China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code: 1117

2015 Annual Report

二零一五年年報


MODERN FARMING
现代牧业
酸牛奶
巴氏杀菌热处理
风味酸牛奶
净含量:200g
MODERN FARMING
现代牧业
酸牛奶
巴氏杀菌热处理
风味酸牛奶
净含量:200g

Table of Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)
Mr. HAN Chunlin (Chief Operation Officer)
Mr. SUN Yugang (Chief Financial Officer)

Non-Executive Directors

Mr. YU Xubo (Chairman)
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. WU Jingshui

Independent Non-Executive Directors

Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. KANG Yan
Mr. ZOU Fei

AUDIT COMMITTEE

Mr. LEE Kong Wai, Conway (Chairman)
Mr. HUI Chi Kin, Max
Mr. ZOU Fei

REMUNERATION COMMITTEE

Mr. LI Shengli (Chairman)
Mr. WOLHARDT Julian Juul
Mr. ZOU Fei

NOMINATION COMMITTEE

Mr. KANG Yan (Chairman)
Mr. LI Shengli
Mr. LEE Kong Wai, Conway

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. LI Shengli (Chairman)
Ms. GAO Lina
Mr. WOLHARDT Julian Juul
Mr. ZOU Fei

AUTHORISED REPRESENTATIVES

Ms. GAO Lina
Mr. NG Kwok Choi

COMPANY SECRETARY

Mr. NG Kwok Choi

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
Rooms 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

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

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Modern Dairy Holdings Ltd. ("Modern Dairy" or the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present the annual results of Modern Dairy for the year ended 31 December 2015 (the "year under review") to each of our shareholders (the "Shareholders").

BUSINESS REVIEW

For the year ended 31 December 2015, the Group recorded a total revenue of RMB4,826.3 million. For the year ended 31 December 2015, dairy farming business remained the backbone business of the Group and accounted for 68.88% of the total revenue of the Group. We are the largest dairy farming company and the largest producer of raw milk in China in terms of herd size. During the year ended 31 December 2015, the Group has operated 27 farms in China with approximately 225,542 dairy cows in total. Our farms are widely spread across the country, each being close to renowned downstream dairy product processing plants and with adequate feed supply. Total sales volume of raw milk for the Group amounted to 924,092 tons (including internal sales) for the year ended 31 December 2015. Meanwhile, raw milk sold by the Group to other third-party downstream production and processing plants was also used for their premium milk production.

Leveraging on its distinct edge of scale, the Group produces high quality raw milk in line with standards of safety and quality, and proactively develops downstream market and its own brands for a sustainable and stable growth of its business. For the year ended 31 December 2015, sales of the Group's liquid milk under its own brands amounted to RMB1.5 billion, representing an increase of 80.37% over the same period last year as well as an increase to 31.12% of the share of total revenue of the Group. For the year ended 31 December 2015, the proportion of raw milk used in the production of the Group's liquid milk under its own brands over our total raw milk sold increased significantly to 18.37%. The rapid growth of liquid milk under the Group's own brands has contributed to the diversification and flexibility of the Group's business on one hand, and also generated more profit for the Group and improved the Shareholders' returns on the other hand.

For the year ended 31 December 2015, Cash EBITDA of the Group was RMB1,527.7 million. For the year ended 31 December 2015, Cash EBITDA margin of the Group was 31.65%.

As a pioneer in domestic large-scale farming, the Group has won a widespread recognition from food and technology industry at home and abroad. On 9 January 2015, "Efficient Application of Cow Feeds and the Development and Application of Precise Feeding Technology" (奶牛飼料高效利用及精準飼養技術創建與應用), a collaborative research project jointly conducted by the Group and various institutions including China Agricultural University, won the Second Prize in the State Science and Technology Awards (國家科學技術進步二等獎), which was the only project relating to dairy industry that won the State Science and Technology Awards. Such high recognition of the Group by national authorities also has positive effect on the PRC dairy industry. On 25 January 2015, the Group was recognized as one of the Top 10 Innovative PRC Enterprises (中國經濟十大創新企業) at the China Economic Summit Forum 2014 & the 12th Annual Meeting of China Economic Individuals (二零一四年中國經濟高峰論壇暨第十二屆中國經濟人物年會), and Ms. GAO Lina, CEO of the Group was recognized as one of the Top 10 Business Leaders in China (中國經濟十大商業領袖). The Group was the only enterprise which received awards at the meeting in terms of both enterprise and individual, indicating an acknowledgement of the Group's business model and also an encouragement and momentum for the Group's future development. At the Monde Selection 2015 held by the International Institute for Quality Selections in Portugal on 1 June 2015, the Company was once again, on behalf of Chinese dairy industry, awarded the gold prize in food category, which has been regarded as a "Nobel Prize in food quality", and also hit the international record of additive-free pure milk winning gold prize of Monde Selection. As an independent international organization jointly established by the European Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利時經貿部) in 1961, the International Institute for Quality Selections is currently one of the oldest, the most representative and the most authoritative food quality testing organization in the world. Its prizes are designed for the purpose of monitoring food quality. The meeting awards prizes after conducting strict reviews and inspections of the safety, taste, packaging and raw materials of food products. This gold prize further proves that the Group's own branded milk has won recognition for its high quality in "purity, genuineness, freshness and vitality" from authorities across the world. On 10 January 2016, Mr. HAN Chunlin, deputy president of the Group, was awarded as an outstanding team and an outstanding individual in Achievement Innovation of Chinese Agricultural Science (中華農業科技成果優秀創新) by the Ministry of Agriculture respectively, demonstrating once again the Group has been widely recognized in product and technology research & development by professional authorities.

PROSPECTS

The economic development in China is undergoing a reform focusing on structural transformation, coupled with a sustained open economy policy during the current "new normal" stage. As the prospect of economy in China looks good, and per-capita consumption level keeps rising resulting from increasing demand in the market, the domestic demand for high-end quality raw milk and dairy products will maintain strong growth. Meanwhile, increasingly sound industrial rules and regulations can also control the sales of reconstituted milk effectively and accelerate the development of dairy products industry in due course, thus improving the consumer confidence steadily and boosting sales in the industry. In the long run, demand for high-end raw milk will exceed its supply, showing a positive sign of stabilization and recovery of raw milk prices.

In response, industrial restructuring has also been implemented among various dairy enterprises. The Group will remain committed to expanding distribution network of its downstream milk products under its own brands, improving the percentage of downstream sales and market shares of milk products under its own brands, and extending the industrial chain in value. Our downstream milk products under its own brands have received high recognition from domestic consumers, with substantial increase of sales year-on-year. The distribution network of our products has been further expanded, with a coverage of brand milk sales in over 10,000 large-scale retail spots and integrated supermarkets; over 25,000 convenience stores and over 480,000 other traditional outlets. The Group's market share in room-temperature milk market is presently among the top three in the PRC, reaching an average of 7.9% in 2015 in premium milk market.

With the continuous increase of sales points, the market share and brand awareness of the Group's milk products under its own brands will be further enhanced, beneficial to the strengthening of the Group's leading position in the industry. Leveraging on the high quality raw milk supply from our upstream business, we will be able to meet the demand of downstream market and consumers for higher quality dairy products by research and development of new products and producing higher value-added products with high gross profit, and structurally upgrade downstream products in due course. As pasteurized milk keeps the high nutrient composition of milk and other features, it has received more and more market attention in recent years, with its growth exceeding the development process of the whole dairy industry. However, restricted by short shelf life and strict requirement for cold chain transportation equipment, the raw milk of pasteurized milk must be sourced nearby. Currently, the pasteurized milk

has been sold primarily under urban and local brands, but without any national well-known brands. The inherent advantages of nationwide coverage of dairy farms of the Group and sustainable efforts for higher quality enable the Group to become the only competent nationwide producer of pasteurized milk in China at present. During 2015, we entered into the pasteurized milk market in northern China and recorded sound performance, which lay a solid foundation for the expansion of market in Eastern and Southern China in 2016. Expansion of new distribution channels will constitute a new growth point of pasteurized milk of the Group. As a newly rising member in the dairy products family in China, room-temperature yogurt keeps growing in recent years. During 2016, the Group will also be ready in this filed to enrich its global product portfolio. Relying on the established distribution network of the Company, coupled with advanced processing techniques of high quality security, we are optimistic about the prospect of our high-end room-temperature yogurt.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express our gratitude to all our staff for their dedicated service and contribution over the years, and also extend our thanks to our Shareholders, customers and business partners for their trust and support.

Going forward, the Group will continue to adhere to its principles of "establishing the best dairy farms and producing the highest quality milk in China for harmonious development of human and nature". The Group will strictly comply with the quality assurance requirements of making product safety and quality its top priorities, while developing and implementing comprehensive modern scientific breeding and feeding know-how to improve milk yield and quality continuously, to further consolidate and strengthen the Group's leading position in large-scale dairy farming industry. The Group will continue to expand our business by leveraging on the favorable trend of rapid economic growth and rising market demand for dairy products in China so as to bring desirable returns to Shareholders and our customers and business partners.

GAO Lina
Chief Executive Officer

Hong Kong, 21 March 2016

Management Discussion and Analysis

INDUSTRY OVERVIEW

During 2015, selling prices of raw milk remained weak in consequence of various pressures from oversupply, inventory and large scales of imported bulk milk powder and reconstituted milk flooded into domestic market. Reconstituted milk at very low cost was sold as good quality products by some profit-seeking manufacturers. Despite the "24th Circular" issued by the State Council early in 2005 for the purpose of limiting the use of reconstituted milk by expressly providing that use of reconstituted milk shall be clearly stated on the product package, it's not rare to see, however, manufacturers use reconstituted milk during their production without a clear label on products. Imported milk and milk powder posted a great threat to dairy farmers. As raw milk was rejected in many areas, sometimes dairy farmers had to dump milk and kill their cows for cost saving. Dairy farmers will face further challenges in view of the fact of their small scale and limited technologies against the environment of downward price and more strict quality requirement. By contrast, benefiting from a professional management and operating mode as well as the advantage of industrial integration, a one-stop modern ranch is able to further strengthen its market shares and brand recognition, which ensures both of the quality and quantity of raw milk supply and is expected to form a demonstration effect as an industry leading enterprise.

The dairy farming industry in China comes to the most difficult phase of its transformation. Being aware of such problem, the Ministry of Agriculture and local agriculture & animal husbandry bureaus have responded in various ways, including but not limited to the negotiation of guide prices in each areas, assisting dairy farmers with medium-small farming business in the market stably transiting to large dairy farming enterprises, stabilizing milk price for medium-small farms and dairy farming communities in the interests of dairy farmers. Relevant regulatory authorities have also released a series of policies and regulations and implemented a registration system for the management of dairy formulas, highlighting the determination of Chinese government to implement merging and reorganization of dairy enterprises for maintenance of a stable and healthy dairy market.

Cost of feeds remains high throughout the year and the profit of upstream raw milk supply industry has been pressed, primarily arising from the drop of food price in China away from international food price. Recently, the government reduced the stockpiling prices of the three major grain crops in China in order to relieve domestic inventory pressure, which led to a significant drop of prices of such three major grain crops, particularly, the corn price fell more than 10%. The currently published "No. 1 Document" by the central government in 2016 proposes to reform and update the pricing mechanism and stockpiling mechanism of agricultural products such as grains. A reform of grain-pricing mechanism is expected to be carried out in China, allowing grain prices to return to the market and relieving upstream raw milk suppliers from the conflict of lower raw milk prices and higher costs.

With the stable and sustainable economy development, and driving by the two positive policies of "the 13th Five Year Plan" and "Two Children Policy", the dairy products industry sees an enormous potential with rising demand for high-quality dairy products. To meet the demand of market for quality, the dairy farming industry in China has also undergone a structural transformation from a free-range mode to a large-scale and intensive development mode of modern range. As the dairy products market system increasingly develops, the use of reconstituted milk will be regulated. Despite various challenges ahead, we believe the domestic demand for high-quality dairy products will remain strong, the raw milk price will rebound and stabilized, and eventually, the whole industry will embrace more and more business opportunities.

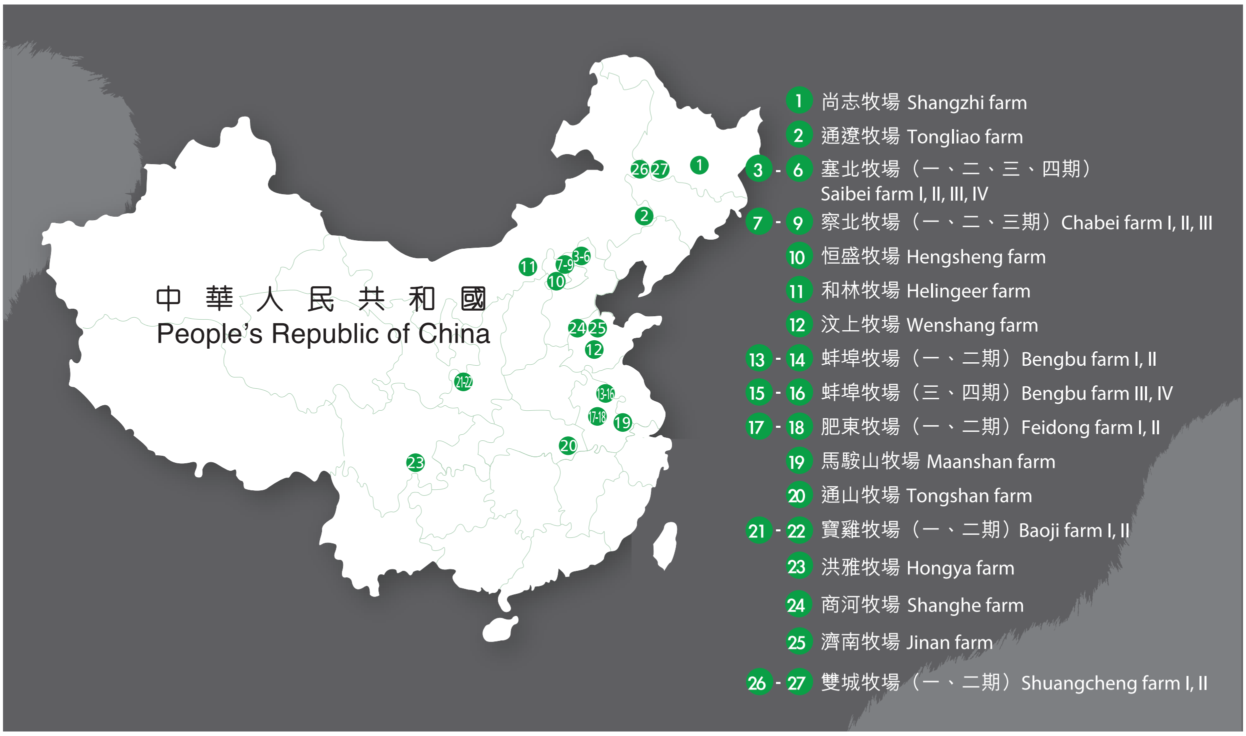
BUSINESS REVIEW

The Group is primarily engaged in two business segments, including: (i) dairy farming business, under which we mainly produce and sell raw milk to customers for processing into dairy products; and (ii) liquid milk products business under its own brands, under which we mainly produce and sell liquid milk products. Affected by the decrease of raw milk price, during the year ended 31 December 2015, the Group recorded a total revenue of RMB4,826.3 million, a decrease of 3.99% over the same period last year. Even though the overall sales of dairy products in China remained weak during 2015, the Group's sales of milk products under its own brands recorded another high, amounting to RMB1,501.9 million, representing a significant increase of 80.37%, attributable to rising demand for high-end dairy products in the relatively safe Chinese market.

The Group will maintain its strict standard of high quality raw milk, seeking to win trust and support from its consumers with products of "purity, genuineness, freshness and vitality", together with "integration", its cutting-edge mode of innovation. As the main force focusing on the development of downstream business, the "Two Hours" pasteurized milk and the soon-to-be launched room-temperature yogurt will bring more opportunities to modern dairy farming enterprises which are undergoing transformation for a complete industrial chain, driving by increasingly improved sales network.

We are the largest dairy farming company and the largest producer of raw milk in China in terms of herd size. As of 31 December 2015, the Group has operated 27 livestock farms in China with 225,542 dairy cows in total. As a nationwide farm, we are endowed with unique geographical advantages, such as our farms are close to various downstream plants processing dairy products and feed supply sources. For the year ended 31 December 2015, the dairy farming business of the Group recorded an external revenue of RMB3,324.5 million, representing 68.88% of the total revenue of the Group. Total sales volume of raw milk amounted to 752,314 tons. Raw milk with premium quality sold by the Group to external downstream customers was used in the production of premium dairy products, sales of which have kept an increase of more than double-digits in China for recent years.

Our Farms



Our financial results are directly affected by the milk yield per cow. In general, as milk yield per cow improves, the cash costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 9.1 tons per cow for the year ended 31 December 2015, representing an increase of 2.25% from 8.9 tons for the corresponding period last year.

The Cash EBITDA[(1)] decreased by 15.02% from RMB1,797.8 million for the corresponding period last year to RMB1,527.7 million for the year ended 31 December 2015. Affected by the decrease of raw milk price, Cash EBITDA margin decreased from 35.76% for the corresponding period last year to 31.65% for the year ended 31 December 2015.

