in fair value less costs to sell	445,509	(389,971)	55,538
At 30 June 2011	1,189,023	1,462,384	2,651,407

20. BIOLOGICAL ASSETS *(continued)*

B - Value of Dairy Cows *(continued)*

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experiences in valuation of biological assets. 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, Sallmanns has applied the net present value approach to calculate the fair value less cost to sell of these items.

The principal valuation assumptions adopted in applying the net present value approach are as follows:

- The quantities of the existing dairy cows at the end of the reporting period will reduce at a certain culling rate due to the natural or unnatural factors.
- The culling rates adopted are 8%, 12%, 20%, 20% and 100% for milkable cows in the first to fifth lactation cycles. These rates are based on the historical breeding data of the Group and future operating plans.
- The quantities of cows will increase as calves are born.
- The expected average prices of milk during the projected period of 5 years are estimated after taking into account certain percentage growth, future demand and inflation in the PRC for each projected year;
- The cash flows for financing the assets and taxation are not included as required by IAS 41 Agriculture;
- Costs are average costs based on historical cost information.
- The discount rate used is 9.79% at 30 June 2011(2010: 9.24%).

As at 30 June 2011, the Group has pledged dairy cows with carrying amount of RMB1,636,575,000 (2010: RMB1,315,640,000) to banks to secure the general banking facilities granted to the Group.

The aggregate gain or loss arising during the year ended 30 June 2011 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of cows is analyzed as follows:

	2011 RMB'000	2010 RMB'000
Sales of milk/fair value of milk produced less costs to sell	**1,113,354**	589,775
Gain arising from changes in fair value less costs to sell of dairy cows	**55,538**	60,620
	1,168,892	650,395

21. INVENTORIES

	2011 RMB'000	2010 RMB'000
Feeds	197,515	130,963
Others	15,204	8,444
	212,719	139,407

22. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Trade receivables		
– within 60 days based on invoice date	100,019	44,301
– over 60 days based on invoice date	408	353
	100,427	44,654
Advances to suppliers	26,589	17,228
Others	9,763	14,890
	136,779	76,772

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

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

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

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB408,000 (2010: RMB353,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days (2010: 180 days).

23. PLEDGED BANK BALANCES AND BANK BALANCES AND CASH

Pledged bank balances

The pledged bank balances as at 30 June 2011 represent deposits pledged for short-term bank borrowings. The pledged bank balances carry interest at prevailing market saving rates at 0.40% (2010: 0.36%) per annum.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market saving rates ranging from 0.36% to 3.25% (2010: 0.36% to 1.98%) per annum at 30 June 2011.

Bank balances and cash at 30 June 2011 were denominated in United States Dollar ("USD"), Euro ("EUR"), Hong Kong Dollar ("HKD") and RMB. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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

	2011 RMB'000	2010 RMB'000
USD	308,114	64,578
EUR	1,405	—
HKD	7,337	—

24. 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 other payables at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Trade payables		
Within 60 days based on invoice date	177,066	111,507
Over 60 days based on invoice date	19,478	3,532
	196,544	115,039
Payable for acquisition of property, plant and equipment	238,868	150,238
Consideration payable for acquisition of a subsidiary	—	5,150
Accrued staff costs	21,447	14,644
Advance payment from customers	5,863	57,977
Payable for transaction cost	7,552	—
Others	12,537	9,251
	286,267	237,260
	482,811	352,299

25. BORROWINGS

	2011 RMB'000	2010 RMB'000
Bank borrowings	1,518,697	1,216,992
Other borrowings (Note i)	4,237	8,125
	1,522,934	1,225,117
Unsecured borrowings	210,922	209,696
Secured borrowings (Note ii)	1,223,305	941,251
Guaranteed borrowings (Note iii)	88,707	74,170
	1,522,934	1,225,117
Carrying amount repayable:		
Within one year	303,797	384,647
Between one to two years	144,065	162,264
Between two to five years	817,842	407,206
Over five years	257,230	271,000
	1,522,934	1,225,117
Less: Amounts due within one year shown under current liabilities	(303,797)	(384,647)
	1,219,137	840,470

The bank and other borrowings comprise:

	2011 RMB'000	2010 RMB'000
Fixed-rate borrowings	209,237	285,159
Variable-rate borrowings	1,313,697	939,958

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

	2011	2010
Fixed-rate borrowings	0.40% to 6.31%	2.40% to 7.47%
Variable-rate borrowings	2.97% to 6.46%	4.86% to 7.29%

At 30 June 2011, all borrowings are denominated in RMB, except about HK$119,849,000 (30 June 2010: Nil) borrowed from bank by the Company. Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the PRC.

