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

MODERN FARMING

现代牧业

ANNUAL REPORT

2011/2012

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. WOLHARDT Julian Juul *(Chairman)*
Mr. HUI Chi Kin, Max
Mr. LEI Yongsheng

Independent Non-Executive Directors

Prof. LI Shengli
Prof. GUO Lianheng
Mr. LEE Kong Wai, Conway

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway *(Chairman)*
Mr. HUI Chi Kin, Max
Prof. GUO Lianheng

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Prof. GUO Lianheng *(Chairman)*
Prof. LI Shengli
Mr. LEE Kong Wai, Conway

AUTHORISED REPRESENTATIVES

Ms. GAO Lina
Mr. WONG Kai Hing

COMPANY SECRETARY

Mr. WONG Kai Hing

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
Bank of Communication Maanshan Branch
Citibank N.A. Hong Kong

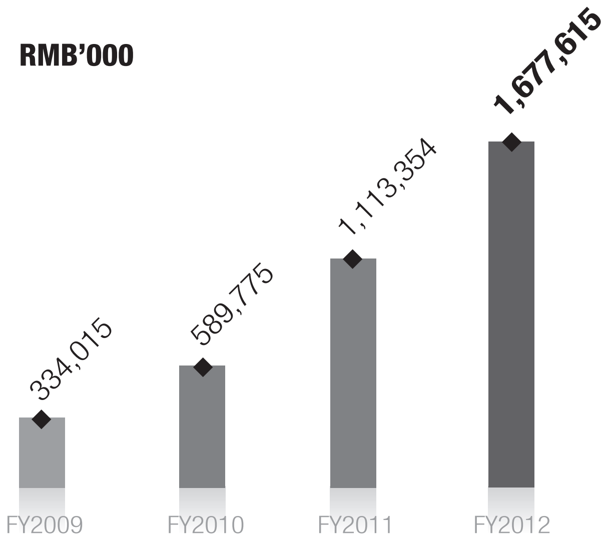
STOCK CODE

The Stock Exchange of Hong Kong Limited: 1117

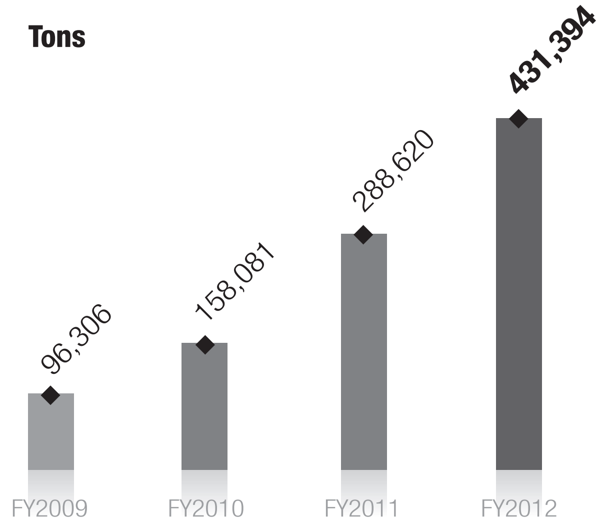
WEBSITE

http://www.moderndairyir.com

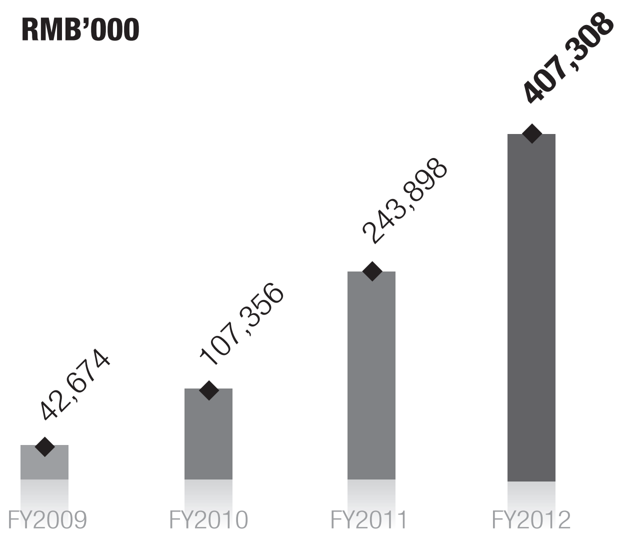
Financial Highlights



SALES REVENUE



SALES VOLUME



NET PROFIT FOR THE YEAR

RESULTS

	Year ended 30 June	
	2012 RMB'000	2011 RMB'000
Sales of milk produced	1,677,615	1,113,354
Earnings before interest and tax	478,774	303,047
Operating margin	28.5%	27.2%
Net profit	407,308	243,898
Net profit margin	24.3%	21.9%

FINANCIAL POSITION

	As at 30 June	
	2012 RMB'000	2011 RMB'000
Biological assets	4,185,600	2,651,407
Cash and cash equivalents	518,277	1,021,691
Total assets	8,651,814	6,906,933
Total debts	2,590,789	1,522,934
Gearing ratio (Total debts/ Total assets)	29.9%	22.0%

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 2012 (the "year under review") to our shareholders ("Shareholders").

BUSINESS REVIEW

Looking back at the 2012 financial year, against the backdrop of a complex domestic and international economic situation, the national economy of China in general remained steady while the dairy industry of China was about to begin industrial restructuring after a series of dairy product safety issues. In order to enhance consumer confidence in the dairy product industry, the central government had launched a number of measures to ensure food safety and steady supply of raw milk of the dairy industry. Due to increasing urbanization and consumption upgrade, dairy product consumption is set to continue to grow. During the year under review, despite various challenges facing China's dairy product industry, the Group managed to achieve steady growth leveraging on its strong business, adherence to raw milk meeting safety and quality standards and active expansion of new farms.

For the twelve months ended 30 June 2012, the Group completed the construction of four new farms. As of 30 June 2012, the Group had a total of 20 farms in operation and two farms under construction in China. The construction of these new farms was mainly financed by the Group's internal resources and bank borrowings. For the twelve months ended 30 June 2012, we achieved an average milk yield per milkable cow of 8.09 tons/annum, increased by 4.7% from 7.73 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 27.2% to 28.5% during the year under review, while net profit increased by 67% to RMB407.3 million. During the year under review, total revenue of the Group reached RMB1,677.6 million, up 50.7% from RMB1,113.4 million in the previous year. Profit attributable to Shareholders was RMB398.5 million, up 77.4% from RMB224.6 million in the previous year. Basic earnings per share were RMB8.30 cents, representing an increase of 59.6% from that of last year being RMB5.20 cents.

As the largest dairy farming company and largest raw milk producer in China, we always strive to enhance our integrated productivity in order to fully utilize the Group's scale advantage and synergy. Ensuring food safety was one of the priorities of the Group for the year and we always put into practice its series of comprehensive quality control measures from feed quality control to dairy cow farming and to transportation, to ensure that the raw milk free from contamination and ultimately guarantee that our raw milk was safe to use for enhancement of consumer confidence.

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 People's Republic of China ("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 various local governments' support for the large-scale dairy industry in recent years. We have a proven and replicable business model and realize rapid growth through large-scale import of dairy heifers from overseas with highly visible growth prospects. Leveraged on our comprehensive, modernized and scientific operations, we are capable of producing internationally recognised high-end quality milk with increasing milk yields, thereby optimizing and improving cost efficiency; while safety of our milk products is consistently assured with most stringent standards of quality and safety.

We continue our strategic partnership with China Mengniu Dairy Company Limited ("Mengniu"), a leading dairy product manufacturer in China, and due to our advantages of proximity to dairy factories and fresh milk supply, we not only have become a major, trusted high-end milk supplier of Mengniu but also successfully maintain our eco-friendly production methods at lower operation costs to achieve win-win situation.

In addition, our experienced management team is well-versed in the industry practice and is committed to the long-term development of the Group. Guided by our market philosophy of "producing only pure products, being a true and faithful corporate, pursuing new management approaches and keeping the market fresh", our management will lead our dedicated staff to realise the strategic goals of the Group for its continuous and steady growth. In recent years, the Company has shown remarkable performance with continuous and steady growth.

PROSPECTS

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

Moreover, the central government continues to guide and direct the healthy and sustainable growth of the dairy product industry through various policies. During the year under review, the government issued the National Strategies for the Grain-saving Animal Husbandry Industry (2011-2020). The Strategies state that since the dairy industry is a key part of the country's grain-saving animal husbandry, it calls for better infrastructure for original and fine breed farms of grain-saving livestock and poultry (including dairy cattle). Greater proprietary breeding capabilities should be promoted, and it has been reiterated that the government will continue to provide greater financial support to the dairy product industry by expanding subsidies to fine breeding. Such policies aid the moving forward of the industry, and will gradually enhance consumer confidence in Chinese owned dairy products.

With such favourable policies in place, our principal goal is to further strengthen our position as the market leader in China's large-scale dairy farming industry. In 2011, the Ministry of Agriculture issued the "Twelfth Five Year Plan for National Livestock Development (2011-2015)", which clearly indicated that during the "Twelfth Five" period, the target for livestock development is to achieve significant improvement in the quality of the livestock industry, and develop standardized scale farming. By 2015, the proportion of national scale breeding of livestock and poultry is expected to increase by 10 to 15 percent, and herds with more than 100 dairy cows are expected to exceed 38%. At the same time, financial subsidies will continue to increase.