On the backdrop of challenges ahead in respect of the current transformation of dairy farming industry in China, the Group, as a pioneer in domestic large-scale farming and who initiated the cutting-edge business mode of "integration of forage grass planting, dairy farming and milk processing", has won a widespread recognition both at home and abroad. At the Monde Selection 2015 held by the International Institute for Quality Selections in Portugal on 1 June 2015, the Company was once again, on behalf of Chinese dairy industry, awarded the gold prize in food category, which has been regarded as a "Nobel Prize in food quality", and also hit the international record of additive-free pure milk winning gold prize of Monde Selection. As an independent international organization jointly established by the European Community (EC) and the Ministry of Foreign Affairs and Trade of Belgium (比利時經貿部) in 1961, the International Institute for Quality Selections is currently one of the oldest, the most representative and the most authoritative food quality testing organization in the world. Its prizes are designed for the purpose of monitoring food quality. The meeting awards prizes after conducting strict reviews and inspections of the safety, taste, packaging and raw materials of food products. This gold prize further proves that the Group's own branded milk has won recognition for its high quality in "purity, genuineness, freshness and vitality" and its cutting-edge business mode of "integration of forage grass planting, dairy farming and milk processing" from authorities across the world.

Note:

(1) It represents earnings before interest, tax, depreciation, amortisation before loss arising from changes in fair values less costs to sell of dairy cows, fair value (gains) losses from financial liabilities at FVTPL, (gain) loss on disposal of property, plant and equipment, foreign exchange (gain) loss and impairment loss of property, plant and equipment and other major non-cash (gains) losses.

On 9 June 2015, the Group cooperated with the dairy innovation team of the Chinese Academy of Agricultural Sciences to jointly launch "quality milk project" (優質乳工程), and signed a cooperation agreement. The project is principally committed to research and development to reduce the heat damage of sterilized milk and further reduce the content of furosine in milk, subject to eligibility of various indicators such as microorganisms in the products. Furosine is one of a series of outcomes generated by reaction between lactoprotein and lactose at high temperature, which is an important indicator to determine the quality of the finished liquid milk. Wang Jiaqi, being a researcher of the Chinese Academy of Agricultural Sciences, states that the "quality milk project" is a core link in response to weak consumer confidence and imbalanced interest distribution, and also a breakthrough point for national dairy management system innovation.

The first summit of "D20 Enterprise Alliance of China's Dairy Industry" was held on 18 August 2015. Themed "Revitalization of China's Dairy Industry by Safe and High-quality Development" (安全優質發展，振興中國奶業), the summit invited the top 20 companies in the domestic dairy industry to deeply report and communicate in respect of quality and safety in the milk industry and industrial transformation, and announced the formation of alliance under the guidance of leaders at all levels. Thus, "D20 Enterprise Alliance of China's Dairy Industry", which represents the highest standard alliance in the domestic dairy industry, was formally established. Meanwhile, the alliance issued "Beijing Declaration" in its name to make solemn commitment, highlighting its determination to revitalize China's dairy industry. GAO Lina, being the Chief Executive Officer of the Company and one of the six speakers, made a statement at the summit on behalf of China's dairy industry. Mr. Wang Yang, Vice Premier of the State Council, attended the meeting and stated to make the D20 summit enterprise alliance become the conscience standard of China's dairy industry.

In November 2015, the Company won the "Best investor relations" (最佳投資者關係獎) during IR Magazine (the Globe) Awards & Conference — Greater China 2015. The awards have been one of the most anticipated event in investor relations industry in Asia, aiming to honor the individual companies from Mainland China, Hong Kong and Taiwan doing the best job of communicating with investors and analysts.

On 10 January 2016, the Group and Mr. HAN Chunlin, deputy president of the Group, were awarded as an outstanding team and an outstanding individual in Achievement Innovation of Chinese Agricultural Science (中華農業科技成果優秀創新) by the Ministry of Agriculture respectively, as a result of the great achievement made by the nutrition and feeds team of the Group under the leadership of Mr. HAN Chunlin. Due to sustained efforts in innovation, the physical and chemical index of milk has been maintained at a high level, even better than European Union and Japanese standards. Such awards granted by the Ministry of Agriculture aim to recognize the outstanding contribution made by such award-winner working for progress in Chinese agricultural science and technology, and also demonstrate the Group has been widely recognized in product and technology research & development by professional authorities.

FINANCIAL HIGHLIGHTS

Herd size

	As at	
	31 December 2015 Head	31 December 2014 Head
Dairy cows		
Milkable cows	114,751	107,578
Heifers and calves	110,791	93,929
Total dairy cows	225,542	201,507

As at 31 December 2015, we are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. As at 31 December 2015, the current herd size is 225,542 compared to 201,507 as at 31 December 2014.

Milk Yield

Our results are directly affected by our milk yield per cow. In general, as milk yield per cow improves, the cash costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. We have achieved an average annual milk yield of 9.1 tons per cow for the year ended 31 December 2015, representing an increase of 2.25% from 8.9 tons for last corresponding period. Such results are attributable to effective herd management, genetic improvement of our cows through generations and increase in number of cows reaching the peak stage of lactation.

FINANCIAL OVERVIEW

Revenue

The following table sets out the breakdown of our consolidated revenue by our two operating segments for the years ended 31 December 2015 and 2014, respectively:

	For the year ended 31 December 2015			For the year ended 31 December 2014		
	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000	External Sales RMB'000	Internal Supplies RMB'000	Subtotal RMB'000
Sales of raw milk business	3,324,466	731,447	4,055,913	4,194,020	478,131	4,672,151
Sales of liquid milk products business	1,501,875	—	1,501,875	832,686	—	832,686
Consolidated revenue	4,826,341	731,447	5,557,788	5,026,706	478,131	5,504,837

Our revenue decreased by 3.99% from RMB5,026.7million for the year ended 31 December 2014 to RMB4,826.3 million for the year ended 31 December 2015 primarily due to the lower selling price of raw milk.

- *Dairy farming business*

  Revenue from our dairy farming business decreased primarily due to decrease in average selling price of our quality raw milk as a result of the decrease in selling price of raw milk in the PRC.

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

	For the year ended 31 December 2015			For the year ended 31 December 2014		
	Sales amount RMB'000	Sales volume Ton	ASP RMB/Ton	Sales amount RMB'000	Sales volume Ton	ASP RMB/Ton
Raw Milk						
External sales	3,324,466	752,314	4,419	4,194,020	837,232	5,009
Internal supplies	731,447	171,778	4,258	478,131	94,102	5,081
Subtotal	4,055,913	924,092	4,389	4,672,151	931,334	5,017

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

- *Liquid milk products business*

Revenue from our liquid milk products business increased by 80.37% from RMB832.7 million for the year ended 31 December 2014 to RMB1,501.9 million for the year ended 31 December 2015, which accounted for 16.57% and 31.12% of our consolidated revenue for the years ended 31 December 2014 and 2015, respectively. The Group's losses caused by declining milk price were effectively set off by further improvement of the percentage of the Company's branded milk, which also enhanced the Group's profitability. With the expansion of the Group's sales channels, the relevant percentage will be further enhanced.

The strong growth of our liquid milk products business was a result of strong market demand for our liquid milk products. The total volume of liquid milk sold increased by 88.94% from 87,096 tons for the year ended 31 December 2014 to 164,559 tons for the year ended 31 December 2015.

COST OF SALES BEFORE BIOLOGICAL FAIR VALUE ADJUSTMENT

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

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

	For the year ended 31 December 2015		For the year ended 31 December 2014	
	RMB'000	%	RMB'000	%
Feeds cost	2,133,566	77.06%	2,298,893	78.22%
Labor cost	151,709	5.48%	151,007	5.14%
Utilities	63,862	2.31%	70,095	2.39%
Depreciation	177,839	6.42%	169,806	5.78%
Other costs of farms	241,801	8.73%	249,075	8.47%
Subtotal of cost of sales before biological fair value adjustment of dairy farming business	2,768,777	100%	2,938,876	100%
Inter-segment cost	(516,681)		(312,594)	
Cost of external sales before biological fair value adjustment of raw milk business	2,252,096		2,626,282	

With the decrease in prices of feeds, total feeds cost (before eliminating cost of sales in relation to internal supply of raw milk) for the year ended 31 December 2015 decreased by 7.19% to RMB2,133.6 million from RMB2,298.9 million last year.

Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 5.68% from RMB2,973 last year to RMB2,804 for the year ended 31 December 2015, mainly due to an increase in annual milk yield per cow and a decrease in price of feeds.

Cost of sales before biological fair value adjustment of liquid milk products business

	For the year ended 31 December 2015 RMB'000	%	For the year ended 31 December 2014 RMB'000	%
Raw materials	985,966	87.53%	617,050	88.66%
Labor cost	33,375	2.96%	20,252	2.91%
Depreciation	45,797	4.07%	24,772	3.56%
Utilities	23,796	2.11%	13,127	1.89%
Other processing cost	37,510	3.33%	20,798	2.98%
Subtotal of cost of sales before biological fair value adjustment of liquid milk products business	1,126,444	100%	695,999	100%
Inter-segment cost	(211,242)		(160,936)	
Cost of external sales before biological fair value adjustment of liquid milk products business	915,202		535,063	

With the increase in sales volume of liquid milk, raw material cost for the year ended 31 December 2015 (before eliminating cost of sales in relation to internal supply of raw milk) increased by 59.79% from RMB617.1 million last year to RMB986.0 million. Sales of liquid milk increased by 80.37% to RMB1,501.9 million for the year ended 31 December 2015 from RMB832.7 million last year.

Cash cost (excluding depreciation) per ton of liquid milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 14.79% from RMB7,707 for the same period last year to RMB6,567 for the year ended 31 December 2015. It was mainly due to a decrease of internal prices of raw milk and a 7.50% decrease of other cash costs (including labor cost, utilities and other processing cost).

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin before biological fair value adjustment by our two operating segments for the years indicated:

	For the year ended 31 December 2015		For the year ended 31 December 2014	
	Gross Profit RMB'000	Gross profit Margin	Gross Profit RMB'000	Gross profit Margin
Dairy farming business				
Before elimination	1,287,136	31.73%	1,733,275	37.10%
After elimination	1,072,370	32.26%	1,567,738	37.38%
Liquid milk products business				
Before elimination	375,431	25.00%	136,687	16.42%
After elimination	586,673	39.06%	297,623	35.74%

- *Dairy farming business*

  Gross profit of our dairy farming business before biological fair value adjustment (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 25.74% from RMB1,733.3 million for the year ended 31 December 2014 to RMB1,287.1 million for the year ended 31 December 2015. The decrease above was primarily due to the decrease in selling price of raw milk.

  Gross profit margin of our dairy farming business before biological fair value adjustment (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 5.37% from 37.10% for the year ended 31 December 2014 to 31.73% for the year ended 31 December 2015, primarily due to the decrease in average selling price of raw milk.

- *Liquid milk products business*

  Gross profit of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased by 174.66% from RMB136.7 million for the year ended 31 December 2014 to RMB375.4 million for the year ended 31 December 2015. The increase above was primarily due to the increase in sales volume of our branded milk products.

  Gross profit margin of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased from 16.42% for the year ended 31 December 2014 to 25.00% for the year ended 31 December 2015, mainly due to the decrease in selling price of raw milk and the enhanced effects of economies of scale.

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

As at 31 December 2015, the biological assets of the Group were valued at RMB7,590.9 million (31 December 2014: RMB6,530.8 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the fair value of biological assets were RMB474.9 million for the year ended 31 December 2015 (for the year ended 31 December 2014: losses arising from changes in fair value less costs to sell dairy cows were RMB329.1 million). This was mainly attributable to the fact that after milk production by milkable cows, along with an extended lactation period, impairment will occur as less cash flow will be generated in the future, and a decrease in the market selling price of raw milk.

Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest

Our gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 27.80% to RMB1,203.0 million for the year ended 31 December 2015 from RMB1,666.2 million for the year ended 31 December 2014, mainly due to the decrease in average selling price of raw milk.

IFRSs requires that raw milk harvested is initially measured at fair value less costs to sell and the difference between the fair value less costs to sell and the actual costs incurred is charged to profit or loss.

Other income

For the year ended 31 December 2015, other income amounted to RMB32.1 million (for the year ended 31 December 2014: RMB40.2 million). Other income mainly consisted of government grants and interest income, among which, interest income for the year ended 31 December 2015 amounted to RMB12.8 million (for the year ended 31 December 2014: RMB22.1 million), and government grants for the year ended 31 December 2015 amounted to RMB19.0 million (for the year ended 31 December 2014: RMB14.0 million). Government grants mainly consisted of subsidies for agricultural projects.

Operating expenses

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Selling and distribution costs	194,542	111,909
Administrative expenses	243,566	214,561
Total operating expenses	438,108	326,470

Our operating expenses increased from RMB326.5 million for the year ended 31 December 2014 to RMB438.1 million for the year ended 31 December 2015. Selling and distribution costs mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among which, transportation costs increased from RMB99.3 million for the year ended 31 December 2014 to RMB143.2 million for the year ended 31 December 2015, mainly due to increase in sales volume of liquid milk products.

Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, etc., the increase of which for the year is mainly due to the increase of management personnels as a result of enlargement of brand milk scale.

Equity-based share option expenses included in the administrative expenses for the year decreased from RMB31.9 million for the same period last year to RMB30.5 million for the year ended 31 December 2015.

Other Gains and Losses

Losses arising from other gains and losses amounted to RMB107.1 million (for the year ended 31 December 2014: losses arising from other gains and losses amounted to RMB209.6 million). It mainly comprised of the net losses of the fair value of the financial liabilities at FVTPL as well as the net foreign exchanges losses.

The net losses of the fair value of the financial liabilities at FVTPL decreased from RMB105.5 million for the corresponding period last year to RMB50.0 million for the year ended 31 December 2015. The financial liabilities at FVTPL arose as a result of the put options granted to Success Dairy II Limited by the Company and the call options granted to the Company by Success Dairy II Limited pursuant to the agreement entered into by the Company and Success Dairy II Limited for the establishment of two joint ventures on 23 September 2013, and after the acquisition (the "Acquisition") of the two joint ventures by the Company on 20 July 2015, the two options was de-recognized and instead another financial instrument was set up between the Company and Success Dairy II Limited.

The net amount of foreign exchange losses increased from RMB29.0 million for the corresponding year last year to RMB92.0 million for the year ended 31 December 2015. It is mainly attributable to the fact that as a result of the RMB depreciation, the expected amount of RMB required for the repayment of the borrowings denominated in United States dollar increases.

In addition, as a result of the Acquisition, the Group recorded an amount of RMB121.3 million, being the gain arising on re-measurement of joint ventures, and an amount of RMB94.4 million, being the impairment loss of goodwill primarily due to the carrying amount exceeded recoverable amount of the cash-generating unit associated with the goodwill resulting from the drop in the price of raw milk.

Finance costs

Finance costs increased from RMB265.6 million last year to RMB315.1 million for the year ended 31 December 2015. This was mainly attributable to the increase in bank loans.

Profit attributable to the owners of the Company

Taking into account of all the above factors, profit attributable to the owners of the Company was RMB321.3 million for the year ended 31 December 2015. This represents a decrease of 56.30% from RMB735.3 million for the same period last year.

Basic earnings per share were approximately RMB6.37 cents (for the year ended 31 December 2014: RMB15.23 cents).

Liquidity and Financial Resources

For the year ended 31 December 2015, the Group's net cash generated from operating activities amounted to RMB1,441.8 million, as compared to RMB1,580.9 million for the same period last year.

As at 31 December 2015, the Group's available and unutilised banking facilities amounted to approximately RMB6,753.4 million. The Group's management is of the opinion that the working capital available to the Group is sufficient for its present needs.

The table below sets forth our short-term and long-term bank borrowings as at 31 December 2015.

	As at	
	31 December 2015 RMB'000	31 December 2014 RMB'000
Bank borrowings	5,647,251	4,687,848
Unsecured borrowings	1,796,381	885,818
Secured borrowings	3,165,870	3,335,030
Guaranteed borrowings	685,000	467,000
	5,647,251	4,687,848
Carrying amount repayable:		
Within one year	4,825,521	1,858,398
Between one and two years	749,230	792,538
Between two and five years	72,500	2,036,912
	5,647,251	4,687,848
Less: amounts due within one year shown under current liabilities	4,825,521	1,858,398
	821,730	2,829,450

As at 31 December 2015, the gearing ratio, being the ratio of total borrowings (including short-term debenture and medium term notes) to total assets, was 35.68% (31 December 2014: 40.99%). The annual effective interest rate of banks and other borrowings for the year ended 31 December 2015 varied from 0.86% to 7.05% (for the year ended 31 December 2014: 1.73% to 7.05%). As at 31 December 2015, all borrowings were denominated in Renminbi and United States Dollar.