25. BORROWINGS *(continued)*

(i) Other borrowings represented the loans from local government for financing the purchase of dairy cows for the Group. The loans were secured by certain plant and equipment owned by the Group as set out in note 17, interest bearing of 2.4% per annum and were repayable on 31 October 2011 and 1 November 2013.

(ii) The loans were secured by

i) certain property, plant and equipment, land use rights, dairy cows and bank deposits owned by the Group as set out in notes 17, 18, 20 and 23, respectively; and

ii) 100% equity interest in Zhangjiakou Saibei Modern Farm Co., Ltd, Modern Farm (Feidong) Co., Ltd, Shangzhi Modern Farm Co., Ltd. and Helingeer Modern Farming Co., Ltd. held by Modern Farm.

(iii) The balances were guaranteed by Group's subsidiaries.

26. DEFERRED INCOME

	Arising from government grants RMB'000
At 1 July 2009	—
Addition	56,715
Released to income	(967)
At 30 June 2010	55,748
Addition	26,730
Released to income	(3,998)
At 30 June 2011	78,480

	2011 **RMB'000**	2010 RMB'000
Analyzed for reporting purpose as:		
– Current portion	**4,943**	3,868
– Non-current portion	**73,537**	51,880
	78,480	55,748

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment, which was included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a systematic basis over the useful lives of the related assets.

27. LONG-TERM OTHER PAYABLE

	2011	2010
	RMB'000	RMB'000
Long-term receipt in advance from customer	**100,000**	—

Note: The amount represents the receipt in advance from the single external customer to secure the supply of the raw milk from newly established farms.

28. SHARE CAPITAL

	Notes	**Number of shares** '000	**Share capital** US$'000
Ordinary shares of US$1.00 each ("US$ Shares")			
Authorized			
At 1 July 2009 and 30 June 2010	(i)	50	50
Cancelled during the year	(iv)	(50)	(50)
At 30 June 2011		—	—
Issued and fully paid			
At 1 July 2009 and 30 June 2010	(i)	40	40
US$ Shares repurchased and cancelled	(iii)	(40)	(40)
At 30 June 2011		—	—

28. SHARE CAPITAL *(continued)*

	Notes	Number of shares '000	Share capital HK$'000
Ordinary Shares of HK$ 0.1 each ("HK$ Shares")			
Authorized			
At 1 July 2009 and 30 June 2010		—	—
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 30 June 2011		10,000,000	1,000,000
Issued and fully paid			
At 1 July 2009 and 30 June 2010		—	—
Issue of HK$ Shares	(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 30 June 2011		4,800,000	480,000

	RMB'000
Presented as	413,075

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 Advanced Dairy I at consideration of US$1.00 and 39,999 US$ Shares were allotted, issued and 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 was settled in November 2010.

28. SHARE CAPITAL *(continued)*

Notes: *(continued)*

(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 proceeds, 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.

29. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of a subsidiary

On 30 June 2010, Modern Farm acquired 100% equity interest in Modern Farm (Chabei) Hengsheng Co., Ltd. ("Hengsheng Modern Farm"). Hengsheng Modern Farm is principally engaged in dairy farming and was acquired with the objective of expansion of business.

Consideration transferred

	RMB'000
Other payable	5,150
Cash	9
	5,159

Assets and liabilities recognized at the date of acquisition

	RMB'000
Current assets	
Cash and cash equivalents	1,947
Trade and other receivables	8,328
Inventories	2,148
Non-current assets	
Property, plant and equipment	44,733
Biological assets	34,266
Current liabilities	
Trade and other payables	(46,263)
Borrowings - due within one year	(40,000)
	5,159

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB8,328,000 had gross contractual amounts of RMB8,328,000.

29. ACQUISITION OF SUBSIDIARIES *(continued)*

(a) Acquisition of a subsidiary *(continued)*

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash	(9)
Less: cash and cash equivalent balances acquired	1,947
	1,938

Impact of acquisition on the results of the Group

Hengsheng Modern Farm has no contribution in profit and sales of milk produced to Group's profit and sales of milk produced for the year ended 30 June 2010.