The implementation and promotion of "Twelfth Five" will provide new opportunities to our Group's development, and will provide a firm foundation to secure the Group's leading position in the industry and future development. Leveraging on this, we will continuously seek opportunities to achieve sustainable growth of our business and to enhance Shareholders' value. We will continue to replicate our successful business model across China to further broaden our customer base. Moreover, we will continue to increase our hard size, and continue to adopt and develop comprehensive, modern and scientific breeding and feeding techniques. We will also develop our know-how to improve our milk yield and quality, as well as developing our cattle breeding techniques. In respect of farm management, we will further improve our comprehensive, modern and scientific farm management practices to enhance operating efficiency; and also develop new business initiatives and products to diversify our revenue stream.

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 are operating the most well-managed large-scale dairy farms in China with the most comprehensive facilities and the advanced breeding, feeding and herd management skills. Under the leadership of our experienced management, the overall capabilities of the Group will further improve and our Shareholders and investors will also benefit from our healthy development.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my gratitude to our staff for their continuous contribution and dedication. 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.

WOLHARDT Julian Juul
Chairman

Hong Kong, 17 September 2012

Management Discussion and Analysis

INDUSTRY OVERVIEW

2012 sees China's national economy develop steadily in general, despite the complex economic climate both domestically and internationally. In particular, the dairy product industry has been adjusting to a higher level of quality and safety. Emphasis has been placed on constructing milk source production bases, as well as developing local dairy brands. Indeed, this may be a trend that will dominate China's dairy industry in the future.

In recent years, China's dairy product industry has been facing great challenges brought about by food safety issues and industrial transition. Many industry leaders have jumped on the bandwagon of constructing their own milk farms in order to secure safe milk sources. Moreover, with increasingly intense competition from international players, local brands are now using standardized scale farming as a means to increase their competitiveness.

In early 2012, to ensure the healthy and sustainable development of China's dairy product industry, the Ministry of Agriculture issued the National Strategies for the Grain-saving Animal Husbandry Industry (2011-2020). It was stated that, as a key part of China's grain-saving imperative, more resources should be invested in the dairy industry. Examples include constructing infrastructure for breeding fine dairy cattle, and enhancing China's capabilities in breeding generally. It was also stated that subsidies for raising fine cattle breed will be expanded, while full subsidies for raising fine dairy cattle breed will continue. Foreign dairy cattle breeds will also be gradually imported to China in an attempt to introduce better genes amongst bulls locally. It is targeted that by years 2015 and 2020, dairy output will reach 50 million tons and 64 million tons respectively.

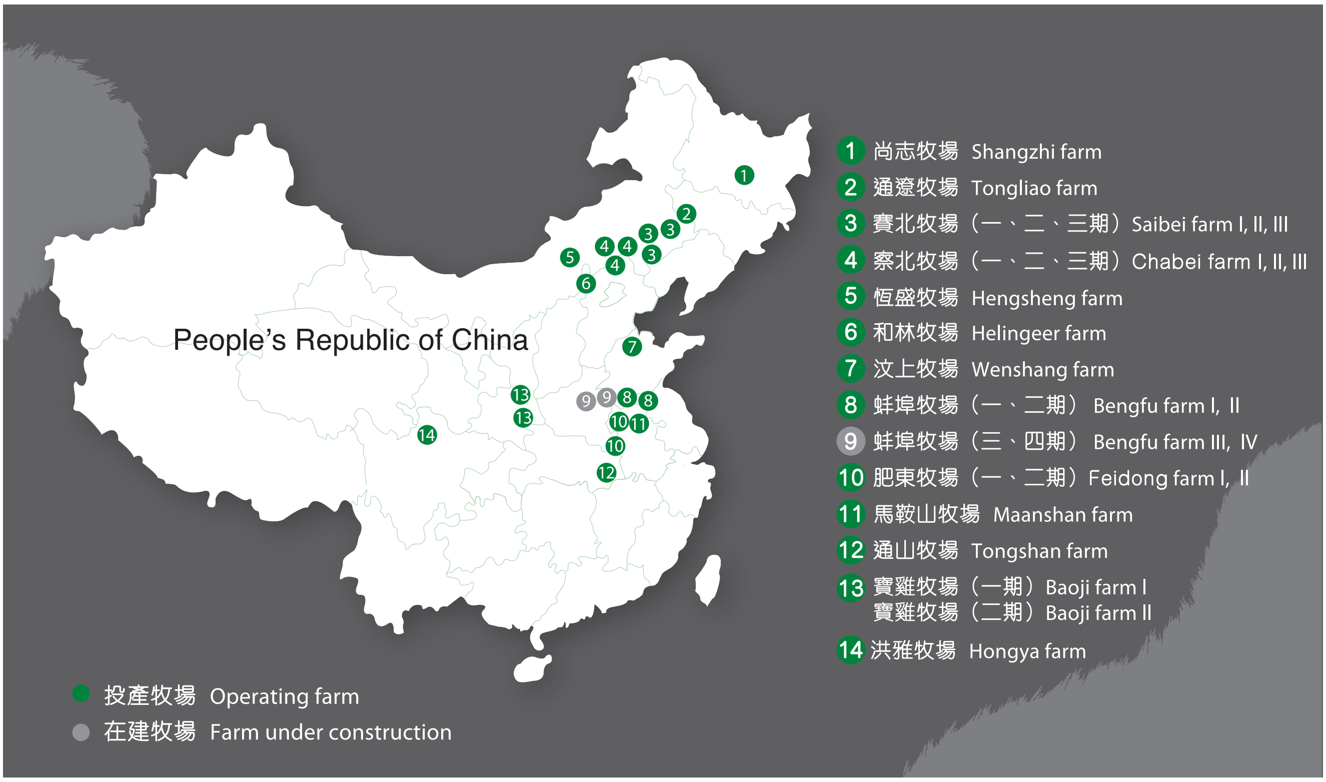
The Twelfth Five Year Plan for National Livestock Development (2011-2015), newly issued last year, also specifies targets set for the livestock industry in China. These targets include (but are not limited to): (i) standardizing scale raising of livestock and poultry; (ii) launching construction projects for standardizing scale raising on dairy cattle farms or communities; (iii) accelerating the realization of standardized scale raising of livestock and poultry; (iv) promoting the industry's shifting development; and (v) ensuring an effective supply of livestock products. The Plan also clearly states that during the "Twelfth Five Year" period, the target for livestock development is to (i) achieve a significant improvement in the quality of livestock industry, and (ii) develop standardized scale farming. By 2015, the proportion of national scale breeding of livestock and poultry is expected to increase by 10 to 15 percent, and herds with more than 100 dairy cattle are expected to exceed 38%.

The series of policies and measures launched by the government shows that China's dairy product industry is undergoing a fast consolidation, and that market competition mechanism will play a more significant role than ever. Large-scale dairy corporations who enjoy a strong financial base, a well known branding, advanced technologies and economies of scale will benefit from such growth. As a well-known and leading enterprise in the dairy farming industry nationwide, we carry out strict quality control, promote the construction of new farms, and continue to identify new opportunities for the business development of the Group. This allows us to lay a solid foundation for the Group to consolidate our position as an industry leader, and develop with the industry in the future.

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 2012, the Group completed the construction of four new farms. As of 30 June 2012, the Group had 20 farms in operation and two farms under construction in China with approximately 159,000 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



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 8.09 tons for the year ended 30 June 2012, representing an increase of 4.7% from 7.73 tons last year. Such results are attributable to effective herd management, genetic improvement of our cows through generations and the 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 28.5% for the year ended 30 June 2012 from 27.2% last year, and the net profit margin increased to 24.3% for the year ended 30 June 2012 from 21.9% last year.

FINANCIAL REVIEW

Herd size

	As of	
	30 June 2012	30 June 2011
Dairy cows	Head	Head
Milkable cows	70,793	46,267
Heifers and calves	88,554	61,309
Total dairy cows	159,347	107,576

Sales of milk produced

96.4% of the sales of milk produced by the Group were sold to our primary customer, Mengniu (2011: 97.4%). Our total sales of milk produced increased by 50.7% from RMB1,113.4 million in last fiscal year to RMB1,677.6 million for the year ended 30 June 2012. The increase in sales revenue is mainly due to increase in sales volume of milk by 49.5% from 288,620 tons in last fiscal year to 431,394 tons for the year ended 30 June 2012. The increase in sales volume is attributable to the expansion of our herd size and increase in average milk yield per cow. Currently, the raw milk produced from the Group are mainly used for the production and processing of Mengniu Group's Milk Deluxe and used for the production and processing of other high-end milk of Mengniu Group.

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

As at 30 June 2012, the biological assets of the Group were valued at RMB4,185.6 million (2011: RMB2,651.4 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Gain arising from changes in fair value of biological assets increased by 136.7% from RMB55.5 million for last fiscal year to RMB131.5 million for the year ended 30 June 2012. Such gain comprises cash proceed from sales of bulls and culling of cows of RMB88.9 million (2011: RMB59.0 million).