BUSINESS STRATEGIES

Continue to enhance sales of branded milk

We will continue to expand our sales regions and widen the sales channels of our branded milk, which in turn will increase the Group's profitability as a whole. The Company has gradually expanded the sales of branded milk into most parts of the PRC in 2014. As more recognition of our product quality received from our customers and further expansion of our sales network, the Company believes it will record even higher revenue in the future. We actively promote our sales of pasteurized milk. Currently our distribution channels in Beijing have expanded from home delivery to supermarkets and have generated desirable performance. In the near future we will further expand our sales region by gradually expanding into northern China, eastern China and southern China. In addition, the Group will soon launch the selling of high-end room-temperature yogurt in 2016, which would further enrich the Group's product portfolio.

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

We have been improving our operations since the commencement of business, and this has resulted in rising average annual milk yield. Currently, our average annual milk yield per milkable cow is among the highest of all dairy companies in the PRC. We believe that the yield and raw milk quality of our milkable cows will continue to rise as we improve the genetic mix of our herd across generations, increase the ratio of milkable cows to non-milkable cows among our herd and optimize the mix of feed. In addition, we will remain committed to research and development to reduce the heat damage of room-temperature milk and further reduce the content of furosine in milk, subject to eligibility of various indicators such as microorganisms in the products.

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

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

Refine herd mix

We keep improving the level of our refined management as the herd size of the Company grows. Starting from this year, the Company will gradually establish its own core herd and strive to improve the profitability per cow.

GROUP STRUCTURE

During the year under review, apart from the Acquisition, there has been no material change in the structure of the Group.

CAPITAL STRUCTURE

During the year, the Company issued and allotted a total of 477,429,132 ordinary shares of the Company on 20 July 2015 as the consideration for the Acquisition. After the issuance and allotment, the number of issued shares of the Company was increased from 4,827,338,751 to 5,304,767,883.

PLEDGE OF ASSETS

As at 31 December 2015, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.7 million (31 December 2014: RMB9.9 million), RMB50.0 million (31 December 2014: RMB54.6 million) and RMB2,769.7 million (31 December 2014: RMB3,316.2 million) and all of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the "Shares") and all dividends, interest and other monies payable in respect of the shares and all other rights, benefits and proceeds in respect of or derived from the Shares (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) of Advanced Dairy Company (Luxemburg) Limited respectively, were pledged as security for the Group's borrowings.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2015, the Group has capital commitments of RMB151.5 million related to the acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 31 December 2015.

FINANCIAL MANAGEMENT POLICIES

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

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 5,277 employees (31 December 2014: 5,417) in China and Hong Kong as at 31 December 2015. Total staff costs for the year ended 31 December 2015 (including staff compensation capitalised to biological assets) were approximately RMB374.8 million (for the year ended 31 December 2014: RMB360.8 million).

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

EXECUTIVE DIRECTORS

Ms. GAO Lina (高麗娜), aged 59, is an executive Director, Chief Executive Officer and Deputy Chairman of the Company. Ms. Gao is one of the founders of the Company and its subsidiaries (together the "Group") and is currently a director of Modern Farming (Group) Co., Ltd ("Modern Farm") and 7 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 Taian Municipal Taian 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 the Group and was appointed as an executive Director of the Company on 14 November 2008.

Ms. Gao was awarded "Taian City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao was awarded the "Scientific and Technological Progress Award (Class 1 of Promotion Category) (科學技術進步獎推廣類一等獎)" by the Ministry of Education of the PRC (中國教育部) in January 2013, and Ms. Gao was granted the honour of Top 10 Business Leaders in the PRC Economy at the 2014 China Economic Summit Forum & The 12th Annual Meeting of China Economic Characters (2014年中國經濟高峰論壇暨第十二屆中國經濟人物年會). Ms. Gao completed an undergraduate course at Taian 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., a company owning 221,581,733 shares of the Company.

Mr. HAN Chunlin (韓春林), aged 43, is an executive Director and the Chief Operation Officer of the Company. Mr. Han is also a director of Modern Farm and Helingeer Modern Farming Co., Ltd.. Mr. Han has more than 15 years of experience in food and beverage industry in the PRC. 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, Mr. Han served at the Liquid Milk Department of Inner Mongolia Mengniu Dairy (Group) Co., Ltd ("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. SUN Yugang (孫玉剛), aged 35, is an executive Director and the Chief Financial Officer of the Company. Mr. Sun is also a supervisor of 14 other subsidiaries of the Company, a director of Modern Farm and 3 other subsidiaries of the Company. Prior to joining the Company in March 2007, Mr. Sun was a manager of the Finance and Investment Department of Mengniu (Inner Mongolia) from May 2002 to March 2007. Mr. Sun graduated from Inner Mongolia Finance and Economics College in December 2003.

NON-EXECUTIVE DIRECTORS

Mr. YU Xubo (于旭波), aged 50, is a non-executive Director and Chairman of the Company. Mr. Yu is currently the president of COFCO Corporation, the president and a director of COFCO (Hong Kong) Limited and a director of both COFCO Meat Investment Company Limited and COFCO Coca-Cola Beverages Limited. Mr. Yu is currently a non-executive director of China Agri-Industries Holdings Limited (stock code: 606) and formerly a non-executive director of China Foods Limited (stock code: 506) until 15 February 2016, both companies are listed in Hong Kong. Mr. Yu also currently serves as a non-executive director and formerly as the vice-chairman of China Mengniu Dairy Company Limited ("Mengniu") (stock code: 2319), a company listed in Hong Kong and a substantial shareholder of the Company, until 19 February 2016. Mr. Yu was appointed, with effect from 24 June 2015, as a non-executive director of Noble Group Limited, which is listed in Singapore. Mr. Yu holds a Bachelor's degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration degree from China Europe International Business School.

Mr. WOLHARDT Julian Juul, aged 42, is a non-executive Director of the Company and a director of Modern Farm. Mr. Wolhardt was the Chairman of the Company from 17 September 2012 to 28 June 2013. Mr. Wolhardt is currently a partner of KKR Asia Limited focusing on private equity transactions in the Greater China region. Mr. Wolhardt 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 Mr. Wolhardt 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 the PRC. 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 of Hong Kong Limited (the "Stock Exchange"). Mr. Wolhardt is also an independent non-executive director of Mengniu and a non-executive director of Novo Holdco Limited. Mr. Wolhardt is an independent non-executive director of China Cord Blood Corporation, a company listed on New York Stock Exchange (Stock code: CO). Mr. Wolhardt is a Certified Public Accountant and Certified Management Accountant. Mr. Wolhardt received a bachelor degree in accounting from the University of Illinois (Urbana-Champaign) in 1995. Mr. Wolhardt joined the 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 the Group.

Mr. HUI Chi Kin Max (許志堅), aged 42, is a non-executive Director of the Company and a director of Modern Farm. Mr. Hui is currently the chief executive officer and a managing director of CDH Investment Advisory Private Limited. From 1999 to 2003, Mr. Hui 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 degree of engineering from Princeton University in 1999. He joined the 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 the Group.

Mr. WU Jingshui (吳景水), aged 49, is a non-executive Director of the Company. Mr. Wu served as executive director of Mengniu, from March 2010 to March 2014, and also served as chief financial officer of Mengniu from March 2010 to August 2013. Mr. Wu was appointed vice president (in charge of financial issues from April 2008 to May 2014) of Mengniu (Inner Mongolia) in April 2008, and before that served as the financial general manager of the liquid milk division and the chief financial officer of Mengniu (Inner Mongolia). In 2010, Mr. Wu was honoured as a "Labour Model (Progressive Staff) of Hohhot." Mr. Wu is formerly a non-executive director of Yashili International Holdings Ltd. (stock code: 1230) until 29 January 2016 and China Shengmu Organic Milk Limited (stock code: 1432) until 19 February 2016, companies listed on the Stock Exchange. Mr. Wu graduated from Inner Mongolia Light Industry Institute majoring in industrial enterprise financial accounting. Mr. Wu also holds a master degree from Inner Mongolia Agricultural University and a Master of Business Administration degree from China Europe International Business School. Mr. Wu also holds a PRC senior accountant qualification and has extensive experience in financial management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Shengli (李勝利), aged 50, is an independent non-executive Director of the Company. Mr. Li graduated from Shihezi Agricultural College (石河子農學院) with a bachelor 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, Mr. Li has been with China Agricultural University, working at various times as an assistant professor and professor. Mr. Li is currently vice-director (Animal Nutrition) of the State Key Laboratories, director of the Sino-US Dairy Research Center of China Agricultural University, director of the Sino-Dutch Dairy Development Center, chief scientist in national dairy products industry technology system (國家奶牛產業技術體系), a specialist 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). Mr, Li is a specialist to 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)) and the chairman of China Institute of Animal Husbandry and Veterinary Cattle Chapter (中國畜牧獸醫學會養牛分會). In 2007, Mr. Li obtained a patent on Rubeili (乳倍利), a type of high-energy and high-protein supplementary feed for dairy cows. Mr. 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 and received the first prize for advancement in science and technology awarded by the Education Department (教育部科技進步一等獎) in 2012 and the first prize for Chinese Agricultural Science awarded by the Ministry of Agriculture (農業部中華農業科技獎一等獎) in 2013 and the second prize of National Scientific and Technological Progress Award (國家科技進步二等獎) in 2014. Mr. Li was appointed as an independent director of Modern Farm in October 2006 and resigned in June 2009. Mr Li 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.

Mr. LEE Kong Wai Conway (李港衛), aged 61, is an independent non-executive Director of the Company. 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 West China Cement Limited (stock code: 2233), Chaowei Power Holdings Limited (stock code: 951), GOME Electrical Appliances Holding Limited (stock code: 493), Tibet 5100 Water Resources Holdings Ltd (stock code: 1115), NVC Lighting Holding Limited (stock code: 2222), Yashili International Holdings Limited (stock code: 1230), GSL New Energy Holdings Limited (stock code: 451), WH Group Limited (stock code: 288), China Rundong Auto Group Limited (stock code: 1365). 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 was a non-executive director and the deputy chairman of Merry Garden Holdings Limited, a company listed on the Stock Exchange (stock code: 1237) until 30 September 2015. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institutes of Chartered Accountants in Australia and New Zealand, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Since 2008, Mr. Lee has been a member of Chinese People's Political Consultative Conference of Hunan Province.

Mr. KANG Yan (康龑), aged 40, is an independent non-executive Director of the Company. Mr. Kang graduated from the Renmin University of China in 1998. Mr. Kang is a qualified practicing attorney in China and is currently a partner of Fangda Partners. Mr. Kang joined Beijing Commerce & Finance Law Offices in 2002 and was promoted as a partner in 2008. Mr. Kang has over 10 years of experience in legal corporate advisory on mergers and acquisitions and initial public offerings.

Mr. ZOU Fei（鄒飛）, aged 42, is an independent non-executive Director of the Company. Mr. Zou previously served in various positions such as a fund manager of American Century Investments, a managing director of special investment department of China Investment Corporation, the chairman of the board of Chinese Finance Association of America and the board observer of Noble Group in Singapore. Mr. Zou is currently serving in positions such as the president of Synergy Capital and independent director of Delta Dunia Makmur TBK PT in Indonesia, senior consultant of Louis Dreyfus Commodities in France. Mr. Zou is currently an independent non-executive director of BYD Company Limited (a company listed on the Stock Exchange (stock code: 1211) and the Shenzhen Stock Exchange (stock code: 002594), Mr. Zou holds a master degree in economics and a doctor degree in finance from University of Texas of the United States of America. Mr. Zou is also a chartered financial analyst, a member of Chinese Finance Association of America and one of the experts listed in "Thousand Talents Program" launched by the PRC.

SENIOR MANAGEMENT

Mr. CHEN Hongbo（陳紅波）, aged 38, is the deputy president of the Group. Mr. Chen joined the Group in September 2008 and has been responsible for equipment operation ever since. Prior to joining the Group, Mr. Chen was with Mengniu from May 2002 to September 2008 during which period Mr. Chen 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 worked for Inner Mongolia Yili Industrial Group Co., Ltd. as an equipment supervisor from July 1996 to May 2002. Mr. Chen obtained a master degree in light industry technology and engineering from Hubei University of Technology (湖北工業大學) in September 2010.

Mr. Hai Tu (海濤), aged 46, is the assistant to the Chief Executive Officer of the Group. Mr. Hai joined the Group in October 2008 and has since been responsible for the planning and management of the farm. Prior to joining the Group, Mr. Hai worked as a deputy general manager for Shenzhen True Color Industrial Co., Ltd.（深圳色彩實業有限公司）from August 2001 to September 2008. Prior to that, Mr. Hai was the customer representative for the Beijing region of Shanghai Sangon Biological Engineering Technology & Services Company（上海生工生物工程技術服務公司）between September 1998 and June 2001. Mr. Hai served as a member of the Epidemic Division of the Daxing Anling Hygiene and Prevention Quarantine of Disease from August 1994 to May 1998. Mr. Hai graduated from Inner Mongolia University in July 1994, majoring in biology.

Mr. WANG Chun Jiang (王春江), aged 33, is the assistant to Chief Executive Officer of the Group. Mr. Wang joined the Group in May 2009 and has since been responsible for cattle breeding. Prior to joining the Group, Mr. Wang worked for Inner Mongolia Mengniu AustAsian Model Dairy Farm Co., Ltd. from August 2004 to May 2009, and has served as head of farms since March 2008. Mr. Wang graduated from Inner Mongolia Agricultural University in July 2004, and has graduated with a postgraduate course for student under employment at Inner Mongolia Agricultural University in December 2013.

The Directors of China Modern Dairy Holdings Ltd. (the "Company") and the management of the Company and its subsidiaries (collectively the "Group") are committed to upholding a high standard of corporate governance to safeguard the interests of the Shareholders and the Company as a whole.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has, throughout the year ended 31 December 2015 and up to the date of this report, complied with the code provisions set out in the CG Code except for the deviation from code provisions A.6.7.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. One executive Director, three non-executive Directors and one independent non-executive Director were not able to attend the annual general meeting of the Company held on 5 June 2015 due to other business engagements.

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 Executive 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.

Composition

During the year under review and up to the date of this report, there was no change in the structure of the Board. The Board, which currently comprises eleven Directors, is responsible for supervising the management of the Group. It currently comprises three executive Directors, four non-executive Directors and four independent non-executive Directors. The biographical details of the Board members are set out on pages 21 to 24 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 D.1.4 of the CG Code. A list containing the names of all Directors and their roles and functions was published on the respective websites of the Stock Exchange of Hong Kong Limited and the Company pursuant to code provision A.3.2 of the CG 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.

To the best knowledge to the Directors, the Board is not aware of any financial, business, family or other material/relevant relationships among the Board members.

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 (“Articles of Association”).

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. 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 four and represents at least one-third of the Board as required under Rule 3.10(1) and 3.10A of the Listing Rules.

Appointment and Re-election of Directors

In accordance with the CG Code and the 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. The Audit Committee is responsible for performing the corporate governance duties set out in the terms of reference in D.3.1 of the CG 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. YU Xubo 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 monthly basis in order to enable the Directors to assess the Group's performance, position and prospects in sufficient details.

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 31 December 2015, the Board has held five 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:

	Number of Board meetings, Board Committee meetings and General meetings attended/held					
Name of Director	Annual General Meeting*	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategy and Development Committee
Executive Directors						
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	1/1	5/5	N/A	N/A	N/A	1/1
Mr. HAN Chunlin (Chief Operation Officer)	0/1	5/5	N/A	N/A	N/A	N/A
Mr. SUN Yugang (Chief Financial Officer)	1/1	5/5	N/A	N/A	N/A	N/A
Non-executive Directors						
Mr. YU Xubo (Chairman)	1/1	5/5	N/A	N/A	N/A	N/A
Mr. WOLHARDT Julian Juul	0/1	5/5	N/A	1/1	N/A	1/1
Mr. HUI Chi Kin, Max	0/1	3/5	2/2	N/A	N/A	N/A
Mr. WU Jingshui	0/1	5/5	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. LI Shengli	1/1	5/5	N/A	1/1	1/1	1/1
Mr. LEE Kong Wai, Conway	1/1	5/5	2/2	N/A	1/1	N/A
Mr. KANG Yan	1/1	5/5	N/A	N/A	1/1	N/A
Mr. ZOU Fei	0/1	5/5	2/2	1/1	N/A	1/1

* Apart from the annual general meeting, no other general meetings were held by the Company during the year under review.

The 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. Directors 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. In addition, during the year under review, the Chairman met with the non-executive Directors and the independent non-executive Directors without the presence of other executive Directors to exchange views on matters concerning the business development, management and corporate governance of the Group.