If the acquisition had been completed since 1 July 2009, total group sales of milk produced for the year ended 30 June 2010 would have been approximately RMB606,446,000, and profit before tax for the year would have been approximately RMB109,166,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of sales of milk produced and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2009, nor is intended to be a projection of future results.

(b) Acquisition of additional interest in a subsidiary

Pursuant to an equity transfer agreement between 31 individual equity holders of Modern Farm, Laoniu (Helingeer) Farming Development Co., Ltd. ("Laoniu Farming") (collectively referred to as the "PRC Selling Equity Holders") and Aquitair 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% equity interest held by 31 individual equity holders of Modern Farm and 4.77% equity interest held by Laoniu Farming) for consideration of RMB903,117,000 (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 RMB903,117,000 as described in note 28(v).

29. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) Acquisition of additional interest in a subsidiary *(continued)*

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)

On 31 March 2011, the Company acquired additional 0.19% equity interest in Modern Farm through capital injection of RMB900,000,000. Upon completion of this capital injection, Modern Farm become a 97.87% owned subsidiary of the Company.

The amount of the non-controlling interest (0.19% in Modern Farm) of RMB4,669,000 was measured by reference to the proportionate share of Modern Farm and its subsidiaries' net assets value as at 31 March 2011.

30. SHARE-BASED PAYMENT TRANSACTIONS

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 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 year ended 30 June 2011.

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 RMB 9,072,000 has been recognized in share option reserve.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings as disclosed in note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group's management reviews the capital structure on a regular basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, injection of capital and as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**1,419,000**	346,853
Financial liabilities:		
Amortized cost	**1,999,882**	1,520,686

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due to a related party, borrowings, pledged bank balances, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged from prior year.

32. FINANCIAL INSTRUMENTS *(continued)*

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk as over 97.4% of total trade receivables as at 30 June 2011 (2010: 97.6%), was due from the Group's largest customer which is principally engaged in milk processing industry in the PRC and listed on the main board of the Stock Excange.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the Company's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorized banks in the PRC.

Interest rate risk

The Group is exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rates on bank balances, pledged bank balances and bank borrowings which carry interest at variable interest rates.

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to market lending interest rates for non-derivative instruments at the end of the reporting period. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate bank borrowings. Bank balances are excluded from the sensitivity analyses since they are not considered sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate bank borrowings were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year ended 30 June 2011 would decrease/increase by RMB852,000 (2010: RMB1,300,000); and Modern Farm and its subsidiaries' property, plant and equipment would increase/decrease by RMB5,716,000 as at 30 June 2011 (2010: RMB3,400,000) for interest capitalisation.

32. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

The Group finance their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary liquidity is available when required. The management monitors the liquidity position of the Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilized facilities, newly obtained facilities up to the date of this report and re-financing arrangements, the directors consider the liquidity and source of capital for the daily operation are sufficient.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rates	Within 180 days	181 days to 365 days	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2011							
Non-interest bearing		476,948	—	—	—	476,948	476,948
Fixed interest rate borrowings	6	4,288	177,450	1,782	31,818	215,338	209,237
Variable interest rate borrowings	6	134,778	66,550	215,250	1,169,706	1,586,284	1,313,697
		616,014	244,000	217,032	1,201,524	2,278,570	1,999,882
As at 30 June 2010							
Non-interest bearing	—	295,569	—	—	—	295,569	295,569
Fixed interest rate borrowings	6	59,868	126,175	46,148	70,707	302,898	285,159
Variable interest rate borrowings	6	150,357	106,334	162,760	691,488	1,110,939	939,958
		505,794	232,509	208,908	762,195	1,709,406	1,520,686

32. FINANCIAL INSTRUMENTS *(continued)*

Foreign currency risk

The Group collects most of the sales of milk produced in RMB and incurs most of the expenditures as well as capital expenditures in RMB.

The major asset denominated in foreign currency is the bank balances and cash which disclosed in note 23.