The increase for the year was mainly due to enhanced herd mix management resulting in increasing heifer rate of the milkable cows produced by the Company which is currently more than 56%, a decrease in culling rate of milkable cows and a higher herd natural growth rate.

Other income

Other income for the year mainly consists of government grants of RMB100.0 million, (2011: RMB88.7 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 2012 increased to RMB1,013.9 million from RMB648.2 million last fiscal year, representing an increase of 56.4%.

Meanwhile, cost (except employee benefit expenses and depreciation) per ton of raw milk sold increased by 5.3% from RMB2,530 in last fiscal year to RMB2,663 in the year ended 30 June 2012. This was driven by increase in prices of feeds, mainly including corns and alfalfa, the price of two feeds both increased over 10% year-on-year, the price of other raw materials also increased in different levels. The feeds of milkable cows will be affected from the sustainable increase in price of agricultural products in a certain extent.

Employee benefit expenses

As of 30 June 2012, our Group has 3,798 employees, representing an increase of 23.8% in headcount since 30 June 2011. Our employee benefits expenses increased by 42.9% from RMB89.6 million last fiscal year to RMB128.0 million in the year ended 30 June 2012. The increase was mainly related to an increase in headcount for our new farms, the proportion of milkable cows to total number of dairy cow has also increased and the general increase in basic salary.

Depreciation

Depreciation expenses increased by 40.9% from RMB67.3 million last fiscal year to RMB94.8 million for the year ended 30 June 2012. 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 professional fees, travel expenses and other office administrative expenses. The increase of 16.3% from RMB61.9 million last fiscal year to RMB72.0 million for the year ended 30 June 2012 was mainly due to absence of transaction costs attributable to the issue of shares (2011: RMB24.7 million) as well as inclusion of milk transportation cost of RMB27.1 million in 2012(2011: RMB 15.6 million offsetting the Sales of milk produced).

Finance costs

Finance costs increased from RMB59.1 million for last fiscal year to RMB71.3 million for the year ended 30 June 2012, 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 2012, the Group recorded a net profit of RMB407.3 million, up 67% from net profit of RMB243.9 million recorded last fiscal year.

The Group's profit attributable to equity shareholders was RMB398.5 million for the year ended 30 June 2012, representing an increase of 77.4% from RMB224.6 million for last fiscal year. Such an increase was due to an increase of 67.0% of the Group's net profit.

Basic earnings per share were approximately RMB8.30 cents (2011: RMB5.20 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	794.0	84.8
Construction of new farms	30%	659.1	631.4	27.7
Purchase of suitable farm facilities including, among other things, milking systems, feed processing machinery, electricity generating machines and herd management software	20%	439.4	439.4	0
Working capital and other general corporate purposes	10%	219.7	219.7	0
		2,197.0	2,084.5	112.5

At 30 June 2012, 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 2012, the Group's net cash inflow from operating activities amounted to RMB542.4 million, as compared to RMB310.8 million in last fiscal year.

At 30 June 2012, the Group's available and unutilised banking facilities amounted to approximately RMB740.0 million (2011: RMB 1,424.3million). The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

For our short-term and long-term borrowings as of 30 June 2012, please refer to Note 26 to the Financial Statements.

At 30 June 2012, gearing ratio, being the ratio of total borrowings to total assets was 29.9% (2011: 22.0%). The annual interest rate of the bank and other borrowings during the year ended 30 June 2012 varied from 2.45% to 7.05% (2011: 0.4% - 6.46%). As of 30 June 2012 and 30 June 2011, all borrowings were denominated in Renminbi.

PLEDGE OF ASSETS

As at 30 June 2012, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.5 million (2011:RMB10.8 million), RMB66.1 million (2011: RMB117.1 million) and RMB2,372.9 million (2011: RMB1,636.6 million), respectively, were pledged as security for bank borrowings.

CAPITAL COMMITMENT AND CONTINGENCIES

As at 30 June 2012, the Group has capital commitments of RMB653.3 million related to acquisition of property, plant and equipment and of RMB192.0 million for purchase of heifers.

The Group did not have any significant contingent liabilities as at 30 June 2011 and 30 June 2012.

FINANCIAL MANAGEMENT POLICIES

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

The Directors consider that the Group has limited foreign currency exposure in respect of its operations since our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risks associated with import of heifers, 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 AND REMUNERATION POLICIES

The Group had approximately 3,798 employees (30 June 2011: 3,067) in Mainland China and Hong Kong as at 30 June 2012. Total staff costs for the year ended 30 June 2012, excluding directors' fees, were approximately RMB124.7 million (2011: RMB86.8 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. Employees are paid competitively, taking into account individual performance, experience, and their respective roles and positions. Other benefits offered by the Group included statutory provident funds, year-end bonuses, and share options granted to selected employees based on their individual 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.

EXECUTIVE DIRECTORS

Ms. GAO Lina (高麗娜), aged 55, is an executive Director, Chief Executive Officer and Deputy Chairman of the Company. Ms. Gao is one of the founders of our Group and is currently a director of Modern Farm and 24 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 49.12% of the interests in Jinmu Holdings Co Ltd ("Jinmu").

Mr. HAN Chunlin (韓春林), aged 40, 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.

Mr. DENG Jiuqiang (鄧九強), aged 61, is an executive Director of the Company and a director of Modern Farm. Mr. Deng was the Chairman of the Company from November 2010 to September 2012. 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.

NON-EXECUTIVE DIRECTORS

Mr. WOLHARDT Julian Juul, aged 39, is a non-executive Director and Chairman of the Company and a director of Modern Farm. He was appointed as the Chairman of the Company with effect from 17 September 2012. 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 and Novo Holdco Limited. He is independent non-executive director of China Cord Blood Corporation. China Cord Blood Corporation is a company listed on New York Stock Exchange (Stock code: CO). 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 39, is a non-executive Director of the Company and a director of Modern Farm. Mr. Hui is currently a managing director 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 50, 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 non-public fund engaged in charitable 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 University of Finance and Economics (內蒙古財經大學) 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 46, 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 49, 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 58, 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 CITIC Securities Company Limited, a company listed on the Stock Exchange (stock code: 6030) and Shanghai Stock Exchange (stock code: 600030). 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 32, is the Chief Financial Officer of our Company, a director of Modern Farming (Inner Mongolia) Dairy Product Sales Co., Ltd and a supervisor of 23 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 35, is a deputy general manager of operation of our Group. 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 41, is a deputy general manager of operation of our Group. 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.

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.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 30 June 2012, the Company has continued to comply with the code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") (the "Stock Exchange"). The Stock Exchange published its consultation conclusions on the review of the Code in October 2011 and renamed it the Corporate Governance Code (the "New Code"), setting out the amendments required to be made in 2012. The Company has adopted all the code provisions of the New Code.

The Company has complied with all code provisions set out in Code from 1 July 2011 to 31 March 2012 and the New Code throughout the period from 1 April 2012 to 30 June 2012 except for the deviations from code provision A5.1.

Pursuant to code provision A.5.1 of the New Code, each issuer should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors by 1 April 2012. The Company has not established a nomination committee until 16 April 2012 as the Board was considering the candidates for the nomination committee during the relevant period.

THE BOARD

Role of Directors

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

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

During the year under review, the key non-routine matters addressed by the Board included establishing the Nomination Committee, the terms of reference of the Board and the shareholders communication policy, revising the terms of reference of Remuneration Committee and Audit Committee.

Composition

The Board, which currently comprises nine Directors, is responsible for supervising the management of the Group. It currently comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. The biographical details of the Board members are set out on pages 15 to 18 of this annual report. Each of the Directors signed a formal letter of appointment setting out the key terms and conditions of his appointment in compliance with code provision of D1.4 of the New Code. A list containing the names of all Directors and their roles and functions was published on the respective websites of the Stock Exchange and the Company pursuant to code provision A3.2 of the New Code.

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.

The Company has in force appropriate insurance coverage on director's and officer's liabilities arising from the Group's business. Management reviews the insurance coverage on an annual basis.

Non-executive Directors

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

Independent Non-executive Directors

Each of the independent non-executive Directors is appointed for a specific term of 3 years, subject to retirement by rotation under the Articles of Association 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(2) of the Listing Rules. The Board has received from each independent non-executive Director a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent. The number of its independent non-executive Directors is three and one-third of the board as required under Rule 3.10(1) and 3.10A of the Listing Rules.

Appointment, Re-election of Directors

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.