Every Director is entitled to access the advice and services of the Company Secretary with a view to ensuring 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' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the code of conduct regarding securities transactions by Directors adopted by the Company.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG 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. The Group continuously updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. A summary of training received by the Directors during the year ended to 31 December 2015 according to the records provided by the Directors is as follows:

Directors	Type of trainings
Executive Directors	
Ms. GAO Lina (Deputy Chairman and Chief Executive Officer)	A, B
Mr. HAN Chunlin (Chief Operation Officer)	A, B
Mr. SUN Yugang (Chief Financial Officer)	A, B
Non-executive Directors	
Mr. YU Xubo (Chairman)	A, B
Mr. WOLHARDT Julian Juul	A, B
Mr. HUI Chi Kin, Max	A, B
Mr. WU Jingshui (appointed on 26 June 2014)	A, B
Independent Non-executive Directors	
Mr. LI Shengli	A, B
Mr. LEE Kong Wai, Conway	A, B, C
Mr. KANG Yan	A, B
Mr. ZOU Fei	A, B

A: Reading materials, journals and updates relating to the business and industry development

B: Reading materials relevant to the latest development of the Listing Rules and other applicable regulatory requirement

C: Attending seminars and/or conferences and/or forums

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the members of the senior management by band for the year ended 31 December 2015 is set out below:

	Number of members	
	For the year ended 31 December 2015	For the year ended 31 December 2014
Emolument bands		
Nil to HK$1,000,000	1	—
HK$1,000,001 to HK$2,000,000	1	2
HK$2,000,001 to HK$3,000,000	1	—
	3	2

Further particulars regarding Directors' emoluments and the five highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 10 and 11 to the financial statements.

THE BOARD'S DIVERSITY POLICY

The Board has adopted diversity policy, which sets out the approach to diversity of Board members. In determining the Board's composition, the Company considers a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board's diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

As at date of this report, the Board comprises 11 directors. One of them is a woman. Four of them are independent non-executive directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, nationality, professional background and skills.

BOARD COMMITTEES

The Board has established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Strategy and Development Committee with the defined terms of reference in line with the CG Code. The terms of reference are published on the respective websites of the Stock Exchange of Hong Kong Limited and the Company. 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 work performed are as follows:

Remuneration Committee

The Chairman of the Remuneration Committee is Mr. LI Shengli and other members are Mr. WOLHARDT Julian Juul and Mr. ZOU Fei. The Remuneration Committee is chaired by an independent non-executive Director and the majority being independent non-executive Directors of the Company.

The primary functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remuneration for all the Directors and senior management of the Group, the approval of the remuneration for all the executive Directors and the senior management and the recommendation to the Board for the remuneration for the non-executive Directors. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management of the Group is based on the skills, knowledge, responsibilities and involvement in the Company's and the Group'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 independent 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 Remuneration Committee has been provided with sufficient resources to discharge its duties.

During the year ended 31 December 2015, the Remuneration Committee reviewed, discussed and approved the remuneration for the executive Directors and senior management of the Group, reviewed the remuneration policy and made recommendation to the Board for the remuneration for the non-executive Directors 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 Mr. ZOU Fei, 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 Audit Committee has been provided with sufficient resources to discharge its duties.

At the meeting with the management and the external auditors on 21 March 2016, the Audit Committee reviewed the consolidated financial statements and annual report before submission to the Board for approval. The Audit Committee had also reviewed the Group's accounting policies and practices, Listing Rules and statutory compliance, internal controls and financial reporting matters of the Group.

Nomination Committee

The Chairman of Nomination Committee is Mr. KANG Yan and other members are Mr. 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 Nomination Committee has been provided with sufficient resources to discharge its duties.

During the year ended 31 December 2015, 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 non-executive Directors.

Strategy and Development Committee

The Company has established a Strategy and Development Committee on 11 December 2014. As at 31 December 2015, the Strategy and Development Committee comprised executive Director, Ms. GAO Lina, one non-executive Director, Mr. WOLHARDT Julian Juul and two independent non-executive Directors, Mr. LI Shengli and Mr. ZOU Fei. The Strategy and Development Committee is chaired by Mr. LI Shengli.

The principal duties of the Strategy and Development Committee include drawing up long-term development strategies and significant investments on financing plans of the Company, proposing significant capital investment for operation projects, and conducting studies and making recommendations on important matters that would affect the development of the Company.

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 31 December 2015, the remuneration to the auditor of the Company was approximately RMB3.6 million for audit services and RMB1.28 million for non-audit 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 31 December 2015, 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" of the annual report.

Pursuant to code provision C1.2 of the CG 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 have been provided to all members of the Board for the year under review.

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. The review covers all material controls, including financial, operational and compliance controls and risk management functions. Such 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. Internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved scope.

During the year under review, the 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 31 December 2015. 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.

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 "CEO'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 the 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 31 December 2015, there had been no change in the Company's constitutional documents. An up-to-date consolidated version of the Memorandum and Articles of Association is published on the websites of the Company and the Stock Exchange of Hong Kong Limited.

On behalf of the Board
GAO Lina
Director

Hong Kong, 21 March 2016

The Board presents its report together with the audited financial statements of China Modern Dairy Holdings Ltd. (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2015.

PRINCIPAL PLACE OF BUSINESS

The Company 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 (i) production and sale of raw milk to customers for processing into dairy products; and (ii) production and sale of liquid milk products. There were no significant change in the nature of the Group's principal activities during the year.

The particulars of the subsidiaries are set out in note 38 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2015 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 54 to 139.

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 31 December 2015.

RESULTS AND RESERVES

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 54 of the annual report. The movements in reserves are set out in the consolidated statement of changes in equity on page 57 of the annual report.

The Directors do not recommend the payment of a final dividend (2014: RMB0.01 per share) in respect of the year 2015.

BUSINESS REVIEW

A review of the business of the Group during the year 2015, a discussion on the Group's future business development and possible risks and uncertainties that the Group may be facing, and an analysis of the Group's performance using financial key performance indicators are provided in the CEO's Statement on pages 3 to 5 and the Management Discussion and Analysis on pages 6 to 20 of the annual report. These discussions form part of this report.

The financial risk management objectives and policies of the Group are shown in note 32 to the financial statements.

Other than financial performance, the Group believes that a high standard of corporate social responsibility is essential for building up a good corporate and social relationship and motivating staff and creating a sustainable return to the Group. We are committed to contributing to the sustainability of the environment and community in which we conduct business and where our stakeholders live.

Environmental Protection

As a responsible business participant, the Group strictly endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental technologies to ensure our products meet the required standards and ethics in respect of environment protection.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The management of the Group and the Audit Committee of the Company is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association (the "Articles of Association"), every Director shall be entitled to be indemnified out of the assets of the Company against all loss or liabilities (to the fullest extent permitted by the Companies Law of the Cayman Islands) which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability coverage for the Directors and officers of the Company.

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is determined with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 10 to the financial statements.

CORPORATE GOVERNANCE PRACTICE

Details of the corporate governance practice of the Company are set out on pages 25 to 34 of the annual report.

PARTICULARS OF DIRECTORS SUBJECT TO RE-ELECTION

The particulars of Directors who are subject to re-election pursuant to Article 17.18 of the Articles of Association at the annual general meeting (the "AGM") of the Company and which are required to be disclosed by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") are set out below:

Mr. YU Xubo ("Mr. Yu")

Mr. YU Xubo (于旭波), aged 50, is a Non-executive Director and the Chairman of the Company. Mr. Yu is currently the president of COFCO Corporation, the president and a director of COFCO (Hong Kong) Limited and a director of both COFCO Meat Investment Company Limited and COFCO Coca-Cola Beverages Limited. Mr. Yu is a non-executive director of China Agri-Industries Holdings Limited (stock code: 606) and formerly a non-executive director of China Foods Limited (stock code: 506) until 15 February 2016, both companies are listed in Hong Kong. Mr. Yu also currently serves as a non-executive director of China Mengniu Dairy Company Limited ("Mengniu"), a substantial shareholder of the Company, and formerly as the vice chairman of Mengniu until 19 February 2016. Mr. Yu was appointed, with effect from 24 June 2015, as a non-executive director of Noble Group Limited, which is listed in Singapore. Mr. Yu holds a Bachelor Degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration Degree from China Europe International Business School.

Mr. Yu entered into a letter of appointment with the Company as a Non-executive Director for a term of three years commencing on 28 June 2013, subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the Articles of Association. According to Mr. Yu's letter of appointment, he is not entitled to any remuneration.

Save as disclosed above, Mr. Yu (i) has not held any other positions in the Group, and does not have any relationships with any Directors, senior management members or substantial or controlling Shareholders of the Company or its subsidiaries; (ii) has not held any other directorships in any listed public companies in the last three years; (iii) does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance; and (iv) there is no other information required to be disclosed in relation to him pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(w) of the Listing Rules.

Ms. GAO Lina ("Ms. Gao")

Ms. GAO Lina (高麗娜), aged 59, is an Executive Director, Chief Executive Officer and the Deputy Chairman of the Company. Ms. Gao is one of the founders of the Group and is currently a director of Modern Farm (Group) Co., Ltd. ("Modern Farm") and 7 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 Taian 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 the Group and she was appointed as an executive Director of the Company on 14 November 2008.

Ms. Gao was awarded "Taian City Excellent Entrepreneur in Reforming and Enterprising Endeavours" in 2004. Ms. Gao was awarded the "Scientific and Technological Progress Award (Class 1 of Promotion Category) (科學技術進步獎推廣類一等獎)" by the Ministry of Education of the PRC(中國教育部) in January 2013. Ms. Gao completed an undergraduate course at Taian Municipal CPC Party School (中共泰安市委黨校) majoring in economic management in December 1999.

Ms. Gao entered into a service agreement with the Company for a term of three years commencing on 29 October 2013, which may be terminated in accordance with the provisions of the service agreement by either party by giving to the other party not less than three months' prior notice in writing at any time during the term of appointment. Her term of office is subject to retirement by rotation and re-election in accordance with the Articles of Association.

For the year ended 31 December 2015, Ms. Gao is entitled to receive annual salary and retirement benefits scheme contributions of RMB1,901,000. Ms. Gao is also entitled to participate in the share option schemes of the Company. The remuneration of Ms. Gao has been approved by the Remuneration Committee, and is subject to review with reference to prevailing market conditions as well as her duties and responsibilities in the Company.

As far as the Directors are aware, within the meaning of Part XV of the Securities and Future Ordinance, Ms. Gao holds 4,800,000 shares of the Company and is deemed to be interested in the 221,581,733 shares held by Jinmu Holdings Co Ltd., a Shareholder of the Company. Ms. Gao is a director and a shareholder of Jinmu Holdings Co Ltd. and holds 49.12% of its interest. Ms. Gao is interested in the options to subscribe for 38,936,339 shares of the Company.

Save as disclosed above, Ms. Gao (i) has not held any directorships in any other listed companies in the last three years; (ii) does not have any relationships with any Directors, senior management members or substantial or controlling shareholders of the Company or its subsidiaries; (iii) does not have or is not deemed to have any interests in the shares or underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance; and (iv) there is no other information required to be disclosed in relation to her pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(w) of the Listing Rules.

Mr. HUI Chi Kin, Max ("Mr. Hui")

Mr. HUI Chi Kin, Max (許志堅), aged 42, is a Non-executive Director of the Company and a director of Modern Farm. Mr. Hui is currently the chief executive officer and a managing director of CDH Investment Advisory Private Limited. From 1999 to 2003, 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 degree in chemical engineering and received a master degree of engineering from Princeton University in 1999. He joined the 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 the Group.

Mr. Hui has entered into a letter of appointment with the Company for his appointment as a Non-executive Director for a term of three years commencing on 27 November 2014, subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the Articles of Association. According to Mr. Hui's letter of appointment, he is not entitled to any remuneration.

Save as disclosed above, Mr. Hui (i) has not held any other positions in the Company and its subsidiaries, and does not have any relationships with any Directors, senior management members or substantial or controlling shareholders of the Company or its subsidiaries; and (ii) has not held any other directorships in any listed public companies in the last three years; (iii) does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance; and (iv) there is no other information required to be disclosed in relation to him pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(w) of the Listing Rules.

Mr. KANG Yan ("Mr. Kang")

Mr. KANG Yan (康龑), aged 40, is an Independent Non-executive Director of the Company. Mr. Kang was graduated from the Renmin University of China in 1998. Mr. Kang is a qualified practicing attorney in China and is currently a partner of Fangda Partners. He joined Beijing Commerce & Finance Law Offices in 2002 and was promoted to a partner in 2008. Mr. Kang has over 10 years of experience in legal corporate advisory on mergers and acquisitions and initial public offerings.

Mr. Kang has entered into a letter of appointment with the Company as an Independent Non-executive Director for a term of three years commencing on 28 June 2013, subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the Articles of Association. According to Mr. Kang's letter of appointment, he is entitled to an annual remuneration of RMB200,000. The remuneration of Mr. Kang is determined after considering the remuneration policy of the Company, his duties and the prevailing market remuneration of executives in similar positions.

Save as disclosed above, Mr. Kang (i) has not held any other positions in the Company and its subsidiaries, and does not have any relationships with any Directors, senior management members or substantial or controlling shareholders of the Company or its subsidiaries; (ii) has not held any other directorships in any listed public companies in the last three years; (iii) does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance; and (iv) there is no other information required to be disclosed in relation to him pursuant to any of the requirements under the provisions of Rules 13.51(2)(h) to 13.51(2)(w) of the Listing Rules.

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 31 December 2015, the Company's distributable reserve was RMB4,277.6 million (31 December 2014: RMB3,507.8 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 pages 140 to 142 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2015 are set out in notes 25,26 and 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the Group's primary customer, Mengniu and its subsidiaries (collectively "Mengniu Group") accounted for approximately 47.75% (year ended 31 December 2014: 59.82%) of the Group's total turnover for the year ended 31 December 2015. The Group's five largest customers contributed in aggregate 78.78% (year ended 31 December 2014: 78.90%) of the Group's total turnover for the year ended 31 December 2015.

During the year ended 31 December 2015, the five largest suppliers of the Group in aggregate represented 14.04% (year ended 31 December 2014: 18.26%) of the Group's total purchases. Purchases from the largest supplier accounted for approximately 4.04% (year ended 31 December 2014: 7.78%) of the Group's total purchases.

Save as disclosed under the paragraph headed "Continuing Connected Transactions" of this report, none of the Directors or any of their associates or any shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

The Directors during the year ended 31 December 2015 and up to the date of this report were:

Executive Directors

Ms. GAO Lina *(Deputy Chairman & Chief Executive Officer)*
Mr. HAN Chunlin *(Chief Operation Officer)*
Mr. SUN Yugang *(Chief Financial Officer)*

Non-executive Directors

Mr. YU Xubo *(Chairman)*
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. WU Jingshui

Independent Non-executive Directors

Mr. LI Shengli
Mr. LEE Kong Wai, Conway
Mr. KANG Yan
Mr. ZOU Fei

In accordance with Article 17.18 of the 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 being proposed for re-election at the AGM has a 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.

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 21 to 24 of this annual report.

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

At 31 December 2015, the interests and short positions of the Directors and the chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company or 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 of Hong Kong Limited (the "Stock Exchange")pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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	221,581,733	4.18%
	Beneficial owner	43,736,339[3]	0.82%
Mr. HAN Chunlin	Beneficial owner	28,554,583[2]	0.54%
Mr. SUN Yugang	Beneficial owner	16,064,990[2]	0.30%

(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 221,581,733 shares held by Jinmu under the SFO.

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

(3) This represent 4,800,000 ordinary shares and 38,936,339 share option in underlying shares of the management options and share options of the Company.

Saved as disclosed above, as at 31 December 2015, none of the Directors and the chief executives of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the Company, its fellow subsidiaries, its subsidiaries or its holding company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2015 or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Director named in the paragraphs below have interests in businesses, which are considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group during the year.

During the year under review, Mr. Wu Jingshui was a non-executive director of China Shengmu Organic Milk Limited (Stock Code: 1432), company listed on the Stock Exchange. China Shengmu Organic Milk Limited is engaged in the dairy industry.

The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the business of the Group during the year.

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

		Number of underlying shares which may be issued pursuant to the management options				
Name of grantee	Date of grant	As at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2015
Ms. GAO Lina	31 October 2010	29,276,916	—	—	—	29,276,916
Mr. HAN Chunlin	31 October 2010	21,653,916	—	—	—	21,653,916
Mr. SUN Yugang	31 October 2010	9,142,924	—	—	—	9,142,924
		60,073,756	—	—	—	60,073,756

These options are exercisable during the period commencing from the Listing Date of the Company (26 November 2010) until 10 years from the date of grant.

As at 31 December 2015, the number of shares to be issued upon the exercise of the outstanding options is 60,073,756 shares, representing 1.13% of the issued share capital of the Company as at 31 December 2015.

SHARE OPTIONS

(I) Share Option Scheme adopted on 17 November 2011 ("Share Option Scheme I")

The Company unconditionally adopted a share option scheme on 17 November 2011, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme I

The Share Option Scheme I 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, its subsidiary or its invested entity (the "Qualified Participants"). 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 I

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme I must not exceed 40,000,000 as approved by shareholders at 2011 AGM. As at 31 December 2015, the total number of shares available for issue under the Share Option Scheme is 29,383,756 shares, representing approximately 0.55% of the total number of shares in issue of the Company.

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

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 (as defined below).