The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Foreign currency sensitivity analysis

0.5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

At the end of the reporting period, if the exchange rate had been strengthen/weaken in Renminbi against USD, EUR and HK Dollars by 0.5%, and all other variables were held constant, the Group's profit for the year ended 30 June 2011 would decrease/increase by RMB1,584,000 (2010: RMB323,000).

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

33. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2011 RMB'000	2010 RMB'000
Within one year	1,427	941
In the second to fifth year inclusive	716	787
Over five years	1,419	5,770
	3,562	7,498

Operating lease payments represent rentals payable by the Group for certain of its plant and vehicles which are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The minimum lease payments paid under operating lease during the year ended 30 June 2011 are approximately RMB4,306,000 (2010: RMB542,000).

34. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted but not provided for, in respect of acquisition of:		
– property, plant and equipment	210,852	261,573
– biological assets	34,519	303,152
	245,371	564,725

35. RELATED PARTY TRANSACTIONS

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

Name	Relationship
Inner Mongolia Jiuqiang Machinery Co., Ltd.	Company owned by a director

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

Amount due to a related party

	2011 RMB'000	2010 RMB'000
Other payable nature		
Inner Mongolia Jiuqiang Machinery Co., Ltd. (Note)	—	1,247

Note: The amount mainly represents the construction cost payable at the end of 30 June 2010. It was interest-free, unsecured and fully repaid during the year.

c. Compensation of key management personnel

The emoluments of key management during the reporting period were as follows:

	2011 RMB'000	2010 RMB'000
Short-term employees benefits	3,819	2,408
Post-employment benefits	103	116
	3,922	2,524

36. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 30 June 2011 and 2010 are as follows:

Name of subsidiary	Place and date of Incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Place of operation	Principal activities
			30 June 2011		30 June 2010			
			Directly %	Indirectly %	Directly %	Indirectly %		
Lux	Luxemburg	USD40,000	100	—	100	—	Luxemburg	Investment holding
Aquitair	Republic of Ireland	USD200,000,000	—	100	—	100	Republic of Ireland	Investment holding
Modern Farm*	PRC	RMB517,754,488	—	97.87	—	50.05	PRC	Production of milk
Shandong Mengniu International Trading Co., Ltd.#	PRC	RMB20,000,000	—	97.87	—	50.05	PRC	Import and export agency services
Helingeer Modern Farming Co., Ltd. #	PRC	RMB96,100,000	—	97.87	—	50.05	PRC	Production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. #	PRC	RMB90,000,000	—	97.87	—	50.05	PRC	Production of milk
Wenshang Modern Farm Co., Ltd. #	PRC	RMB55,000,000	—	97.87	—	50.05	PRC	Production of milk
Shangzhi Modern Farm Co., Ltd. #	PRC	RMB55,000,000	—	97.87	—	50.05	PRC	Production of milk
Hongya Modern Farm Co., Ltd. #	PRC	RMB10,000,000	—	97.87	—	50.05	PRC	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB10,000,000	—	97.87	—	50.05	PRC	Production of fertilizers
Modern Farming (Chabei) Co., Ltd. #	PRC	RMB8,000,000	—	97.87	—	50.05	PRC	Production of milk
Modern Farming (Baoji) Co., Ltd. #	PRC	RMB10,000,000	—	97.87	—	50.05	PRC	Production of milk
Maanshan Modern Farming Feedstock Co., Ltd.#	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Sales of feeds
Modern Farm (Feidong) Co., Ltd. #	PRC	RMB50,000,000	—	97.87	—	50.05	PRC	Production of milk
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd. *	PRC	RMB3,000,000	—	54.81	—	28.00	PRC	Sales of milk
Feidong Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Production of fertilizers
Baoji Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Production of fertilizers
Hongya Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Production of fertilizers

36. SUBSIDIARIES *(continued)*

Name of subsidiary	Place and date of Incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Place of operation	Principal activities
			30 June 2011		30 June 2010			
			Directly %	Indirectly %	Directly %	Indirectly %		
Shangzhi Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Production of fertilizers
Wenshang Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	—	97.87	N/A	N/A	PRC	Production of fertilizers
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Production of fertilizers
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	—	97.87	—	50.05	PRC	Production of fertilizers
Modern Farming (Tongshan) Co., Ltd.#	PRC	RMB30,000,000	—	97.87	—	50.05	PRC	Production of milk
Modern Farming (Tongliao) Co., Ltd. #	PRC	RMB30,000,000	—	97.87	—	50.05	PRC	Production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd. #	PRC	RMB5,000,000	—	97.87	—	50.05	PRC	Production of milk

These entities were established in PRC as domestic company and wholly owned by Modern Farm.