Corporate Governance Functions

The Company has not established a Corporate Governance Committee. Audit Committee is responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 of Corporate Governance Code and Corporate Governance Report ("New Code"). The primary duties of corporate governance function are to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; review and monitor the training and continuous professional development of directors and senior management; review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements; develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and review the issuer's compliance with the code and disclosure in the Corporate Governance Report.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are currently held by Mr. WOLHARDT Julian Juul 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 process

During the year ended 30 June 2012, the Board has held four regular board meetings to discuss the overall strategy as well as the operations and financial performance of the Group. The Directors participated in person or through electronic means of communication. The attendance of each Director is set out as follows:

Name of Director	Number of meetings attended/held				
	2011 Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Ms. GAO Lina *(Chief Executive Officer and Deputy Chairman)*	1/1	4/4	N/A	N/A	N/A
Mr. HAN Chunlin *(Chief Operation Officer)*	1/1	4/4	N/A	N/A	N/A
Mr. DENG Jiuqiang *(Chairman, ceased to be the Chairman on 17 September 2012)*	1/1	4/4	N/A	N/A	N/A
Non-executive Directors					
Mr. WOLHARDT Julian Juul *(Chairman, appointed as the Chairman on 17 September 2012)*	0/1	4/4	N/A	1/1	N/A
Mr. HUI Chi Kin, Max	0/1	4/4	2/2	N/A	N/A
Mr. LEI Yongsheng	0/1	3/4	N/A	N/A	N/A
Independent Non-executive Directors					
Prof. LI Shengli	0/1	4/4	N/A	1/1	1/1
Prof. GUO Lianheng	0/1	3/4	1/2	1/1	1/1
Mr. LEE Kong Wai, Conway	0/1	4/4	2/2	N/A	1/1

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. Additional Board meetings, if necessary, are arranged and held as and when required.

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.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the New Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company shall be responsible for arranging suitable training for all Directors at the Company's expense.

During the year under review, the Directors (including Mr. DENG Jinqiang, Ms. GAO Lina, Mr. HUI Chi Kin, Max, Mr. LEI Yongsheng, Prof. LI Shengli, Prof. GUO Lianheng, Mr. LEE Kong Wai, Conway) attended the training course with relevant reading material provided by lawyer on the topic of directors responsibilities handbook and connected transactions for the purpose of achieving their continuing professional development. (the "CPD") training. Mr. HAN Chunlin and Mr. WOLHARDT Julian Juul have been given the CPD course material for their reference and studying.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the members of the senior management by band for the year ended 30 June 2012 is set out below:

	Number of members	
	2012	2011
Emolument bands		
Nil to HK$1,000,000	**3**	4

Further particulars regarding Directors' emoluments and the 5 highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 13 and 14 to the financial statements.

BOARD COMMITTEES

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with the defined terms of reference in line with the New Code. The Board Committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice in appropriate circumstances upon request. Details of these Board committees including their composition, major responsibilities and functions and worked performed are as follows:

Remuneration Committee

The Chairman of the Remuneration Committee is Prof. LI Shengli (appointed on 1 April 2012) and other members are Prof. GUO Liheng and Mr. WOLHARDT Julian Juul .The Remuneration Committee is chaired by independent non-executive Director and 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 amended terms of reference of the Remuneration Committee, which have been reviewed and revised with close reference to the requirements of the New Code and adopted by the Board on 30 March 2012, are published on the respective websites of the Stock Exchange and the Company. The Remuneration Committee has been provided with sufficient resources to discharge its duties.

During the year ended 30 June 2012, the Remuneration Committee has resolved by way of written resolutions passed by all committee members the director fee of independent non-executive directors and share option scheme and made recommendation to Board for its approval.

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 chaired by an independent non-executive director. 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. The amended terms of reference of the Audit Committee, which have been reviewed and revised with close reference to the requirements of the New Code and adopted by the Board on 30 March 2012, are published on the respective websites of the Stock Exchange and the Company. The Audit Committee has been provided with sufficient resources to discharge its duties.

At the meetings, the Audit Committee has reviewed the consolidated financial statements and both annual report and interim report before submission to the Board for approval. It reviewed the external auditors's letter to the management and ensured the Board provided timely responses to the issues raised therein. The Audit Committee had also reviewed the Group's accounting policies and practices, Listing Rules and statutory compliance, internal controls, financial reporting matters and continuing connected transactions of the Group.

Nomination Committee

The Nomination Committee was established on 16 April 2012 with written terms of reference in line with the provisions of the New Code. This Committee currently consists of three members, including Prof. GUO Lianheng (Chairman of the Committee), Prof. LI Shengli and Mr. LEE Kong Wai, Conway, all being independent non-executive Directors of the Company.

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

At the meetings, the Nomination Committee reviewed and recommended the structure, size and composition (including skills, knowledge and experience) of the Board. It also reviewed the independence of the independent nonexecutive Directors.

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 2012, the remuneration to the auditor of the Company was approximately RMB2.3 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 2012, 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".

Pursuant to code provision C1.2 of the New Code, the management of the Company should provide all members with monthly updates giving a fair and understandable assessment of the Company's performance, financial position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge his duties under Rule 3.08 and Chapter 13 of the Listing Rules. Monthly Updates such as condensed monthly managements accounts and updated information has been provided to all members of the Board for the financial period commencing from 1 April 2012.

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 2012. 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 2012. The Board has also adopted the Model Code as guidelines for relevant employees in respect of their dealings in the securities of the Company.

COMPANY SECRETARY

The Company Secretary, Mr. Wong Kai Hing ("Mr. Wong"), is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board procedures and the timely preparation and dissemination of meeting agendas and papers to the Directors. Minutes of all meetings of the Board and the Board committees are prepared and maintained by the Company Secretary to record in sufficient details the matters considered and decisions reached by the Board or the Board Committee. All minutes are sent to the Directors and are available for inspection by any Director upon request.

The Company Secretary is responsible for ensuring that the Board is fully apprised of all legislative, regulatory and corporate governance developments relating to the Group and that it takes these into consideration when making decisions for the Group.

The Company Secretary is also directly responsible for seeking to ensure the Group's compliance with all obligations under the Listing Rules and The Codes on Takeovers and Mergers and Share Repurchases, including the preparation, publication and despatch of annual reports and interim reports within the time limits set out in the Listing Rules and the timely dissemination of the same to the Shareholders.

Furthermore, the Company Secretary advises the Directors on their obligations for disclosure of interests and dealings in the Group's securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Company.

The appointment and removal of the Company Secretary is subject to Board approval in accordance with the Bye-laws of the Company. All members of the Board have access to the advice and service of the Company Secretary. Mr. Wong was appointed as the Company Secretary of the Company in March 2012. Mr. Wong has confirmed, following specific enquiry made by the Company that he has complied with all the qualifications, experience and training requirements of the Listing Rules.

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 annual general meeting ("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.

Procedure for shareholders to convene an extraordinary general meeting

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

Procedures for sending enquiries to the board

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

Procedures for making proposals at shareholder's meeting

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

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

Voting by way of poll

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the AGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to article 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.

INVESTOR RELATIONS

During the year ended 30 June 2012, there had been no change in the Company's constitutional documents. An up-to-date consolidated version of the Memorandum and Articles of Association of the Company is published on the websites of the Group and the Stock Exchange.

Report of the Directors

The Board of Directors presents its annual report together with the audited financial statements for the year ended 30 June 2012.

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 2012 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 37 to 86.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 29 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 2012.

RESULTS AND RESERVES

The results of the Group for the year ended 30 June 2012 are set out in the consolidated statement of comprehensive income on page 38 of the annual report. The movements in reserves are in the consolidated statement of changes in equity on page 41 of the annual report.

The Directors do not recommend the payment of a final dividend for the year ended 30 June 2012 (2011: Nil).

DISTRIBUTABLE RESERVES

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

As at 30 June 2012, the Company's distributable reserve was RMB3,720.0 million (2011: 3,726.9 million).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 87 and 88 of the annual report.

PROPERTY, PLANT AND MACHINERY

Details of the movements in fixed assets of the Group are set out in note 17 to the financial statements.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 30 June 2012 are set out in note 26 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the Group's primary customer, Mengniu accounted for approximately 96.4% (2011: 97.4%) of the Group's total turnover for the year ended 30 June 2012. The Group's five largest customers contributed in aggregate 98.4% (2011: 99.0%) of the Group's total turnover for the year ended 30 June 2011.

During the year, the five largest suppliers of the Group in aggregate represented less than 30% of the Group's total purchases.

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.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Ms. GAO Lina *(Chief Executive Officer & Deputy Chairman)*
Mr. HAN Chunlin *(Chief Operation Officer)*
Mr. DENG Jiuqiang *(Chairman, ceased to be the Chairman on 17 September 2012)*

Non-executive Directors

Mr. WOLHARDT Julian Juul *(Chairman, appointed as the Chairman on 17 September 2012)*
Mr. HUI Chi Kin, Max
Mr. LEI Yongsheng

Independent Non-executive Directors

Prof. LI Shengli
Prof. GUO Lianheng
Mr. LEE Kong Wai, Conway

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.

The Company received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers them to be independent.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 15 to 18 of this annual report.

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

At 30 June 2012, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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 49.12% of the interests in Jinmu Holdings Co. Ltd ("Jinmu"). Ms. Gao is deemed to be interested in the 218,157,733 shares held by Jinmu under the SFO.

(2) These represent interest in underlying shares of the management options (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 2012, 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

Details of the connected transactions and the related party transactions are set out on pages 83 of this annual report respectively. Save for the above, no other 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 2012 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 CONTRACTS

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

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 2012.