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 12 months ended 30 June 2013 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 12 months ended 30 June 2014 of the Company immediately following the First Year (the "Second Year") and the financial period for the third tranche will be 12 months ended 30 June 2015 of the Company immediately following the Second 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 I

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

The following share options were outstanding under the Share Option Scheme I during the year under review:

Name or category of participant	As at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2015	Option period
	Number of shares which may be issued pursuant to the Share Option Scheme I					
Directors						
Ms. GAO Lina	2,879,600	—	—	—	2,879,600	12.12.2012-30.6.2020
Mr. HAN Chunlin	1,900,667	—	—	—	1,900,667	12.12.2012-30.6.2020
Mr. SUN Yugang	1,922,066	—	—	—	1,922,066	12.12.2012-30.6.2020
Subtotal	6,702,333	—	—	—	6,702,333	
Other employees						
In aggregate	25,403,850	—	—	(2,722,427)	22,681,423	12.12.2012-30.6.2020
Total	32,106,183	—	—	(2,722,427)	29,383,756	

Notes:

1) All the share options were granted on 12 December 2012 and the exercise price is HK$2.89 per share. The closing price of the shares on the date of grant is HK$1.98.

2) The share options represent personal interest held by the relevant Directors as beneficial owners.

(II) Share Option Scheme adopted on 5 June 2014 ("Share Option Scheme II")

The Company unconditionally adopted a share option scheme on 5 June 2014, particulars of which are set out as follows:

(a) The purpose of the Share Option Scheme II

The Share Option Scheme II seeks to provide an incentive for the Qualified Participants 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, its subsidiary or its 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 II

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme II must not exceed 100,000,000 as approved by shareholders at 2014 AGM. As at 31 December 2015, the total number of shares available for issue under the Share Option Scheme is 77,625,523 shares, representing approximately 1.46% of the total number of shares in issue of the Company as at 31 December 2015.

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

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 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 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 ended 31 December 2014, the financial period for the second tranche will be the financial year ending 31 December 2015 and the financial period for the third tranche will be the financial year ending 31 December 2016. 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 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 II

Subject to earlier termination by the Company at a general meeting or by the Board, the Share Option Scheme II shall be valid and effective for a period of three years from 5 June 2014.

The following share options were outstanding under the Share Option Scheme II during the year under review:

	Number of shares which may be issued pursuant to the Share Options Scheme II					
Name or category of participant	**As at 1 January 2015**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**As at 31 December 2015**	**Option period**
Directors						
Ms. GAO Lina	7,000,000	—	—	(220,117)	6,779,823	6.6.2014-29.4.2022
Mr. HAN Chunlin	5,000,000	—	—	—	5,000,000	6.6.2014-29.4.2022
Mr. SUN Yugang	5,000,000	—	—	—	5,000,000	6.6.2014-29.4.2022
Subtotal	17,000,000	—	—	(220,177)	16,779,823	
Other employees						
In aggregate	60,848,683	10,966,673	—	(10,969,656)	60,845,700	6.6.2014-29.4.2022
Total	77,848,683	10,966,673	—	(11,189,833)	77,625,523	

Notes:

1) All the share options were granted on 6 June 2014 and 17 June 2015 and the exercise prices are HK$3.38 per share and HK$2.83 per share, respectively. The closing prices of the shares on 6 June 2014 and 17 June 2015 are HK$3.38 and HK$2.72, respectively.

2) The share options represent personal interest held by the relevant Directors as beneficial owners.

Other details of the share options granted pursuant to the Share Option Scheme I and the Share Option Scheme II are set out in note 30 to the financial statements.

The related accounting policy for the fair values of the share options are set out in note 3 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the section headed "Management Option" and "Share Options" 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 31 December 2015, the interests or short positions of substantial Shareholders, other than the Directors or the chief executives of the Company and their respective associates, in the shares, underling shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), 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
Mengniu	Beneficial interest	1,347,903,000	25.41%
Xinmu Holdings Co Ltd.	Beneficial interest	671,021,025	12.65%
Yinmu Holdings Co Ltd.	Beneficial interest	446,465,419	8.42%
Success Dairy II Limited(2)	Beneficial interest	477,429,132	9.00%
Success Dairy I Limited(1), (2)	Interest in controlled corporation	477,429,132	9.00%
New Dairy Investment Ltd.(1), (2)	Interest in controlled corporation	477,429,132	9.00%
KKR China Growth Fund L.P.(1), (2)	Interest in controlled corporation	477,429,132	9.00%
KKR Associates China Growth L.P.(1), (2)	Interest in controlled corporation	477,429,132	9.00%
KKR China Growth Limited(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Fund Holdings L.P.(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Fund Holdings GP Limited(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Group Holdings L.P.(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Group Limited(1)	Interest in controlled corporation	477,429,132	9.00%
KKR & Co. L.P.(1)	Interest in controlled corporation	477,429,132	9.00%
KKR Management LLC(1)	Interest in controlled corporation	477,429,132	9.00%
Mr. Henry Roberts Kravis and Mr. George R. Roberts(1)	Interest in controlled corporation	477,429,132	9.00%

(1) Each of these corporations and Mr. Henry Roberts Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) are deemed to be interested in the shares.

(2) Success Dairy II Limited is wholly owned by Success Dairy I Limited, which is owned as to 25% by Crown Dairy Holdings Limited and 75% by New Dairy Investment Ltd. ("New Dairy"). New Dairy is a subsidiary of KKR China Growth Fund L.P., the general partner of which is KKR Associates China Growth L.P..

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 31 December 2015.

CONTINUING CONNECTED TRANSACTION

OFF-TAKE AGREEMENT

The Company started to sell raw milk to Mengniu Group in 2006, and in October 24, 2008 following arm's length negotiations, Modern Farm entered into an off-take agreement (the "Off-Take Agreement") with Mengniu (Inner Mongolia), pursuant to which the Company shall supply raw milk to Mengniu (Inner Mongolia).

Date:	October 24, 2008
Parties:	(i) Modern Farm, a non-wholly owned subsidiary of the Company
	(ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Nature of the Transaction:	Modern Farm shall supply raw milk to Mengniu (Inner Mongolia).
Committed Purchase:	Both parties shall start to discuss estimates of annual supply three months prior to the beginning of each calendar year.
	Should the parties fail to reach an agreed amount, Modern Farm shall be entitled to require Mengniu (Inner Mongolia) to purchase, subject to certain limitations, all of its raw milk production in the upcoming calendar year.
Right to sell to other parties:	Modern Farm may sell up to 30% of its raw milk produced daily at each dairy farm to third parties at its discretion, except to two of Mengniu's competitors. Other than the aforesaid, the Off-Take Agreement contains no other restrictions on Modern Farm's sales of raw milk to third parties or development of its own dairy products.
Pricing:	The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustment for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if the Modern Farm's farms are within an agreed proximity to Mengniu Group's dairy processing plants. The base price is based on the price which Mengniu Group at the relevant time offers to buy raw milk from other mid- to large-scale dairy farms (which can offer raw milk of comparable quality) or, if there are no such mid- to large-scale dairy farms in such region, other comparable dairy farms in nearby regions with adjustments (reflecting the prices in different regions).
	The base price and upward adjustment payable by Mengniu Group under the Off-Take Agreement shall not be lower than the base price and upward adjustment it pays respectively to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases). Mengniu (Inner Mongolia) also grants Modern Farm an option to sell to Mengniu (Inner Mongolia) the same amount of raw milk at the same terms and prices Mengniu (Inner Mongolia) offers to any third party suppliers.
Term:	The Off-Take Agreement shall be for an term of 10 years commencing from October 24, 2008 and will be automatically extend for another 10 years upon expiry in the absence of any force majeure or events of default.

Details of the Off-Take Agreement have been disclosed in the Company's announcement dated 23 May 2013.

The aggregate sales amount pursuant to the Off-take Agreement during the year ended 31 December 2015 amounted to approximately RMB2,304,424,000.

On 21 May 2013, the shareholding interest of Mengniu in the Company increased to 10% or more, meaning that Mengniu became a substantial shareholder of the Company, and thus a connected person of the Company pursuant to the Listing Rules with effect from 21 May 2013. As Mengniu (Inner Mongolia) is a non-wholly owned subsidiary of Mengniu, it also became a connected person of the Company pursuant to the Listing Rules with effect from 21 May 2013. As a result, the transactions contemplated under the Off-Take Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules with effect from 21 May 2013.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the above continuing connected transactions regarding the sales of raw milk to Mengniu Group 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 (Revised) "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.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, there are no other connected transactions of the Company that are subjected to be reported in the annual report in accordance with the Listing Rules.

PRE-EMPTIVE RIGHTS

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

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 Listing Rules.

AUDITORS

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

On behalf of the Board
YU Xubo
Chairman

Hong Kong, 21 March 2016

Independent Auditor's Report

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 54 to 139, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Revenue	5	4,826,341	5,026,706
Cost of sales before biological fair value adjustment		(3,167,298)	(3,161,345)
Biological fair value adjustments included in cost of sales	7/20	(1,203,011)	(1,666,242)
Loss arising from changes in fair value less costs to sell of dairy cows	20	(474,910)	(329,069)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	20	1,203,011	1,666,242
Other income	6	32,094	40,213
Selling and distribution costs		(194,542)	(111,909)
Administrative expenses		(243,566)	(214,561)
Share of loss of an associate	17	(1,192)	(6,791)
Share of profit of joint ventures	18	5,782	7,004
Other gains and losses, net	7	(107,077)	(209,648)
Other expenses		(5,173)	(4,635)
Profit before finance costs and tax	7	670,459	1,035,965
Finance costs	8	(315,078)	(265,601)
Profit before tax		355,381	770,364
Income tax expense	9	(11,663)	(7,476)
Profit and total comprehensive income for the year		343,718	762,888
Profit and total comprehensive income attributable to:			
Owners of the Company		321,296	735,317
Non-controlling interests		22,422	27,571
		343,718	762,888
Earnings per share (RMB)	13		
Basic		6.37 cents	15.23 cents
Diluted		6.32 cents	15.08 cents

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	31/12/2015 RMB'000	31/12/2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	5,376,897	4,457,970
Land use rights	15	120,622	64,868
Goodwill	16	1,441,494	310,426
Interest in an associate	17	25,076	18,931
Interest in joint ventures	18	—	95,208
Biological assets	20	7,590,878	6,530,814
		14,554,967	11,478,217
CURRENT ASSETS			
Inventories	21	834,099	640,581
Trade and other receivables	22	1,097,794	826,772
Land use rights	15	3,743	1,667
Pledged bank balances	23	183,664	612,909
Cash and bank balances	23	833,569	556,964
		2,952,869	2,638,893
CURRENT LIABILITIES			
Trade and other payables	24	2,012,976	1,403,003
Tax payable		281	2,787
Borrowings – due within one year	25	4,825,521	1,858,398
Short-term debenture	26	400,000	1,100,000
		7,238,778	4,364,188
NET CURRENT LIABILITIES		(4,285,909)	(1,725,295)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,269,058	9,752,922

At 31 December 2015

	Notes	31/12/2015 RMB'000	31/12/2014 RMB'000
CAPITAL AND RESERVES			
Share capital	29	452,959	415,261
Share premium and reserves		7,328,938	6,094,978
Equity attributable to owners of the Company		7,781,897	6,510,239
Non-controlling interests		168,135	145,713
		7,950,032	6,655,952
NON-CURRENT LIABILITIES			
Borrowings – due after one year	25	821,730	2,829,450
Medium-term notes	27	200,000	—
Deferred income	28	141,824	120,421
Other financial liabilities	19	1,155,472	147,099
		2,319,026	3,096,970
		10,269,058	9,752,922

The consolidated financial statements on pages 54 to 139 were approved and authorised for issue by the board of directors on 21 March 2016 and are signed on its behalf by:

GAO Lina	**HAN Chunlin**
Director	Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2014	415,261	2,409,936	1,585,752	12,648	1,319,427	5,743,024	117,710	5,860,734
Profit and total comprehensive income for the year	—	—	—	—	735,317	735,317	27,571	762,888
Disposal of a non-wholly owned subsidiary	—	—	—	—	—	—	432	432
Recognition of equity-settled share-based payment (note 30(a) and (b))	—	—	—	31,898	—	31,898	—	31,898
Balance at 31 December 2014	415,261	2,409,936	1,585,752	44,546	2,054,744	6,510,239	145,713	6,655,952
Profit and total comprehensive income for the year	—	—	—	—	321,296	321,296	22,422	343,718
Dividends	—	(49,003)	—	—	—	(49,003)	—	(49,003)
Recognition of equity-settled share-based payment (note 30(a) and (b))	—	—	—	30,532	—	30,532	—	30,532
Issue of ordinary shares for acquisition of ADH Companies (as defined in note 18)	37,698	931,135	—	—	—	968,833	—	968,833
Balance at 31 December 2015	452,959	3,292,068	1,585,752	75,078	2,376,040	7,781,897	168,135	7,950,032

Note: Other reserve balance as at 1 January 2014 represented the contribution from the owners of the Company for the operation of the Group.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
OPERATING ACTIVITIES			
Profit before tax		355,381	770,364
Adjustments for:			
Depreciation of property, plant and equipment	7	272,976	225,544
Impairment loss in respect of property, plant and equipment	7	—	42,628
Impairment loss in respect of goodwill		94,392	—
Release of land use rights and long-term prepaid rental	7	2,192	1,393
Bank interest income	6	(12,828)	(22,084)
Government grants credited to income	6	(16,375)	(11,457)
Finance costs	8	315,078	265,601
Share of loss of an associate		1,192	6,791
Share of profit of joint ventures		(5,782)	(7,004)
Gain on deemed partial disposal of interests in associate	7	(7,336)	—
Fair value loss from other financial liabilities	7	50,028	105,468
(Gain) loss on disposal of property, plant and equipment	7	(613)	28,758
Gain arising on disposal of a subsidiary		—	(2,226)
Gain on derecognition of financial liabilities		(102)	(417)
Gain arising on remeasurement of interests in joint ventures	7	(121,340)	—
Net foreign exchange loss		112,988	17,832
Expense recognised in respect of equity-settled share-based payments	30	30,532	31,898
Loss arising from changes in fair value less costs to sell of dairy cows	20	474,910	329,069
Operating cash flows before movements in working capital		1,545,293	1,782,158
(Increase) decrease in inventories		(72,055)	36,326
Increase in trade and other receivables		(225,494)	(230,326)
Increase in trade and other payables		211,922	6,584
Cash generated from operations		1,459,666	1,594,742
Income taxes paid		(17,901)	(13,850)
NET CASH FROM OPERATING ACTIVITIES		1,441,765	1,580,892

	Notes	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
INVESTING ACTIVITIES			
Interest received		33,769	7,424
Purchases of property, plant and equipment		(665,892)	(939,237)
Addition in biological assets		(1,372,206)	(1,197,121)
Addition in pledged bank balances		(183,664)	(256,931)
Release of pledged bank balances		612,909	74,557
Proceeds from disposal of property, plant and equipment		7,097	1,414
Purchases of land use rights		(7,013)	—
Proceeds from disposal of dairy cows		416,992	462,071
Net cash inflow on disposal of a subsidiary		—	1,581
Net cash inflow on acquisition of subsidiaries	34	75,173	—
Investment in joint ventures		(66,280)	(55,375)
Government grants received		37,778	7,016
NET CASH USED IN INVESTING ACTIVITIES		(1,111,337)	(1,894,601)
FINANCING ACTIVITIES			
Interest paid		(317,802)	(274,690)
New borrowings raised		5,033,648	4,623,297
Repayment of borrowings		(4,187,233)	(3,701,947)
Proceeds from issue of short-term debenture		400,000	1,100,000
Proceeds from medium-term notes		200,000	—
Payment of transaction cost for borrowings, short-term debenture and medium-term notes		(33,433)	(45,028)
Repayment of short-term debenture		(1,100,000)	(1,200,000)
Dividends paid to owners of the Company		(49,003)	—
NET CASH (USDED IN) FROM FINANCING ACTIVITIES		(53,823)	501,632
INCREASE IN CASH AND CASH EQUIVALENTS		276,605	187,923
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		556,964	369,041
CASH AND CASH EQUIVALENTS AT END OF YEAR, Represented by cash and bank balances		833,569	556,964

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

China Modern Dairy Holdings Ltd. (the "Company") is a 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, KY1-1104, 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.

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 of the consolidated financial statements

In preparation the consolidated financial statements for the year ended 31 December 2015, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately RMB4,285,909,000 as at 31 December 2015 (31 December 2014: RMB1,725,295,000). Having considered the secured credit facilities of approximately RMB6,753,413,000 which remains unutilised as at 31 December 2015, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

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

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

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

1. Effective for annual periods beginning on or after 1 January 2018
2. Effective for annual periods beginning on or after 1 January 2019
3. Effective for annual periods beginning on or after 1 January 2016
4. Effective for annual periods beginning on or after a date to be determined
5. Effective for annual periods beginning on or after 1 January 2017

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

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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

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

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

IFRS 9 Financial Instruments *(continued)*

Based on the assessment of the Group's financial assets and financial liabilities as at 31 December 2015, the Directors are of the view that the expected credit loss model may result in early and additional provision of credit losses which are not yet incurred. However, it is not practicable to provide a reasonable estimate of the effect from using an expected credit loss model in respect of its financial assets until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

The Directors are still assessing the impacts on the application of IFRS 15 on the Group's contracts with its customers. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

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

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

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 35, total operating lease commitment of the Group in respect of property, plant and equipment and leased land as at 31 December 2015 amounted to RMB30,125,000. The Directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The consolidated financial statements have been prepared under the historical cost basis except for: (i) biological assets, which are measured at fair value less costs to sell, and (ii) financial instruments at fair value through profit or loss ("FVTPL"), which are measured at fair value at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination

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 the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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 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)*

Investments in an associate and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of an associate or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. 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 of disposal) 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or 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 the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

Revenue from sales of milk produced is 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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Land use rights

Land use rights represent the Group's prepaid lease payments for leasehold interest in land. The Group assesses the classification of the leased land as a finance lease or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of the leased land have been transferred to the Group. Based on such assessment, the Group's land use rights are accounted for as operating lease. Land use right 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

Foreign currencies

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 translation 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 capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 profit or loss in the period in which they become receivable.