* The entity was established in PRC and became a sino-foreign enterprise from November 2009.

None of the subsidiaries had any debt securities subsisting at 30 June 2011 and 30 June 2010 or at any time during the year.

INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY

Information about the financial position of the Company at the end of the reporting period includes

	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	3,431,731	1,379,136
Property, plant and equipment	53	—
	3,431,784	1,379,136
CURRENT ASSETS		
Other receivables	1,715	—
Pledged bank balances	100,000	—
Bank balances and cash	716,313	337
	818,028	337
CURRENT LIABILITIES		
Other payable	9,844	—
Borrowings - due within one year	100,000	—
	109,844	—
NET CURRENT ASSETS	708,184	337
TOTAL ASSETS LESS CURRENT LIABILITIES	4,139,968	1,379,473
CAPITAL AND RESERVES		
Share capital	413,075	272
Reserves	3,726,893	1,379,201
	4,139,968	1,379,473

Four-year Summary

	Year ended 30 June			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Results				
Sales of milk produced	1,113,354	589,775	334,015	183,882
Gain arising from changes in fair value less costs to sell of dairy cows	55,538	60,620	70,573	19,107
Other income	101,850	65,371	25,036	11,800
Farm operating expenses	(730,307)	(437,616)	(263,746)	(130,786)
Employee benefits expenses	(89,649)	(66,695)	(47,152)	(16,850)
Depreciation	(67,304)	(44,174)	(22,068)	(10,827)
Net foreign exchange loss	(17,367)	(1,174)		
Other gains and losses	(1,197)	561	(1,490)	(546)
Other expenses	(61,871)	(29,474)	(32,145)	(7,269)
Bargain purchase gain	—	—	3,257	—
Profit before finance costs and tax	303,047	137,194	66,280	48,511
Finance costs	(59,141)	(29,765)	(23,606)	(10,573)
Profit before tax	243,906	107,429	42,674	37,938
Income tax charge	(8)	(73)	—	(56)
Profit for the year	243,898	107,356	42,674	37,882
Attributable to:				
Equity shareholders of the Company	224,605	53,132	42,674	37,878
Minority interests	19,293	54,224	—	4
Profit for the year	243,898	107,356	42,674	37,882

	Year ended 30 June			
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Assets and liabilities				
Property, plant and equipment	2,221,265	1,578,395	947,508	458,328
Land use rights	62,863	63,616	41,185	15,970
Goodwill	310,426	301,354	—	—
Long-term prepaid rental	130	194	259	—
Deposit for acquisition of biological assets	1,094	13,028	37,381	—
Biological assets	2,651,407	1,742,891	936,816	446,153
Net current assets (liabilities)	868,197	(237,389)	494,473	(250,640)
Total assets less current liabilities	6,115,382	3,462,089	2,457,622	669,811
Non-current liabilities	(1,392,674)	(892,350)	(304,010)	(370,327)
NET ASSETS	4,722,708	2,569,739	2,153,612	299,484
Capital and reserves				
Share capital	413,075	272	517,754	202,180
Reserves	4,254,933	1,436,462	1,635,858	95,008
Total equity attributable to equity shareholders of the Company	4,668,008	1,436,734	2,153,612	297,188
Minority interests	54,700	1,133,005	—	2,296
	4,722,708	2,569,739	2,153,612	299,484
Earnings per share				
Basic (cents)	5.20	2.59	N/A	N/A
Diluted (cents)	5.15	2.54	N/A	N/A

Notes to the four-year summary:

The Group's financial information alone for the financial years ended 30 June 2008 and 2009 does not reflect the results and financial condition of our operating business as a result of a series of reorganization transactions taken place before the listing of the Company's shares on the Stock Exchange. Accordingly, the summary financial data for the years ended 30 June 2008 and 2009 is based on the financial statements of our predecessor holding company. We believe this can facilitate a better understanding of our operating business for the previous four financial years.

For details of the transactions in connection with the group reorganization, please refer to section headed "Our History and Structure" in our Prospectus dated 15 November 2010.