As at 30 June 2012, 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.

SHARE OPTION SCHEME

The Company unconditionally adopted a share option scheme (the "Share Option Scheme") on 17 November 2011, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme

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

(b) Qualified Participants

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not exceed 40,000,000 as approved by shareholders at 2011 AGM. As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 40,000,000 shares, representing approximately 0.83% of the total number of shares in issue of the Company.

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

Unless approved by the shareholders at a general meeting in the manner prescribed in the Listing Rules, the Board may not grant options to any Qualified Participants if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total number of shares in issue of the Company at the time.

(e) Timing for exercise of options

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

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

(f) Performance targets and vesting of option

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

(g) Payment for acceptance of option

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

(h) Basis of determining the exercise price

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

(i) Period of the Share Option Scheme

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

There is no grant of share option since the adoption of share option scheme

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2012, the interests or short positions of substantial Shareholders, other than the Directors or the chief executive of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
Yinmu Holdings 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 or as recorded in the register required to be maintained under Section 336 of the SFO as at 30 June 2012.

CONTINUING CONNECTED TRANSACTION

On 8 June 2012, Modern Farm (Group) Co, Ltd., a non-wholly owned subsidiary of the Company, has entered into the Framework Supply Agreement with Qiushi Grass Industry Co. Ltd. in relation to the supply of Forage Grass to the Modern Farm's Group. For a term commencing from 8 June 2012 to 30 November 2012, sales and supply of Forage Grass by the Qiushi Grass Industry Co. Ltd. and its subsidiaries to the Buyer Group in an aggregate amount of RMB50,000,000. Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng Yuan, the child of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

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

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

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

The Board has engaged the auditors of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Save as disclosed above, there are no other transactions of the Company which require disclosure in the annual report in accordance with the Listing Rules.

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.

POST BALANCE SHEET EVENTS

There is no significant event subsequent to the balance sheet date as at 30 June 2012.

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
WOLHARDT Julian Juul
Chairman

Hong Kong, 17 September 2012

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 38 to 86, which comprise the consolidated statement of financial position as at 30 June 2012, and the 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 consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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 internal control relevant to the entity's preparation of 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 2012, 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

17 September 2012

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	2012 RMB'000	2011 RMB'000
Sales of milk produced	5	1,677,615	1,113,354
Gain arising from changes in fair value less costs to sell of dairy cows	21	131,481	55,538
Other income	6	116,551	101,850
Farm operating expenses	7	(1,148,697)	(730,307)
Employee benefits expense	8	(127,989)	(89,649)
Depreciation		(94,798)	(67,304)
Share of profit of an associate		1,983	—
Net foreign exchange loss		(4,335)	(17,367)
Other gains and losses	9	(1,052)	(1,197)
Other expenses		(71,985)	(61,871)
Profit before finance costs and tax	10	478,774	303,047
Finance costs	11	(71,323)	(59,141)
Profit before tax		407,451	243,906
Income tax charge	12	(143)	(8)
Profit and total comprehensive income for the year		407,308	243,898
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		398,482	224,605
Non-controlling interests		8,826	19,293
		407,308	243,898
Earnings per share (RMB)	16		
Basic		8.30 cents	5.20 cents
Diluted		8.22 cents	5.15 cents

Consolidated Statement of Financial Position

At 30 June 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	2,964,585	2,221,265
Land use rights	18	67,577	62,863
Goodwill	19	310,426	310,426
Interest in an associate	20	15,483	—
Long-term prepaid rentals		65	130
Deposit for acquisition of biological assets		9,024	1,094
Biological assets	21	4,185,600	2,651,407
		7,552,760	5,247,185
CURRENT ASSETS			
Inventories	22	263,882	212,719
Trade and other receivables	23	181,037	136,779
Land use rights	18	1,696	1,440
Pledged bank balances	24	134,162	287,119
Bank balances and cash	24	518,277	1,021,691
		1,099,054	1,659,748
CURRENT LIABILITIES			
Trade and other payables	25	821,230	482,811
Amount due to an associate	35(b)	7,888	—
Borrowings - due within one year	26	664,217	303,797
Deferred income	27	7,764	4,943
		1,501,099	791,551
NET CURRENT (LIABILITIES) ASSETS		(402,045)	868,197
TOTAL ASSETS LESS CURRENT LIABILITIES		7,150,715	6,115,382

	Notes	2012 RMB'000	2011 RMB'000
CAPITAL AND RESERVES			
Share capital	29	413,075	413,075
Reserves		4,653,415	4,254,933
Equity attributable to owners of the Company		5,066,490	4,668,008
Non-controlling interests		66,226	54,700
		5,132,716	4,722,708
NON-CURRENT LIABILITIES			
Borrowings - due after one year	26	1,926,572	1,219,137
Long-term other payable	28	—	100,000
Deferred income	27	91,427	73,537
		2,017,999	1,392,674
		7,150,715	6,115,382

The consolidated financial statements on pages 38 to 86 were approved and authorised for issue by the board of directors on 17 September 2012 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 2012

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Equity total RMB'000
Balance at 1 July 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	170	—	(170)	—	—	—	—	—
Issue of shares	421	902,696	—	—	—	903,117	—	903,117
Shares capitalization	343,923	(343,923)	—	—	—	—	—	—
New issue of shares by way of public offering	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	—	—	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
Profit and total comprehensive income for the year	—	—	—	—	398,482	398,482	8,826	407,308
Contributions from non-controlling interest	—	—	—	—	—	—	2,700	2,700
Balance at 30 June 2012	413,075	2,390,483	1,585,752	9,072	668,108	5,066,490	66,226	5,132,716

Note: Other reserve balance at 1 July 2010 represented the contribution from the owners of the Company for the operation of the Group.

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	Notes	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES			
Profit before tax		407,451	243,906
Adjustments for:			
Depreciation of property, plant and equipment		94,798	67,304
Release of land use rights and long-term prepaid rental		1,619	1,467
Bank interest income	6	(15,360)	(12,155)
Government grant credited to income	6	(5,391)	(3,998)
Finance costs	11	71,323	59,141
Share of profit of an associate	20	(1,983)	—
Payable written off	6	(688)	(615)
Loss on disposal of property, plant and equipment	9	1,052	1,197
Gain arising from changes in fair value less costs to sell of dairy cows	21	(131,481)	(55,538)
Operating cash flows before movements in working capital		421,340	300,709
Increase in inventories		(51,163)	(73,312)
Increase in trade and other receivables		(45,597)	(57,386)
Increase (decrease) in long-term other payable		(100,000)	100,000
Increase in trade and other payables		317,966	40,773
Cash generated from operations		542,546	310,784
Income taxes paid		(143)	(8)
NET CASH GENERATED FROM OPERATING ACTIVITIES		542,403	310,776
INVESTING ACTIVITIES			
Interest received		16,699	9,912
Purchases of property, plant and equipment		(842,146)	(655,392)
Addition in biological assets		(1,409,600)	(843,004)
Addition in pledged bank balances		(134,162)	(287,119)
Release of pledged bank balances		287,119	36,350
Purchases of land use rights		(6,524)	(906)
Proceeds on disposal of property, plant and equipment		193	204
Proceeds on disposal of dairy cows		88,921	59,035
Settlement of consideration payable for acquisition of subsidiaries in prior years		—	(5,150)
Investment in an associate		(13,500)	—
Government grants received		26,102	26,730
NET CASH USED IN INVESTING ACTIVITIES		(1,986,898)	(1,659,340)

	2012 RMB'000	2011 RMB'000
FINANCING ACTIVITIES		
Interest paid	(128,061)	(85,695)
New borrowings raised	1,865,046	2,342,475
Repayment of borrowings	(797,191)	(2,044,658)
Gross proceeds from issue of shares by way of public offering	—	1,973,933
Transaction costs attributable to issue of new shares	(1,413)	(66,759)
Issue of shares	—	903,117
Cash outflow on aquisition of additional interest in a subsidiary	—	(903,117)
Contribution from non-controlling interests	2,700	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	941,081	2,119,296
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(503,414)	770,732
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,021,691	250,959
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	518,277	1,021,691

Notes to the Consolidated Financial Statements

For the year ended 30 June 2012

1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the "Company") is a public limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

KKR Asian Fund L.P. is the Company's 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").

Basis of preparation

In preparing the consolidated financial statements for the year ended 30 June 2012, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB402.0 million as at 30 June 2012 (30 June 2011: net current assets of RMB868.2 million). Having considered the secured credit facilities of approximately RMB1,175.8 million which remains unutilised as at date of the issuance of these consolidated financial statements, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

The Group has applied all the revised standards and amendments to standards and interpretation ("new and revised IFRSs") issued by the International Accounting Standards Board, which are mandatorily effective for the Group's financial year beginning 1 July 2011.

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, interpretations and amendments that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets[3]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[5]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2015
[3] Effective for annual periods beginning on or after 1 January 2012
[4] Effective for annual periods beginning on or after 1 July 2012
[5] Effective for annual periods beginning on or after 1 January 2014

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

IFRs 13 Fair value measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 "Financial instruments: Disclosures" will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that IFRS 13 will be adopted in the Group's financial statements for the annual period beginning 1 July 2015 and that the application of this new Standard may affect the amount reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements. More specially, IFRS 13 is applicable to the Group's biological assets measured at fair value.