Where government grant takes the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the Group, the non-monetary asset and the grant are recorded at a nominal amount.

Retirement benefit costs

Payments to defined contribution retirement benefit 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.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 30 to the Group's consolidation financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When 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 before tax as reported in the consolidated statement of profit or loss and other 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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.

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 for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes (classified as construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a 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 (or cash-generating unit) 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 asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Biological assets

The Group's biological assets comprise 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 resulting gain or loss recognised in profit or loss for the year in which it arises.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Agricultural produce

Agricultural produce represents raw milk. Raw milk is recognised at the point of harvest at its fair value less costs to sell. A gain or loss arising from agricultural produce at the point of harvest measuring at fair value less costs to sell is included in profit or loss for the period in which it arises.

Financial instruments

Financial assets and financial liabilities are recognised 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 fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets represent loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

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

For loans and receivables, objective evidence of impairment could include:

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

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 30 to 120 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is 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.

For financial assets measured at amortised cost, 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

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 19.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Other Financial liabilities

Financial liabilities including borrowings, trade and other payables, short-term debentures and medium-term notes are subsequently measured at amortised cost, using the effective interest method.

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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only 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 to another entity. If the Group retains substantially all the risks and rewards of a transferred financial asset, the Group continues to recognised the financial assets and also the associated financial liabilities.

On derecognition of a financial asset, 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, and only when, the Group's obligations are discharged, cancelled or have expired. 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

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated, which is the higher of its value in use and its fair value less costs of disposal. 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 or when there is a downward revision to the estimated future cash flows due to changes in facts and circumstances, further impairment loss may arise.

As at 31 December 2015, the carrying amount of goodwill were RMB1,535,886,000 (31 December 2014: RMB310,426,000), net of accumulated impairment loss of RMB94,392,000 (31 December 2014: nil). Details of the recoverable amount calculation are disclosed in note 16.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value or fair value less costs to sell for financial reporting purposes. The Directors have set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation team's findings to the Directors semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments and biological assets. Notes 19 and 33 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

5. SEGMENT INFORMATION

Information reported to the chief operating decision maker (the "CODM") for the purposes of resources allocation and assessment of segment performance focuses on the type of goods delivered. No operating segment has been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under IFRS 8 are as follows:

- Dairy farming - breeding dairy cows to produce and sell raw milk;
- Liquid milk products production - producing and selling processed liquid milk.

5. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities

For the year ended 31 December 2015

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	4,055,913	1,501,875	5,557,788	(731,447)	4,826,341
Segment cost of sales before biological fair value adjustment	2,768,777	1,126,444	3,895,221	(727,923)	3,167,298
Reportable segment profit	712,851	220,530	933,381	(3,524)	929,857
Loss arising from changes in fair value less costs to sell of dairy cows					(474,910)
Share of loss of an associate					(1,192)
Share of profit of joint ventures					5,782
Unallocated other income					12,583
Unallocated other gains and losses					(9,659)
Unallocated expenses					(107,080)
Profit before tax					355,381
As at 31 December 2015					
Segment assets	15,833,395	1,353,217	17,186,612	(577,422)	16,609,190
Unallocated assets					898,646
Consolidated assets					17,507,836
Segment liabilities	7,571,794	1,381,373	8,953,167	(569,298)	8,383,869
Unallocated liabilities					1,173,935
Consolidated liabilities					9,557,804

* Inter-segment elimination represents the elimination of sales of raw milk from dairy farming segment to processed liquid milk segment and related current accounts.

Segment revenue of dairy farming segment included inter-segment revenue of RMB731,447,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

5. SEGMENT INFORMATION *(continued)*

Segment revenue, results, assets and liabilities *(continued)*

For the year ended 31 December 2014

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	4,672,151	832,686	5,504,837	(478,131)	5,026,706
Segment cost of sales before biological fair value adjustment	2,938,876	695,999	3,634,875	(473,530)	3,161,345
Reportable segment profit	1,229,399	75,037	1,304,436	(4,601)	1,299,835
Loss arising from changes in fair value less costs to sell of dairy cows					(329,069)
Share of loss of an associate					(6,791)
Share of profit of joint ventures					7,004
Unallocated other income					25,502
Unallocated other gains and losses					(123,243)
Unallocated expenses					(102,874)
Profit before tax					770,364
As at 31 December 2014					
Segment assets	12,517,530	937,065	13,454,595	(560,024)	12,894,571
Unallocated assets					1,316,282
Consolidated assets					14,210,853
Segment liabilities	6,661,750	1,152,988	7,814,738	(555,423)	7,259,315
Unallocated liabilities					295,586
Consolidated liabilities					7,554,901

* Inter-segment elimination represents the elimination of sales of raw milk from dairy farming segment to processed liquid milk segment and related current accounts.

Segment revenue of dairy farming segment included inter-segment revenue of RMB478,131,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

5. SEGMENT INFORMATION *(continued)*

Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 31 December 2015

	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Additions to non-current assets (note)	4,375,932	150,904	4,526,836
Depreciation and amortisation charged to profit or loss	216,416	51,992	268,408
Impairment loss of goodwill	94,392	—	94,392
(Gain) loss on disposal of property, plant and equipment	(738)	87	(651)
Interest income	1,184	54	1,238
Finance cost	284,702	30,376	315,078

For the year ended 31 December 2014

	Dairy farming RMB'000	Liquid milk products RMB'000	Total RMB'000
Additions to non-current assets	2,026,099	311,455	2,337,554
Depreciation and amortisation charged to profit or loss	191,874	29,072	220,946
Impairment loss of property, plant and equipment	42,628	—	42,628
Loss on disposal of property, plant and equipment	28,516	—	28,516
Interest income	815	54	869
Finance cost	263,069	2,532	265,601

Note: Addition to non-current assets comprise biological assets, property, plant and equipment, land use rights and goodwill.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without including loss arising from changes in fair value less costs to sell of dairy cows, fair value losses from financial liabilities at FVTPL, share of loss of an associate, share of profit of joint ventures, gain on disposal of subsidiary, corporate bank interest income, and other head office and corporate income and expenses that are not directly attributable to operating segments. This is the measure reported to CODM for the purposes of resource allocation and assessment of segment performance.

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

- all assets are allocated to operating segments other than interests in an associate, interests in joint ventures, corporate cash and bank balances and other head office and corporate assets; and
- all liabilities are allocated to operating segments other than tax payable, other financial liabilities and other head office or corporate liabilities.

5. SEGMENT INFORMATION *(continued)*

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Raw milk	3,324,466	4,194,020
Processed liquid milk	1,501,875	832,686
	4,826,341	5,026,706

Geographic information

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

Information about major customers

Included in revenue arising from sales of raw milk to external customers of RMB3,324,466,000 (for the year ended 31 December 2014: RMB4,194,020,000) are revenue of approximately RMB2,304,424,000 (for the year ended 31 December 2014: RMB3,006,934,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to the Group's revenue for the years ended 31 December 2015 and 2014.

6. OTHER INCOME

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Bank interest income	12,828	22,084
Government grants related to		
– Biological assets (note i)	4,000	—
– Other assets (note 28)	12,375	11,457
– Income (note ii)	2,674	2,497
	19,049	13,954
Others	217	4,175
	32,094	40,213

Notes:

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

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

7. PROFIT BEFORE FINANCE COSTS AND TAX

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

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Cost of sales before biological fair value adjustments		
Breeding costs to produce raw milk	2,252,096	2,626,282
Production costs for liquid milk products	915,202	535,063
	3,167,298	3,161,345
Gains arsing on initial recognition of raw milk at fair value less cost to sell at the point of harvest	1,203,011	1,666,242
	4,370,309	4,827,587
Other gains and losses:		
Fair value (gains) losses from Put Option and Call Option (as defined in note 18)	(147,099)	105,468
Fair value losses from Value Adjustment Undertakings (as defined in note 18)	197,127	—
Gain arising on disposal of a subsidiary	—	(2,226)
Gain on deemed partial disposal of interest in associate	(7,336)	—
Net foreign exchange loss	92,048	28,976
(Gain) loss from disposal of property, plant and equipment	(613)	28,758
Impairment loss of property, plant and equipment	—	42,628
Impairment loss of goodwill	94,392	—
Gain arising on remeasurement of joint ventures (note 18)	(121,340)	—
Others	(102)	6,044
	107,077	209,648
Depreciation of property, plant and equipment	473,342	382,103
Less: capitalised in biological assets	(200,366)	(156,559)
Depreciation charged to profit or loss	272,976	225,544
Employee benefits expenses	374,785	360,815
Less: capitalised in biological assets	(103,615)	(98,286)
Employee benefits charged to profit or loss	271,170	262,529
Auditors' remuneration	4,300	3,850
Release of land use rights	2,191	1,393

8. FINANCE COSTS

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Interest expenses on:		
Borrowings	269,352	236,412
Short-term debenture	32,788	67,228
Medium-term notes	10,796	—
Total borrowing cost	312,936	303,640
Cost of discount of bills receivable	11,600	—
Less: amounts capitalised for construction of property, plant and equipment	(9,458)	(38,039)
	315,078	265,601

For the year ended 31 December 2015, the borrowing cost was capitalised based on the terms of the general bank borrowings in respect of construction in progress. The weighted average capitalisation rate on general borrowings is 5.52% per annum (2014: 6.32%).

9. INCOME TAX EXPENSE

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	11,663	7,476

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

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

Dividend income of Aquitair (defined in note 38) from Modern Farming (Group) Co., Ltd ("Modern Farm") is subject to Irish Income Tax at 25%. As at 31 December 2015, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,512,302,000 (31 December 2014: RMB1,018,615,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

9. INCOME TAX EXPENSE *(continued)*

According to the prevailing tax rules and regulation in the PRC, the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC. The Group's subsidiaries engaged in agricultural business for the year ended 31 December 2015 and 2014 are listed as below:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Modern Farm	Exempted	Exempted
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 (Chabei) Co., Ltd.	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd.	Exempted	Exempted
Modern Farm (Feidong) Co., Ltd.	Exempted	Exempted
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	Exempted
Modern Farm (Shuangcheng) Co., Ltd.	Exempted	Exempted
Modern Farm (Jinan) Co., Ltd.	Exempted	N/A
Modern Farm (Shanghe) Co., Ltd.	Exempted	N/A

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong.

The tax expense for the current year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Profit before tax	343,718	770,364
Tax at applicable income tax rate at 25%	85,930	192,591
Effect of tax exemption granted to agricultural entities	(76,536)	(191,621)
Tax effect of tax losses not recognised	2,269	6,506
Income tax expense	11,663	7,476

As at 31 December 2015, the Group had unused tax losses of RMB23,063,000 (31 December 2014: RMB75,901,000). The Group's unused tax losses as at 31 December 2015 will expire in year 2016 to year 2020 if not utilised. No deferred tax asset has been recognised in relation to such tax losses as it is not probable that taxable profit will be available against which the temporary differences can be utilised.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the directors' and the chief executive's emoluments are as follows:

	For the year ended 31 December 2015				
	Directors fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Equity-settled share option expense RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms. Gao Lina	–	1,876	2,930	25	4,831
Mr. Han Chunlin	–	1,170	2,140	25	3,335
Mr. Sun Yugang	–	1,087	2,142	25	3,254
Non-executive directors					
Mr. Yu Xubo	–	–	–	–	–
Mr. Wolhardt Julian Juul	–	–	–	–	–
Mr. Hui Chi Kin Max	–	–	–	–	–
Mr. Wu Jingshui	–	–	–	–	–
Independent non-executive directors					
Professor Li Shengli	200	–	–	–	200
Mr. Lee Kong Wai Conway	200	–	–	–	200
Mr. Zou Fei	200	–	–	–	200
Mr. Kang Yan	200	–	–	–	200
	800	4,133	7,212	75	12,220

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

	For the year ended 31 December 2014				
	Directors fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Equity-settled share option expense RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms. Gao Lina	—	2,036	3,020	25	5,081
Mr. Han Chunlin	—	1,220	2,126	25	3,371
Mr. Sun Yugang	—	1,122	2,131	25	3,278
Non-executive directors					
Mr. Yu Xubo	—	—	—	—	—
Mr. Wolhardt Julian Juul	—	—	—	—	—
Mr. Hui Chi Kin Max	—	—	—	—	—
Mr. Ding Sheng (note ii)	—	—	—	—	—
Mr. Wu Jingshui (note iii)	—	—	—	—	—
Independent non-executive directors					
Professor Li Shengli	200	—	—	—	200
Mr. Lee Kong Wai Conway	200	—	—	—	200
Mr. Zou Fei (note iv)	67	—	—	—	67
Mr. Kang Yan	200	—	—	—	200
Mr. Liu Fuchun (note v)	133	—	—	—	133
	800	4,378	7,277	75	12,530

Ms. Gao Lina, Mr. Han Chunlin and Mr. Sun Yugang are also the chief executives of the Company and their emoluments disclosed above were for the management of the affairs of the Company and the Group, the executive directors were also granted share options under the share option schemes of the Company. Details of the share option scheme are set out in note 30.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Notes:

i. No directors waived or agreed to waive any remuneration during the year ended 31 December 2015 (2014: nil).

ii. Mr. Ding Sheng, a non-executive director, resigned from his office with effect from 26 June 2014.

iii. Mr. Wu Jingshui has been appointed as non-executive director with effect from 26 June 2014.

iv. Mr. Zou Fei has been appointed as independent non-executive director with effect from 25 August 2014.

v. Mr. Liu Fuchun, an independent non-executive director, resigned from his office with effect from 25 August 2014.

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest remuneration in the Group, three (the year ended 31 December 2014: three) are directors of the Company whose emoluments are included in the disclosures in note 10 above. Details of the remuneration of the remaining two (the year ended 31 December 2014: two) individuals for the year are as follows:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Salaries and allowances	1,128	1,037
Retirement benefits scheme contribution	50	50
Equity-settled share option expense	2,345	1,572
	3,523	2,659

No remuneration was 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 (2014: nil).

The number of the highest paid employees who are not the Directors whose remuneration fell within the following bands is as follows:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$2,000,000	—	2
HK$2,500,001 to HK$3,000,000	1	—
	2	2

Certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option schemes of the Company. Details of the share option scheme are set out in note 30 to the Group's consolidated financial statement.

12. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2014 Final – 1.2481 HK cents per share (2014: nil)	49,003	—

Note:

During the current year, a final dividend of 1.2481 HK cents per share in respect of the year ended 31 December 2014 was declared and paid to the shareholders of the Company through the Company's share premium account.

13. EARNINGS PER SHARE

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

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	321,296	735,317

	For the year ended 31 December 2015 Shares	For the year ended 31 December 2014 Shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,041,854,854	4,827,338,751
Effect of share options issued by the Company	39,783,628	49,890,418
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,081,638,482	4,877,229,169

14. 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					
Balance at 1 January 2014	3,656,364	32,981	1,037,043	101,365	4,827,753
Additions	—	3,114	151,373	725,876	880,363
Transfer	459,219	—	244,761	(703,980)	—
Disposals	(37,752)	(3,577)	(16,706)	—	(58,035)
Derecognised on disposal of a subsidiary	(56)	(135)	(95)	—	(286)
Balance at 31 December 2014	4,077,775	32,383	1,416,376	123,261	5,649,795
Additions	–	1,171	103,851	819,131	924,153
Acquired in a business combination (note 34)	390,088	823	71,539	23,018	485,468
Transfer	585,122	–	216,311	(801,433)	–
Disposals	(4,176)	(7,110)	(50,269)	–	(61,555)
Balance at 31 December 2015	5,048,809	27,267	1,757,808	163,977	6,997,861
Accumulated depreciation and impairment					
Balance at 1 January 2014	(522,992)	(11,216)	(260,903)	—	(795,111)
Charge for the year	(243,746)	(3,855)	(134,502)	—	(382,103)
Eliminated on disposals of assets	11,211	3,158	13,494	—	27,863
Eliminated on disposal of a subsidiary	28	67	59	—	154
Impairment losses recognised in profit or loss	(41,528)	(15)	(1,085)	—	(42,628)
Balance at 31 December 2014	(797,027)	(11,861)	(382,937)	—	(1,191,825)
Charge for the year	(263,158)	(902)	(209,282)	–	(473,342)
Eliminated on disposals of assets	979	3,278	39,946	–	44,203
Balance at 31 December 2015	(1,059,206)	(9,485)	(552,273)	–	(1,620,964)
Carrying amounts					
Balance at 31 December 2015	3,989,603	17,782	1,205,535	163,977	5,376,897
Balance at 31 December 2014	3,280,748	20,522	1,033,439	123,261	4,457,970

Certain of the Group's buildings with an aggregate carrying amount of RMB50,042,000 (31 December 2014: RMB54,623,000) have been pledged as security for bank borrowings of the Group (note 25).

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

Depreciation is charged using straight-line method over the expected useful life, after taking into account its estimated residual value, at the following rates per annum:

Buildings	4.75%-9.50%
Motor vehicles	19.00%
Plant and equipment	9.50%-19.00%

During the year end 31 December 2015, depreciation charge amounting to RMB200,366,000 (for the year ended 31 December 2014: RMB156,559,000) has been capitalised in the Group's biological assets.

15. LAND USE RIGHTS

	RMB'000
Balance at 1 January 2014	67,928
Release to profit or loss	(1,393)
Balance at 31 December 2014	66,535
Addition	7,013
Acquired in a business combination (note 34)	53,009
Release to profit or loss	(2,192)
Balance at 31 December 2015	124,365

	31/12/2015 RMB'000	31/12/2014 RMB'000
Analysed for reporting purpose as:		
– Current assets	3,743	1,667
– Non-current assets	120,622	64,868
	124,365	66,535

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

As at 31 December 2015, land use rights with carrying amount of RMB9,677,000 (31 December 2014: RMB9,921,000) were pledged for certain banking borrowings of the Group (note 25).

16. GOODWILL

	RMB'000
Cost	
Balance at 31 December 2014	310,426
Arising on acquisition of ADH Companies (as defined in note 18)	1,225,460
Impairment loss on goodwill	(94,392)
Balance at 31 December 2015	1,441,494

The Group's goodwill of RMB310,426,000 arose from acquisition of Modern Farm (defined in note 9) in 2009 (the "2009 Goodwill"). Accordingly, for the purposes of impairment testing, the 2009 Goodwill has been allocated to Modern Farm and its subsidiaries at the point of acquisition which are groups of cash generating units engaged in dairy farming operations (the "Modern Farm CGU") and represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the Modern Farm CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 11.7% (31 December 2014: 13.07%). Cash flows beyond the budgeted period are extrapolated using a 2.50% (31 December 2014: 4.00%) 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 the Modern Farm CGU to exceed the aggregate recoverable amount of the Modern Farm CGU. No impairment loss was recognised for the year ended 31 December 2015 (2014: nil).

The Group's goodwill of RMB1,225,460,000 arose from acquisition of the ADH Companies (note 34) in 2015 (the "2015 Goodwill"). Accordingly, for the purposes of impairment testing, the 2015 Goodwill has been allocated to the ADH Companies which are groups of cash generating units engaged in dairy farming operations (the "ADH CGU") and represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the ADH CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 11.7%. Cash flows beyond the budgeted period are extrapolated using a 2.50% 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. An impairment loss of RMB94,392,000 was recognised as at 31 December 2015, being the excess of the carrying amount of the ADH CGU over the recoverable amount of RMB2,211,593,000 determined based on above value in use calculation.

17. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

Name of company	Place of establishment	Registered and paid-up capital		Proportion of ownership interest		Principal activities
				31/12/2015	31/12/2014	
		As at 31 December 2015	As at 31 December 2014	%	%	
Qiushi	PRC	RMB 147,500,000	RMB 118,000,000	14.4	18.0	Planting and sale of forage grass

Qiushi was established on 30 September 2011 as a limited liability company.

In September 2015, the former owners of Inner Mongolia Dachen Agriculture Co., Ltd. (內蒙古達晨農業股份有限公司) ("Dachen Agriculture") injected all assets and liabilities of Dachen Agriculture to Quishi in enchange of 20% equity interest in Qiushi. Upon the completion of the transaction, the Company's share in the equity interest of Qiushi was diluted from 18.0% to 14.4%, and the Group's share of interest in Qiushi increased RMB7,336,000 which was credited to the Group's profit or loss.

The Group appointed one out of three directors to the board of directors of Qiushi since its establishment.

The associate is accounted for using the equity method in the consolidated financial statements.

The summarised financial information in respect of the associate is set out as below.

	31/12/2015 RMB'000	31/12/2014 RMB'000
Current assets	501,065	373,632
Non-current assets	177,625	115,327
Current liabilities	(442,866)	(326,682)
Non-current liabilities	(60,079)	(57,103)

17. INTEREST IN AN ASSOCIATE *(continued)*

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Revenue	331,173	377,217
Loss and total comprehensive loss for the year	(8,209)	(37,723)
Dividend	—	—

Reconciliation of the above summarise financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Net assets of the associate	175,745	105,174
Less: net assets attributable to non-controlling interests	(1,607)	—
Net assets of attributable to owners of Qiushi	174,138	105,174
Proportion of the Group's ownership interest in Qiushi	14.4%	18%
Carrying amount of the Group's interest in Qiushi	25,076	18,931

18. INTERESTS IN JOINT VENTURES

Details of the Group's interests in joint ventures are as follows:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Cost of investments in joint ventures	154,771	88,491
Share of post-acquisition profits and other comprehensive income	12,499	6,717
Decrease due to acquisition of subsidiaries (note 34)	(167,270)	—
	—	95,208

18. INTERESTS IN JOINT VENTURES *(continued)*

Details of the Group's interests in joint ventures at 31 December 2014 and 2015 are as follows:

Name of company	Place of establishment	Issued and fully paud capital		Proportion of ownership interest		Principal activities
				31/12/2015	31/12/2014	
		As at 31 December 2015	As at 31 December 2014	%	%	
Asia Dairy Holdings Limited (the "ADH 1")	Cayman Islands	US$20	US$16	N/A	18	Breeding dairy cows and production of raw milk
Asia Dairy Holdings II Limited (the "ADH II")	Cayman Islands	US$20	US$10	N/A	18	Breeding dairy cows and production of raw milk

On 23 September 2013, the Company entered into an agreement (the "JV Agreement I") with Success Dairy II Limited ("Success Dairy"). Pursuant to the JV Agreement I, the Company and Success Dairy established ADH I, an investment holding company incorporated in the Cayman Islands which indirectly owns Modern Farm (Shanghe) Co., Ltd. (現代牧業(商河)有限公司), a subsidiary established in the PRC. The principal activities of the ADH I and its subsidiaries are breeding dairy cows and production of raw milk in Shandong province, the PRC. According to the JV Agreement I, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company I.

On 23 September 2013, the Company also entered into an agreement (the "JV Agreement II") (the JV Agreement I and the JV Agreement II are collectively referred to as the "JV Agreements") with Success Dairy. Pursuant to the JV Agreement II, the Company and Success Dairy established the ADH II (the ADH I and the ADH II are collectively referred to as the "ADH Companies"), an investment holding company incorporated in the Cayman Islands which indirectly owns Modern Farm (Jinan) Co., Ltd. (現代牧業(濟南)有限公司), a subsidiary established in the PRC. The principal activities of the JV Company II and its subsidiaries are dairy farming operation in Shandong province, the PRC. According to the JV Agreement II, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company II.

Pursuant to the JV Agreements, the Company was entitled to nominate one director of ADH I and ADH II, respectively, and vote on any matters that is a Reserved Matter (as defined in the JV Agreement I and JV Agreement II, including but not limited to execution of material contracts, approve annual budget, major investment, financing and dividend policies) required unanimous consent of the directors nominated by both of the Success Dairy and the Company. The Directors considered that the Reserved Matters are relevant activities as defined under IFRS 10 Consolidated Financial Statements and therefore ADH I and ADH II was under joint control of the Company and Success Dairy.

Pursuant to the JV Agreements: (1) the Company granted to Success Dairy an option to require the Company to purchase from Success Dairy up to all loans or borrowings owed by ADH Companies to Success Dairy from time to time and the shares held by Success Dairy in the ADH Companies from time to time (the above are collectively referred to as the "Success Dairy Assets") (the "Put Option"); and (2) Success Dairy granted the Company an option to require Success Dairy to sell to the Company up to all the Success Dairy Assets (the "Call Option"). The Put and Call Options will be exercisable three years after the first day on which the farms owned by the ADH Companies produce milk for sale and will expire by the end of the seventh year after the date of the JV Agreements. The Put Option and Call Option are exercisable for JV Agreement I and JV Agreement II in 2017 and 2018, respectively.

18. INTERESTS IN JOINT VENTURES *(continued)*

The exercise price for the Put Option and the Call Option shall be calculated with reference to the highest of the following:

(i) ((Market capitalization of the Company + Company net debt) / Company last twelve months (the "LTM") Cash EBITDA x 0.8 x ADH Companies LTM Cash EBITDA — ADH Companies net debt) x Success Dairy's shareholding interest in the ADH Companies;

(ii) (12 x ADH Companies LTM Cash EBITDA — ADH Companies net debt) x Success Dairy's shareholding interests in the ADH Companies; and

(iii) 7% compound investment rate of return on the capital contribution by Success Dairy.

The Put Option and the Call Option may be exercised anytime between three to seven years after the first day on which the ADH Companies produces milk for sale.

On 6 July 2015, the Company and Success Dairy entered into an agreement (the "Share Purchase Agreement") pursuant to which the Company agreed to purchase and Success Dairy agreed to sell the 82% equity interests in the ADH Companies held by Success Dairy (the "Acquisition"). The sale and purchase price of the 82% equity interest is determined by reference to 12 times of the projected average LTM Cash EBITDA of the ADH Companies in year 2017 and 2018. Upon the completion of the Acquisition on 20 July 2015, the ADH Companies became 100% subsidiaries of the Company (note 34). The 18% equity interests previously held by the Company was remeasured at fair value at the date of Acquisition and the excess of the fair value over the carrying value of RMB129,197,000 was credited to profit or loss.

The total consideration payable by the Company for the Acquisition shall be the issuance of 477,429,132 ordinary shares of the Company (the "Consideration Shares"), representing approximately 9.0% of the enlarged issued share capital of the Company.

Pursuant to the Share Purchase Agreement, Success Dairy has undertaken to the Company that it shall not, and will procure that none of its affiliates will, at any time during a three-year period (the "Lock-up Period") from the date on which the sale and purchase of the Success Dairy Assets pursuant to the Share Purchase Agreement has been completed, transfer or dispose of any Consideration Shares.

Upon the expiry of the Lock-up Period, in the event that:

➢ the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is less than US$308 million, the Company shall pay Success Dairy by further issuance of ordinary shares of the Company and/or in immediately available funds the difference between the value of the Consideration Shares and US$308 million (the "Value Adjustment Undertaking I"); or

➢ the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is more than US$363 million, Success Dairy shall pay the Company in cash or shall return part of the Consideration Shares equivalent in value to 20.0% of the difference between the value of the Consideration Shares and US$363 million to the Company (the "Value Adjustment Undertaking II") (the Value Adjustment Undertaking I and the Value Adjustment Undertaking II are collectively referred to as the "Value Adjustment Undertakings").

18. INTERESTS IN JOINT VENTURES *(continued)*

(a) ADH I

The summarised financial information in respect of the ADH I:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Current assets	N/A	76,433
Non-current assets	N/A	452,036
Current liabilities	N/A	(184,882)
Non-current liabilities	N/A	(550)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	N/A	34,144
Current financial liabilities (excluding trade and other payables and provisions)	N/A	—
Non-current financial liabilities (excluding trade and other payables and provisions)	N/A	—

18. INTERESTS IN JOINT VENTURES *(continued)*

(a) ADH I *(continued)*

	For the period from 1 January 2015 to 20 July 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Revenue	63,987	14,098
Profit and total comprehensive income for the period/year	13,282	37,599
Dividend	–	—

	For the period from 1 January 2015 20 July 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Depreciation and amortisation charged to profit or loss	3,641	3,661
Interest income	273	2,537
Interest expense	–	—
Income tax expense	–	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Net assets of ADH I	N/A	343,037
Proportion of the Group's ownership interests in ADH I	N/A	18%
Carrying amount of the Group's interests in ADH I	N/A	61,747

18. INTERESTS IN JOINT VENTURES *(continued)*

(b) ADH II

The summarised financial information in respect of ADH II:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Current assets	N/A	44,324
Non-current assets	N/A	172,814
Current liabilities	N/A	(28,145)
Non-current liabilities	N/A	(3,099)

The above amounts of assets and liabilities include the following:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Cash and cash equivalents	N/A	19,926
Current financial liabilities (excluding trade and other payables and provisions)	N/A	—
Non-current financial liabilities (excluding trade and other payables and provisions)	N/A	—

18. INTERESTS IN JOINT VENTURES *(continued)*

(b) ADH II *(continued)*

	For the period from 1 January 2015 to 20 July 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Revenue	—	—
Profit and total comprehensive income for the period/year	18,842	1,310
Dividend	—	—

	For the period from 1 January 2015 to 20 July 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Depreciation and amortisation charged to profit or loss	4,536	254
Interest income	867	442
Interest expense	—	—
Income tax expense	—	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Net assets of ADH II	N/A	185,894
Proportion of the Group's ownership interest in ADH II	N/A	18%
Carrying amount of the Group's interest in ADH II	N/A	33,461

19. OTHER FINANCIAL LIABILITIES

	31/12/2015 RMB'000	31/12/2014 RMB'000
Financial liabilities measured at FVTPL		
The Put Option and Call Option (note i)	—	147,099
Contingent consideration (note ii)	1,155,472	—
	1,155,472	147,099

Notes:

(i) It represents fair value of the Put Option and Call Option as described in note 18 which was accounted for as derivative financial instrument. The fair value of the Put Option and Call Option was independently valued by Jones Lang LaSalle Corporate Appraisal And Advisory Limited ("JLL"), a firm of independent qualified professional valuers.

Pursuant to the Share Purchase Agreement, the Put Option and the Call Option were de-recognised upon the completion of the Acquisition.

The fair values of the Put Option and the Call Option as at 31 December 2014 have been determined by using a Binominal Option Pricing Model with the following key assumptions:

	31/12/2014 JV Agreement I US$'000	31/12/2014 JV Agreement II US$'000
Spot price	51,291	24,600
Exercise price	55,898	26,810
Expected volatility	40.66%	41.18%
Risk-free interest rate	1.10%	1.47%
Dividend yield	—	—
Return rate	7.00%	7.00%

(ii) It represents the fair value of the Value Adjustment Undertakings as described in note 18 which has been recognised as a financial liability at FVTPL.

The fair values of the Value Adjustment Undertakings as at 31 December 2015 and 20 July 2015 were independently valued by JJL and have been determined by using a Binominal Option Pricing Model with the following assumptions:

	31/12/2015 US$'000	20/07/2015 US$'000
Spot price	123,811	162,003
Exercise price		
– Value Adjustment Undertaking I	308,000	308,000
– Value Adjustment Undertaking II	363,000	363,000
Expected volatility	40.000%	46.258%
Risk-free interest rate	1.33%	1.013%
Dividend yield	0.64%	0.45%

20. BIOLOGICAL ASSETS

A - Nature of activities

The biological assets of the Group are dairy cows held to produce raw milk.

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

	31/12/2015 heads	31/12/2014 heads
Milkable cows	114,751	107,578
Heifers and calves	110,791	93,929
Total dairy cows	225,542	201,507

The Group is exposed to fair value risks arising from changes in price of raw milk. The Group does not anticipate that the price of the raw milk will decline significantly in the foreseeable future and the Directors 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 raw milk.

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately nine 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 raw milk, it is transferred to the category of milkable cows based on the estimated fair value on the date of transfer.

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

i. Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates plantation and breeding. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

ii. Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls and surveys and insurance.

20. BIOLOGICAL ASSETS *(continued)*

B - Quantity of the agricultural produce of the Group's biological assets

	For the year ended 31 December 2015 KG	For the year ended 31 December 2014 KG
Volume of milk sold	924,092,000	931,334,000

C - Value of dairy cows

The fair value less costs to sell of dairy cows at end of the reporting period is set out below:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Milkable cows	4,813,178	4,347,114
Heifers and calves	2,777,700	2,183,700
Total dairy cows	7,590,878	6,530,814

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance at 1 January 2014	2,173,500	3,780,863	5,954,363
Increase due to purchase	78,014	—	78,014
Feeding cost	1,289,577	—	1,289,577
Transfer	(1,434,483)	1,434,483	—
Decrease due to disposal	(209,913)	(252,158)	(462,071)
Gain (loss) arising from changes in fair value less costs of dairy cows	287,005	(616,074)	(329,069)
Balance at 31 December 2014	2,183,700	4,347,114	6,530,814
Increase due to business combinations (note 34)	325,597	143,230	468,827
Feeding cost	1,513,592	—	1,513,592
Transfer	(1,783,112)	1,783,112	—
Decrease due to disposal	(70,290)	(377,155)	(447,445)
Gain (loss) arising from changes in fair value less costs of dairy cows	608,213	(1,083,123)	(474,910)
Balance at 31 December 2015	2,777,700	4,813,178	7,590,878

20. BIOLOGICAL ASSETS *(continued)*

C - Value of dairy cows *(continued)*

The Directors have engaged JLL to assist the Group in assessing the fair values of Group's dairy cows. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in note 33.

As at 31 December 2015, the Group has pledged dairy cows of RMB2,769,734,000 (31 December 2014: RMB3,316,177,000) to banks to secure certain borrowings of the Group (note 25).