New and revised standards on consolidation, joint arrangements associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and SIC Interpretation 12 "Consolidation – Special Purpose Entities". 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) the 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.

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC Interpretation 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.

In contrast, under IAS 31, there are three 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.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors of the Company considered the application of these five standards will have no material impact on the results and financial position of the Group but will result in more extensive disclosure.

Other than as described above, the directors of the Company anticipate that the application of other new or revised standards, interpretations and amendments will have no material impact on the consolidated financial statements.

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 recognised directly in equity and attributed to owners of the Company.

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 recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised 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 recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or shared-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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 recognised 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.

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 recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

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

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 recognised 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 recognised 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 recognised 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 recognised in profit and loss in the period in which they are incurred.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Grants relating to biological assets

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

Other grants

Other government grants are recognised 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 recognised in the profit or loss in the period in which they become receivable. Other government grants related to depreciable assets are recognised 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 recognised 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 recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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 recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively, where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is indicated in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

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

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 recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing cost capitalised 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 derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised 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 recognised for the (or cash generating unit) asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable 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 recognised 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 capitalised, until such time as the heifers and calves begin to produce milk.

Agricultural produce

Milk

Agricultural produce represents the milk. Milk is recognised 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.

Financial instruments

Financial assets and financial liabilities are recognised 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 amortised 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 recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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 amortised 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.

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

For financial assets carried at amortised cost, an impairment loss is recognised 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 financial asset's 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 recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including borrowings and trade and other payables are subsequently measured at amortised 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.

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

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. 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 recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised 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 21.

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 2012, the carrying amount of goodwill are RMB310,426,000 (30 June 2011: 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 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.

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

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

Sales of milk produced of RMB1,616,494,000 (2011: RMB1,084,777,000) is from a single external customer.

6. OTHER INCOME

	2012 RMB'000	2011 RMB'000
Government grant related to		
– Biological assets (Note i)	90,017	62,001
– Income (Note ii)	4,595	22,666
– Other assets (Note 27)	5,391	3,998
Bank interest income	15,360	12,155
Write-off of payables	688	615
Others	500	415
	116,551	101,850

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 immediate financial support to the Group's operation.

7. FARM OPERATING EXPENSES

	2012 RMB'000	2011 RMB'000
Feeds	1,013,933	648,243
Utilities	39,258	25,258
Other farm operating expenses	95,506	56,806
Total farm operating expenses	1,148,697	730,307

8. EMPLOYEE BENEFITS EXPENSE

	2012 RMB'000	2011 RMB'000
Salaries, bonuses and allowances	115,290	80,038
Contributions to retirement benefit schemes	12,699	9,611
	127,989	89,649

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

	2012 RMB'000	2011 RMB'000
Loss on disposal of property, plant and equipment	1,052	1,197

10. PROFIT BEFORE FINANCE COSTS AND TAX

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

	2012 RMB'000	2011 RMB'000
Auditors' remuneration	2,956	2,571
Release of land use rights	1,554	1,403
Transaction cost for listing of shares	—	24,728

11. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	122,948	74,867
Bank borrowings wholly repayable after five years	6,351	10,026
Other borrowings wholly repayable within five years	49	241
Total borrowing cost	129,348	85,134
Less: Capitalised amount	(58,025)	(25,993)
	71,323	59,141

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

12. INCOME TAX CHARGE

	2012 RMB'000	2011 RMB'000
The charge comprises:		
Current tax:		
PRC enterprise income tax	143	8

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.

As at 30 June 2012, 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 since 1 July 2009 will not be distributed in the foreseeable future and there was no undistributed profit of relevant PRC subsidiaries as at 30 June 2009. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB732,865,000 (2011: RMB316,664,000) as at 30 June 2012.

12. INCOME TAX CHARGE *(continued)*

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

	2012	2011
The Company	Exempted	Exempted
Advanced Dairy Company (Luxembourg) Limited ("Lux")	Exempted	Exempted
Aquitair Holdings Limited ("Aquitair")	Exempted	Exempted
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 Fertiliser 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%	25%
Modern Farming (Tongshan) Co., Ltd. *	Exempted	Exempted
Modern Farming (Tongliao) Co., Ltd. *	Exempted	Exempted
Modern Farm (Chabei) Hengsheng Co., Ltd. *	Exempted	Exempted
Modern Farm (Bengbu) Co., Ltd. *	Exempted	N/A
Modern Farm (Anhui) Dairy Product Sales Co., Ltd.	25%	N/A

* According to the prevailing tax rules and regulation in the PRC, the entity which operaties 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:

	2012 RMB'000	2011 RMB'000
Profit before tax	407,451	243,906
Tax at applicable income tax rate at 25%	101,863	60,977
Effect of tax exemption granted to agricultural entities	(101,720)	(60,969)
Income tax charge	143	8

13. DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are as follows:

	2012					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Share-based Payment RMB'000	Discretionary bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors						
Mrs. Gao Lina	–	1,005	–	25	–	1,030
Mr. Han Chunlin	–	771	–	25	–	796
Mr. Deng Jiuqiang	–	1,201	–	25	–	1,226
Non-executive directors						
Mr. Wolhardt Julian Juul	–	–	–	–	–	–
Mr. Hui Chi Kin Max	–	–	–	–	–	–
Mr. Lei Yongsheng	–	–	–	–	–	–
Independent non-executive directors						
Professor Li Shengli	–	73	–	–	–	73
Professor Guo Lianheng	–	73	–	–	–	73
Mr. Lee Kong Wai Conway	–	73	–	–	–	73
	–	3,196	–	75	–	3,271

13. DIRECTORS' EMOLUMENTS *(continued)*

	2011					
	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Share-based Payment RMB'000	Discretionary bonuses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors						
Mrs. Gao Lina	—	812	—	23	—	835
Mr. Han Chunlin	—	718	—	23	—	741
Mr. Deng Jiuqiang	—	1,164	—	24	—	1,188
Non-executive directors						
Mr. Wolhardt Julian Juul	—	—	—	—	—	—
Mr. Hui Chi Kin Max	—	—	—	—	—	—
Mr. Lei Yongsheng	—	—	—	—	—	—
Independent non-executive directors						
Professor Li Shengli	—	35	—	—	—	35
Professor Guo Lianheng	—	35	—	—	—	35
Mr. Lee Kong Wai Conway	—	35	—	—	—	35
	—	2,799	—	70	—	2,869

No directors waived or agreed to waive any emoluments during this year (2011: 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 (2011: three directors) whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining two individuals for the year (2011: two individuals) are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and allowances	1,043	1,020
Retirement benefits scheme contribution	34	33
	1,077	1,053

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 (2011: nil).

The emoluments of each of these two individuals (2011: 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:

	2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	398,482	224,605
Adjustment to the share of profit of Modern Farm and its subsidiaries based on dilution of their earnings per share (note 30)	–	(283)
Earnings for the purpose of diluted earnings per share	398,482	224,322

	2012	2011
Number of Shares		
Weighted average of ordinary shares for the purpose of basic and diluted earnings per share	4,800,000,000	4,320,653,151
Effect of share options issued by the Company	48,960,380	38,325,183
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,848,960,380	4,358,978,334

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share for the years ended 30 June 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 capitalisation issue of 3,990,000,000 ordinary shares set out in note 29(vi) were in existence from 1 July 2010.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Plant and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
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
Additions	—	3,684	60,165	865,192	929,041
Transfer	635,152	—	138,767	(773,919)	—
Disposals	(10)	(554)	(2,126)	—	(2,690)
At 30 June 2012	2,284,649	27,955	594,377	435,023	3,342,004
ACCUMULATED DEPRECIATION					
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
Charge for the year	120,196	3,088	61,192	—	184,476
Eliminated on disposals	(3)	(388)	(1,054)	—	(1,445)
At 30 June 2012	241,617	6,579	129,223	—	377,419
CARRYING AMOUNT					
At 30 June 2011	1,528,083	20,946	328,486	343,750	2,221,265
At 30 June 2012	2,043,032	21,376	465,154	435,023	2,964,585

Certain of the Group's buildings and plant and equipment with an aggregate carrying amount of RMB66,061,000 (2011: RMB117,085,000) have been pledged as security for bank and other borrowings of the Group (Note 26).

As at 30 June 2012 the Group is in the process of obtaining the building ownership certificates of buildings with carrying amounts of RMB1,962,109,000 (2011: RMB1,439,457,000).

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 2012, depreciation charge amounting to RMB89,678,000 (2011: RMB57,075,000) have been capitalised in biological assets.

18. LAND USE RIGHTS

	RMB'000
At 30 June 2010	64,800
Additions	906
Release to profit or loss	(1,403)
At 30 June 2011	64,303
Additions	6,524
Release to profit or loss	(1,554)
At 30 June 2012	69,273

	2012 RMB'000	2011 RMB'000
Analysed for reporting purpose as:		
– Current assets	1,696	1,440
– Non-current assets	67,577	62,863
	69,273	64,303

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 2012 land use rights with carrying amount of RMB10,531,000 (2011: RMB10,775,000) were pledged against certain bank for facilities granted to the Group (Note 26).

19. GOODWILL

	RMB'000
Cost	
At 31 July 2010, 30 June 2011 and 30 June 2012	310,426

As explained in note 5, the information reported to the 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 10.13% (2011: 9.79%). Cash flows beyond the budgeted period are extrapolated using a 6% (2011: 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. INTERESTS IN AN ASSOCIATE

	2012 RMB'000
Cost of investment in an associate	13,500
Share of profit	1,983
	15,483

20. INTERESTS IN AN ASSOCIATE *(continued)*

Details of the Group's interest in an associate is as follows.

Name of company	Place of establishment	Registered capital	Proportion of ownership interest Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
Qiushi Grass Industry Co., Ltd. ("Qiushi") (note)	The PRC	RMB75,000,000	18	—	18	Planting and sale of forage grass

During the year, the Group acquired 18% equity interest in Qiushi through a cash capital contribution of RMB13,500,000. Qiushi was established on 30 September 2011 as a limited liability company, and was formed by Ms. Deng Yuan ("Ms. Deng") and Mr. Qi Xiaohang ("Mr. Qi") who are family members of Mr. Deng Jiuqiang and Ms. Gao Lina, directors of the Company, and two independent third party individuals.

Although the Group holds less than 20% of the equity shares of Qiushi, and it has less than 20% of voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint one out of three directors to the board of directors of Qiushi.

The summarized financial information in respect of the associate:

	2012 RMB'000
Total assets	173,195
Total liabilities	(87,176)
Net assets	86,019
Group's share of net assets of associate	15,483

	Year ended 30 June 2012 RMB'000
Revenue	27,892
Profit and other comprehensive income for the year	11,018
Group's share profit and other comprehensive income of associate for the year	1,983

21. BIOLOGICAL ASSETS

A - Nature of Activities

The Group and its 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.

	2012 head	2011 head
Dairy cows		
Milkable cows	70,793	46,267
Heifers and calves	88,554	61,309
Total dairy cows	159,347	107,576

	2012 KG	2011 KG
Volume of sales of milk produced	431,394,195	288,619,627

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 340 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.

21. BIOLOGICAL ASSETS *(continued)*

B - Value of Dairy Cows

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

	2012 RMB'000	2011 RMB'000
Dairy cows	4,185,600	2,651,407

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
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
Increases due to purchase	600,097	44,072	644,169
Increase due to raising (Feeding cost and others)	847,464	—	847,464
Transfer	(1,061,792)	1,061,792	—
Decrease due to sales	(15,150)	(73,771)	(88,921)
Gains (loss) arising from changes in fair value less costs to sell	418,258	(286,777)	131,481
At 30 June 2012	1,977,900	2,207,700	4,185,600

21. BIOLOGICAL ASSETS *(continued)*

B - Value of Dairy Cows *(continued)*

The Group's dairy cows in the PRC were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent qualified professional valuers, who has 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, JLL 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%, 25%, 70% and 100% (2011: 8%, 12%, 20%, 25%, 100%) for milkable cows in the first to the sixth (2011: the first to the fifth) lactation cycles. These rates are based on the current available 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 6 lactations (2011: 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 10.13% at 30 June 2012 (2011: 9.79%).

As at 30 June 2012, the Group has pledged dairy cows with carrying amount of RMB2,372,822,000 (2011: RMB1,636,575,000) to banks to secure the general banking facilities granted to the Group.

The aggregate gain or loss arising during the year ended 30 June 2012 on initial recognition of dairy cows and milk and from the change in fair value less costs to sell of dairy cows is analysed as follows:

	2012 RMB'000	2011 RMB'000
Fair-value of milk produced less costs to sell	1,650,486	1,113,354
Gain arising from changes in fair value less costs to sell of dairy cows	131,481	55,538
	1,781,967	1,168,892

22. INVENTORIES

	2012 RMB'000	2011 RMB'000
Feeds	235,184	197,515
Others	28,698	15,204
	263,882	212,719

23. TRADE AND OTHER RECEIVABLES

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

	2012 RMB'000	2011 RMB'000
Trade receivables		
– within 60 days based on invoice date	138,652	100,019
– over 60 days based on invoice date	—	408
	138,652	100,427
Advances to suppliers	35,844	26,589
Others	6,541	9,763
	181,037	136,779

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.

24. PLEDGED BANK BALANCES AND BANK BALANCES AND CASH

Pledged bank balances

The pledged bank balances as at 30 June 2012 represent deposits pledged for short-term bank borrowings. The pledged bank balances carry interest at prevailing market saving rates at 3.10% (2011: 0.40%) 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 banks and carry interest at prevailing market saving rates ranging from 0.44% to 3.50% (2011: 0.36% to 3.25%) per annum at 30 June 2012.

Bank balances and cash at 30 June 2012 were denominated in United States Dollar ("US$"), Euro ("EUR"), Hong Kong Dollar ("HK$") 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:

	2012 RMB'000	2011 RMB'000
US$	5,482	308,145
EUR	372	1,405
HK$	574	7,337

25. 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:

	2012 RMB'000	2011 RMB'000
Trade and bills payables		
Within 60 days based on invoice date	345,278	177,066
Over 60 days based on invoice date	37,312	19,478
	382,590	196,544
Payable for acquisition of property, plant and equipment	267,738	238,868
Accrued staff costs	31,606	21,447
Advance payment from customers	103,770	5,863
Payable for transaction cost	6,139	7,552
Others	29,387	12,537
	438,640	286,267
	821,230	482,811

26. BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank borrowings	2,589,982	1,518,697
Other borrowings	807	4,237
	2,590,789	1,522,934
Unsecured borrowings	1,080,459	210,922
Secured borrowings (Note i)	1,440,330	1,223,305
Guaranteed borrowings (Note ii)	70,000	88,707
	2,590,789	1,522,934
Carrying amount repayable:		
Within one year	664,217	303,797
Between one to two years	643,442	144,065
Between two to five years	1,180,200	817,842
Over five years	102,930	257,230
	2,590,789	1,522,934
Less: Amounts due within one year shown under current liabilities	(664,217)	(303,797)
	1,926,572	1,219,137

The bank and other borrowings comprise:

	2012 RMB'000	2011 RMB'000
Fixed-rate borrowings	297,378	209,237
Variable-rate borrowings	2,293,411	1,313,697

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

	2012	2011
Fixed-rate borrowings	2.47%-6.56%	0.40% to 6.31%
Variable-rate borrowings	2.45%-7.05%	2.97% to 6.46%

26. BORROWINGS *(continued)*

At 30 June 2012, all bank and other borrowings are denominated in RMB. Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China.

(i) The loans were secured by

1) certain property, plant and equipment, land use rights, dairy cows and bank deposits owned by the Group as set out in notes 17, 18, 21 and 24, respectively; and

2) 100% equity interest in Zhangjiakou Saibei Modern Farm Co., Ltd. and Shangzhi Modern Farm Co., Ltd.

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

27. DEFERRED INCOME

	Arising from government grants RMB'000
At 30 June 2010	55,748
Addition	26,730
Released to income	(3,998)
At 30 June 2011	78,480
Addition	26,102
Released to income	(5,391)
At 30 June 2012	99,191

	2012 RMB'000	2011 RMB'000
Analysed for reporting purpose as:		
– Current portion	7,764	4,943
– Non-current portion	91,427	73,537
	99,191	78,480

Deferred income arising from government grant represents the government subsidies obtained in relation to the construction and acquisition of property, plant and equipment. Government grant is 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.

28. LONG-TERM OTHER PAYABLE

	2012 RMB'000	2011 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. The amount is reclassified to current liabilities (note 25) because these newly established farms has commenced milk production in 2012.

29. SHARE CAPITAL

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

29. SHARE CAPITAL *(continued)*

		Number of shares '000	Share capital HK$'000
Ordinary Shares of HK$0.1 each ("HK$ Shares")			
Authorised			
At 1 July 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 1 July 2011 and 30 June 2012		10,000,000	1,000,000
Issued and fully paid			
At 1 July 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 1 July 2011 and 30 June 2012		4,800,000	480,000

	RMB'000
Presented as	413,075

29. SHARE CAPITAL *(continued)*

Notes:

(i) On 30 July 2008, the Company was incorporated in the Cayman Islands as a limited liability company with authorized share capital of US$50,000 divided into 50,000 shares of a par value of US$1.00 each and one US$ Share was allotted, issued and credited as fully paid to Mapcal Limited as the initial subscriber. On 18 August 2008, Mapcal Limited transferred one US$ Share to 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.

(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 capitalise 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.

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 each of the year ended 30 June 2012 and 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 RMB9,072,000 has been recognised in share option reserve during the year ended 30 June 2011.

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 26, net of bank balances and cash 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

	2012 RMB'000	2011 RMB'000
Financial assets:		
Loans and receivables (including bank balances and cash)	797,632	1,419,000
Financial liabilities:		
Amortised cost	3,308,249	1,999,882

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due to an associate, 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 on 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 recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the 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 authorised banks in the PRC.

The Group has concentration of credit risk as over 96.4% of total trade receivables as at 30 June 2012 (2011: 97.4%), was due from the Group's largest customer which is principally engaged in milk processing industry in the PRC and listed in the main board of the Stock Exchange.

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 2012 would decrease/increase by RMB4,955,000 (2011: RMB852,000); and the Group's construction in progress would increase/decrease by RMB6,512,000 as at 30 June 2012 (2011: RMB5,716,000) for interest capitalisation.

32. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

The Group had net current liabilities of approximately RMB402.0 million as at 30 June 2012 (30 June 2011: net current assets of RMB868.2 million). The directors of the Company closely monitor the cash flows of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, when necessary, to ensure the Group has sufficient operating cash flows and to enable the Group to meet its financial obligations. In addition, the secured credit facilities of the Group which remains unutilised amounted to approximately RMB1,175.8 million as at date of the issuance of these consolidated financial statements. In view of the above, the directors of the Company considers the Group's liquidity risk is significantly reduced.

The Group finances their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary 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 unutilised facilities, newly obtained facilities up to the date of this report and re-financing arrangements, the directors of the Company 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 RMB'000	181 days to 365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 30 June 2012							
Non-interest bearing		717,460	–	–	–	717,460	717,460
Fixed interest rate borrowings	6.28	48,571	207,919	14,525	39,395	310,410	297,378
Variable interest rate borrowings	6.28	284,849	267,988	747,649	1,404,853	2,705,339	2,293,411
		1,050,880	475,907	762,174	1,444,248	3,733,209	3,308,249
As at 30 June 2011							
Non-interest bearing		476,948	—	—	—	476,948	476,948
Fixed interest rate borrowings	6.00	4,288	177,450	1,782	31,818	215,338	209,237
Variable interest rate borrowings	6.00	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

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 24.

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

2% (2011: 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 RMB against US$, EUR and HK$ by 2% (2011: 0.5%), and all other variables were held constant, the Group's profit for the year ended 30 June 2012 would decrease/increase by RMB129,000 (2011: RMB1,584,000).

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 amortised 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:

	2012 RMB'000	2011 RMB'000
Within one year	1,022	1,427
In the second to fifth year inclusive	368	716
Over five years	885	1,419
	2,275	3,562

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 2012 are approximately RMB9,791,000 (2011: RMB4,306,000).

34. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted but not provided for, in respect of acquisition of:		
– property, plant and equipment	653,287	210,852
– biological assets	191,961	34,519
	845,248	245,371

35. RELATED PARTY TRANSACTIONS

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

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

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

Amount due to a related party

	2012 RMB'000	2011 RMB'000
Trade payable to Qiushi within 60 days based on invoice date	7,888	N/A

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

	2012	2011
Purchase of forage grass from Qiushi	27,888	N/A

c. Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Short-term employees benefits	5,053	3,819
Post-employment benefits	162	103
	5,215	3,922

36. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 30 June 2012 and 2011 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 2012		30 June 2011			
			Directly %	Indirectly %	Directly %	Indirectly %		
Lux	Luxemburg	US$1,000,000	100	–	100	—	Luxemburg	Investment holding
Aquitair	Republic of Ireland	US$500,000,000	–	100	—	100	Republic of Ireland	Investment holding
Modern Farm *	PRC	RMB563,301,046	–	97.87	—	97.87	PRC	Production of milk
Shandong Mengniu International Trading Co., Ltd. #	PRC	RMB20,000,000	–	97.87	—	97.87	PRC	Import and export agency services
Helingeer Modern Farming Co., Ltd. #	PRC	RMB96,100,000	–	97.87	—	97.87	PRC	Production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. #	PRC	RMB90,000,000	–	97.87	—	97.87	PRC	Production of milk
Wenshang Modern Farm Co., Ltd. #	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Production of milk
Shangzhi Modern Farm Co., Ltd. #	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Production of milk
Hongya Modern Farm Co., Ltd. #	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Chabei) Co., Ltd. #	PRC	RMB8,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming (Baoji) Co., Ltd. #	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of milk
Maanshan Modern Farming Feedstock Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Sales of feeds
Modern Farm (Feidong) Co., Ltd. #	PRC	RMB50,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd. *	PRC	RMB3,000,000	–	54.81	—	54.81	PRC	Sales of milk
Feidong Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Baoji Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Hongya Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Shangzhi Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers

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 2012		30 June 2011			
			Directly %	Indirectly %	Directly %	Indirectly %		
Wenshang Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd. #	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd.#	PRC	RMB1,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Tongshan) Co., Ltd.#	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farming (Tongliao) Co., Ltd. #	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd. #	PRC	RMB5,000,000	–	97.87	—	97.87	PRC	Production of milk
Modern Farm (Bengbu) Co., Ltd. (note)#	PRC	RMB30,000,000	–	97.87	—	N/A	PRC	Production of milk
Modern Farm (Anhui) Dairy Product Sales Co., Ltd. (note)#	PRC	RMB6,000,000	–	53.83	—	N/A	PRC	Sales 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.

Note : Newly establised during the year ended 30 June 2012.

None of the subsidiaries had any debt securities subsisting at 30 June 2012 and 30 June 2011 or at any time during the year.

37. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY

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

	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	4,091,162	3,431,731
Property, plant and equipment	10	53
	4,091,172	3,431,784
CURRENT ASSETS		
Other receivables	334	1,715
Pledged bank balances	–	100,000
Bank balances and cash	52,775	716,313
	53,109	818,028
CURRENT LIABILITIES		
Other payable	11,218	9,844
Borrowings - due within one year	–	100,000
	11,218	109,844
NET CURRENT ASSETS	41,891	708,184
TOTAL ASSETS LESS CURRENT LIABILITIES	4,133,063	4,139,968
CAPITAL AND RESERVES		
Share capital	413,075	413,075
Reserves	3,719,988	3,726,893
	4,133,063	4,139,968

Five-year Summary

	Year ended 30 June				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Sales of milk produced	1,677,615	1,113,354	589,775	334,015	183,882
Gain arising from changes in fair value less costs to sell of dairy cows	131,481	55,538	60,620	70,573	19,107
Other income	116,551	101,850	65,371	25,036	11,800
Farm operating expenses	(1,148,697)	(730,307)	(437,616)	(263,746)	(130,786)
Employee benefits expenses	(127,989)	(89,649)	(66,695)	(47,152)	(16,850)
Depreciation	(94,798)	(67,304)	(44,174)	(22,068)	(10,827)
Share of profit of an associate	1,983	—	—	—	—
Net foreign exchange loss	(4,335)	(17,367)	(1,174)		
Other gains and losses	(1,052)	(1,197)	561	(1,490)	(546)
Other expenses	(71,985)	(61,871)	(29,474)	(32,145)	(7,269)
Bargain purchase gain	—	—	—	3,257	—
Profit before finance costs and tax	478,774	303,047	137,194	66,280	48,511
Finance costs	(71,323)	(59,141)	(29,765)	(23,606)	(10,573)
Profit before tax	407,451	243,906	107,429	42,674	37,938
Income tax charge	(143)	(8)	(73)	—	(56)
Profit and total comprehensive income for the year	407,308	243,898	107,356	42,674	37,882
Attributable to:					
Equity shareholders of the Company	398,482	224,605	53,132	42,674	37,878
Minority interests	8,826	19,293	54,224	—	4
Profit and total comprehensive income for the year	407,308	243,898	107,356	42,674	37,882

	Year ended 30 June				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Property, plant and equipment	2,964,585	2,221,265	1,578,395	947,508	458,328
Land use rights	67,577	62,863	63,616	41,185	15,970
Goodwill	310,426	310,426	301,354	—	—
Interest in an associate	15,483	—	—	—	—
Long-term prepaid rentals	65	130	194	259	—
Deposit for acquisition of biological assets	9,024	1,094	13,028	37,381	—
Biological assets	4,185,600	2,651,407	1,742,891	936,816	446,153
Net current (liabilities) assets	(402,045)	868,197	(237,389)	494,473	(250,640)
Total assets less current liabilities	7,150,715	6,115,382	3,462,089	2,457,622	669,811
Non-current liabilities	(2,017,999)	(1,392,674)	(892,350)	(304,010)	(370,327)
NET ASSETS	5,132,716	4,722,708	2,569,739	2,153,612	299,484
Capital and reserves					
Share capital	413,075	413,075	272	517,754	202,180
Reserves	4,653,415	4,254,933	1,436,462	1,635,858	95,008
Total equity attributable to equity shareholders of the Company	5,066,490	4,668,008	1,436,734	2,153,612	297,188
Minority interests	66,226	54,700	1,133,005	—	2,296
	5,132,716	4,722,708	2,569,739	2,153,612	299,484
Earnings per share (RMB)					
Basic (cents)	8.30	5.20	2.59	N/A	N/A
Diluted (cents)	8.22	5.15	2.54	N/A	N/A

Notes to the five 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.