The aggregate gain or loss arising during the year ended 31 December 2015 on initial recognition of raw milk and from the change in fair value less costs to sell of dairy cows is analysed as follows:

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	1,203,011	1,666,242
Loss arising from changes in fair value less costs to sell of dairy cows	(474,910)	(329,069)
	728,101	1,337,173

21. INVENTORIES

	31/12/2015 RMB'000	31/12/2014 RMB'000
Feeds	705,291	542,961
Finished goods	51,627	34,194
Others	77,181	63,426
	834,099	640,581

22. TRADE AND OTHER RECEIVABLES

The Group allows credit periods of 30 to 120 days to its customers.

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

	31/12/2015 RMB'000	31/12/2014 RMB'000
Trade receivables		
– within 120 days based on invoice date	880,751	636,715
– after 120 days based on invoice date	2,000	—
	882,751	636,715
Bills receivable	23,153	—
Advances to suppliers	105,082	126,425
Receivable in respect of sales of self-reproduced dairy cows	57,922	27,469
Input value added tax recoverable	7,905	7,888
Interest receivables	1,909	22,850
Receivable in respect of disposal of equipment	10,868	—
Others	8,204	5,425
	1,097,794	826,772

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

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits. Limited and credit quality attributed to customers are reviewed twice a year. 99% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internally credit quality.

Included in the Group's trade receivable balance is a debtor with aggregate carrying amount of RMB2,000,000 (31 December 2014: nil) which is past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over this balance. The age of this receivable is 440 days. Subsequent to 31 December 2015, the Group collected RMB412,000 and the management of the Group expects to collect the remaining balance in year 2016.

22. TRADE AND OTHER RECEIVABLES *(continued)*

Transfers of Financial Assets

The following were the Group's financial assets as at 31 December 2015 that were transferred to suppliers by endorsing those receivables on a full recourse basis but not matured at the end of the reporting period (31 December 2014: nil). As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and associated liabilities. These financial assets are carried at amortised cost in the Group's consolidated financial statements.

As the 31 December 2015

	Bills receivable endorsed to suppliers with full recourse **RMB'000**
Carrying amount of transferred assets	23,153
Carrying amount of associated liabilities	(23,153)
Net position	—

All the bills receivable endorsed to suppliers have a maturity date of less than one year from the the end of the reporting period.

23. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

Pledged bank balances

The pledged bank balances as at 31 December 2015 represent deposits pledged for bank borrowings. The pledged bank balances carry interest at prevailing market saving rates ranging from 0.35% to 3.25% (31 December 2014:0.35% to 3.75%) per annum at 31 December 2015.

Cash and bank balances

Cash and bank balances comprise cash and short-term deposits with an original maturity of twelve months or less which are held with banks and carry interest at prevailing market saving rates ranging from 0.35% to 2.38% (31 December 2014: 0.35% to 3.75%) per annum at 31 December 2015.

Cash and bank balances at 31 December 2015 are denominated in United States Dollar ("US$"), Euro ("EUR"), Hong Kong Dollar ("HK$") and RMB. RMB is not freely convertible 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, cash and bank balances that are denominated in currencies other than the functional currency of the relevant entities are set out below:

	31/12/2015 RMB'000	31/12/2014 RMB'000
US$	140,297	299,642
EUR	924	714
HK$	14,318	951
Australia Dollar ("AU$")	–	5,018

24. TRADE AND OTHER PAYABLES

The credit period granted by suppliers for trade purchases is generally 60 days. The following is an aged analysis of trade and bills payable at the end of the reporting period:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Trade payables		
Within 60 days based on invoice date	817,966	696,563
Over 60 days based on invoice date	83,331	40,786
Bill payables (note)	310,268	104,827
	1,211,565	842,176
Payable for acquisition of property, plant and equipment	631,208	382,405
Accrued staff costs	61,084	56,960
Interest payable	28,680	56,480
Advance payments from customers	12,931	28,941
Others	67,508	36,041
	2,012,976	1,403,003

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

25. BORROWINGS

	31/12/2015 RMB'000	31/12/2014 RMB'000
Bank borrowings	5,647,251	4,687,848
Unsecured borrowings	1,796,381	885,818
Secured borrowings (note i)	3,165,870	3,335,030
Guaranteed borrowings (note ii)	685,000	467,000
	5,647,251	4,687,848
Carrying amount repayable:		
Within one year (note iii)	4,825,521	1,858,398
Between one to two years	749,230	792,538
Between two to five years	72,500	2,036,912
	5,647,251	4,687,848
Less: Amounts due within one year shown under current liabilities	4,825,521	1,858,398
	821,730	2,829,450

25. BORROWINGS *(continued)*

The bank borrowings comprise:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Fixed-rate borrowings	1,841,381	1,128,323
Variable-rate borrowings	3,805,870	3,559,525
	5,647,251	4,687,848

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

	For the year ended 31 December 2015	For the year ended 31 December 2014
Fixed-rate borrowings	0.86%-6.30%	1.73%-6.90%
Variable-rate borrowings	2.15%-7.05%	2.15%-7.05%

Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China and the London Interbank Offered Rate.

As at 31 December 2015, bank borrowings denominated in RMB and US$ are approximately RMB3,045,530,000 (31 December 2014: RMB2,361,421,000) and RMB2,601,721,000 (31 December 2014: RMB2,326,427,000) respectively.

Notes:

i. The loans were secured by

1) certain property, land use rights and biological assets owned by the Group as set out in Note 14, 15 and 20 respectively; and

2) All of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the "Shares") and all dividends, interest and other monies payable in respect of the shares and all other rights, benefits and proceeds in respect of or derived from the Shares (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) of Advanced Dairy Company (Luxemburg) Limited.

ii. The balances were guaranteed by group entities within the Group.

During the year, in respect of bank loans with a carrying amount of US$390,000,000 (equivalent to approximated RMB2,537,340,000) as at 31 December 2015, the Group was not able to meet certain of the terms of the bank loans, which are primarily related to the leverage ratio of the Group. On discovery of the matter, except for a bank loan of US$ 90,000,000 which was repaid in February 2016, the management informed the remaining lenders and commenced renegotiations of the terms of the loans with the relevant bankers. Those negotiations had not been concluded at 31 December 2015. Since the lenders have not agreed to waive their right to demand immediate payment as at the end of the reporting period, these loans have been classified as current liabilities as at December 2015.

Subsequent to 31 December 2015, the Company has obtained the waivers from these lenders to waive there rights to call for immediate repayment of the loans. The next assessment of whether the Group is able to meet the terms of the bank loans of US$300,000,000 will be performed after 30 June 2016.

26. SHORT-TERM DEBENTURES

	31/12/2015 RMB'000	31/12/2014 RMB'000
Short-term debentures - unsecured	400,000	1,100,000

Notes:

i. On 24 September 2015, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through Industrial and Commercial Bank of China Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 3.98% per annum.

ii. On 25 April 2014, Modern Farm issued short-term debenture with a principal amount of RMB700,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of one year. The short-term debenture born a fixed interest rate of 6.00% per annum. It was repaid on 24 April 2015.

iii. On 23 May 2014, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through CITIC Securities Co., Ltd., the leading underwriter, with maturity of one year. The short-term debenture born a fixed interest rate of 6.30% per annum. It was repaid on 22 May 2015.

27. MEDIUM-TERM NOTES

	31/12/2015 RMB'000	31/12/2014 RMB'000
Medium-term notes (Note)	200,000	—

Note: On 11 February 2015, Modern farm issued medium-term notes with an aggregate principal amount of RMB200,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 6.00% per annum.

28. DEFERRED INCOME

	Arising from government grants RMB'000
Balance at 1 January 2014	124,862
Addition	7,016
Released to income	(11,457)
Balance at 31 December 2014	120,421
Addition	33,778
Released to income	(12,375)
Balance at 31 December 2015	141,824

Deferred income represents government grants obtained in relation to the construction and acquisition of property, plant and equipment. Government grants are included in the consolidated statement of financial position as deferred income and credited to the profit or loss on a straight-line basis over the useful lives of the related assets.

29. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised		
At 31 December 2014 and at 31 December 2015	10,000,000	1,000,000
Issued and fully paid		
At 1 January 2014 and at 1 January 2015 - ordinary shares of HK$0.1 each	4,827,339	482,734
Issue of ordinary shares (Note)	477,429	47,743
At 31 December 2015	5,304,768	530,477

	31/12/2015 RMB'000	31/12/2014 RMB'000
Presented as	452,959	415,261

Note:

Pursuant to the Share Purchase Agreement, the Company issued 477,429,132 ordinary shares of the Company to Success Dairy at the fair value of RMB968,833,000, being the average price of the last trading day before the date of the Acquisition (note 18).

30. SHARE-BASED PAYMENT TRANSACTIONS

(a) The Company's Share Option Scheme I

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

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

The Share Options I shall entitle the Scheme I Grantees to subscribe for an aggregate of 40,000,000 new shares upon the exercise of the Share Options I in full at an exercise price of HK$2.89 per share.

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

(a) The Company's Share Option Scheme I *(continued)*

Pursuant to the rules of the Share Option Scheme I, the Share Options I granted to each of the Scheme I Grantees are deemed to be divided into three tranches, each of which consists of one third of the granted options and are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme I Grantees. The financial period for the first tranche is the 12 months ended 30 June 2013; the financial period for the second tranche is the 12 months ended 30 June 2014; and the financial period for the third tranche is the 12 months ended 30 June 2015. Each tranche of the Share Options I after meeting the respective performance target and on fulfilment of the service condition are vested on a one-off basis after the end of the third financial period. Any of the Share Options I not vested as a result of non-fulfillment of the performance target at the end of the respective specific financial periods has automatically lapsed.

Out of the aggregate of 40,000,000 Share Options I, 5,000,000 Share Options I were granted to two directors of the Company ("Share Option A") and the remaining Share Options I were granted to 128 eligible employees ("Share Option B"), respectively. Mr. Sun Yugang awarded under Share Option B was appointed as a director of the Company with effect on 28 June 2013.

Other information of the Share Option I is set out below:

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

The following table discloses movements of the Share Options I during the reporting period:

Category	Outstanding as at 1 January 2015	Forfeited during the year	Outstanding as at 31 December 2015
Share Option A	4,780,267		4,780,267
Share Option B	27,325,916	(2,722,427)	24,603,489
	32,106,183	(2,722,427)	29,383,756

Category	Outstanding as at 1 January 2014	Forfeited during the year	Outstanding as at 31 December 2014
Share Option A	4,780,267	—	4,780,267
Share Option B	28,847,506	(1,521,590)	27,325,916
	33,627,773	(1,521,590)	32,106,183

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

(a) The Company's Share Option Scheme I *(continued)*

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

The Company recognised a share option expense of RMB2,370,000 during the current year (2014: RMB5,694,000) in respect of the Share Option I. All of the Share Options I are exercisable as at 31 December 2015.

(b) The Share Option Scheme II

The Company's share option scheme II (the "Share Option Scheme II") was adopted pursuant to a resolution passed on 5 June 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The maximum number of shares that may be granted under the Share Option Scheme II and other share option schemes shall not exceed 30% of the number of issued shares of the Company as at the date of 5 June 2014. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company then in issue.

(i) The Share Options II-i

On 6 June 2014, the Company announced that a total of 80,000,000 share options (the "Share Options II-i") to subscribe for the shares were granted to three directors and 148 eligible employees (collectively referred to as the "Scheme II-i Grantees"), subject to acceptance of the Scheme II-i Grantees, under the Share Option Scheme II adopted by the Company on 5 June 2014.

The Share Options II-i shall entitle the Scheme II-i Grantees to subscribe for an aggregate of 80,000,000 new shares upon the exercise of the Share Options II-i in full at an exercise price of HK$3.38 per share.

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

(b) The Share Option Scheme II *(continued)*

(i) The Share Options II-i *(continued)*

Pursuant to the rules of the Share Option Scheme II, the Share Options II-i granted to each of the Scheme II-i Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options II-i and are associated with a performance target within a 12-month financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme II-i Grantees. The financial period for the first tranche is the financial year ended 31 December 2014; the financial period for the second tranche is the financial year ended 31 December 2015; and the financial period for the third tranche is the financial year ending 31 December 2016. Each tranche of the Share Options II-i after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis after the end of the third financial period. Any of the Share Options II-i not vested as a result of non-fulfilment of the performance target at the end of the respective specific financial period shall automatically lapse.

Out of the aggregate of 80,000,000 Share Options II-i, 17,000,000 Share Options II-i were granted to three directors of the Company (the "Share Option C") and the remaining Share Options II-i were granted to 148 eligible employees (the "Share Option D"), respectively.

Other information of the Share Options II-i is set out below:

Exercise price of the Share Options II-i	:	HK$3.38
Closing price of the shares on the date of grant:	:	HK$3.38
Validity period of the Share Options II-i:	:	Five (5) years on the date when the Share Options II-i became vested

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

(b) The Share Option Scheme II *(continued)*

(i) The Share Options II-i *(continued)*

The following table discloses movements of the Share Options II-i during the reporting period:

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 31 Dec 2015
Share Option C	17,000,000	–	–	(220,177)	16,779,823
Share Option D	60,848,683	–	–	(8,305,772)	52,542,911
	77,848,683	–	–	(8,525,949)	69,322,734

Category	Outstanding as at 1 January 2014	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 31 Dec 2014
Share Option C	—	17,000,000	—	—	17,000,000
Share Option D	—	63,000,000	—	(2,151,317)	60,848,683
	—	80,000,000	—	(2,151,317)	77,848,683

The fair values of the Share Option C and the Share Option D determined at the date of grant using the Binomial Option Pricing Model were HK$25,827,000 (equivalent to RMB20,530,000) and HK$83,969,000 (equivalent to RMB66,747,000), respectively.

The following assumptions were used to calculate the fair values of the Share Options II-i:

	Share Options C	Share Options D
Grant date share price	HK$3.38	HK$3.38
Exercise price	HK$3.38	HK$3.38
Expected volatility	43.55%	43.55%
Option life	Five years	Five years
Dividend yield	—	—
Risk-free interest rate	1.75%	1.75%
Sub-optional factor	2.2	1.6

Expected volatility was determined by using the historical volatility of the Company's share price over the years since being listed.

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

(b) The Share Option Scheme II *(continued)*

(i) The Share Options II-i *(continued)*

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the Directors. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-i.

The Company recognised a share option expense of RMB 23,646,000 in respect of the Share Option Scheme II-i during the current year (2014: RMB26,204,000). None of the Share Options II-i was exercisable as at 31 December 2014 and 2015.

(ii) The Share Options II-ii

On 17 June 2015, the Company announced that a total of 10,966,673 share options (the "Share Options II-ii") to subscribe for the shares were granted to one executive and 31 eligible employees (collectively referred to as the "Scheme II-ii Grantees"), under the Share Option Scheme II adopted by the Company on 5 June 2014.

Pursuant to the rules of the Share Option Scheme II, the Share Options II-ii granted to each of the Scheme II-ii Grantees are deemed to be divided into three tranches, each of which consists of one third of the Share Options II-ii and are associated with a performance target within a specific financial period. The non-market based performance target, which is set up based on the job responsibilities of the respective grantees, such as production management, financial management, marketing development or procurement management, etc, has been determined by the Board and specified in the offer letter to each of the Scheme II-ii Grantees. The financial period for the first tranche is the financial year ended 31 December 2014 and there is no performance condition but only service condition attached to the first tranche; the financial period for the second tranche is the financial year ended 31 December 2015; and the financial period for the third tranche is the financial year ending 31 December 2016. Each tranche of the Share Options II-ii after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis after the end of the third financial period. Any of the Share Options II-ii not vested as a result of non-fulfilment of the performance target at the end of the respective specific financial period shall automatically lapse.

Out of the aggregate of 10,966,673 Share Options II-ii, 3,333,333 Share Options II-ii were granted to an executive of the Company (the "Share Option E") and the remaining Share Options II-ii were granted to 31 eligible employees (the "Share Option F"), respectively.

Other information of the Share Options II-ii is set out below:

Exercise price of the Share Options II-ii:	HK$2.83
Closing price of the shares on the date of grant:	HK$2.72
Validity period of the Share Options II-ii:	Five (5) years on the date when the Share Options II-ii became vested

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

(b) The Share Option Scheme II *(continued)*

(ii) The Share Options II-ii *(continued)*

The following table discloses movements of the Share Options II-ii during the reporting period:

Category	Outstanding as at 1 January 2015	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2015
Share Option E	–	3,333,333	–	–	3,333,333
Share Option F	–	7,633,340	–	(2,663,884)	4,969,456
	–	10,966,673	–	(2,663,884)	8,302,789

The fair values of the Share Option E and the Share Option F determined at the date of grant using the Binomial Option Pricing Model were HK$3,722,000 (equivalent to RMB2,975,000) and HK$7,389,000 (equivalent to RMB5,827,000) respectively.

The following assumptions were used to calculate the fair values of the Share Options II-ii:

	Share Options E	Share Options F
Grant date share price	HK$2.72	HK$2.72
Exercise price	HK$2.83	HK$2.83
Expected volatility	45.97%	45.97%
Option life	Five years	Five years
Dividend yield	0.45%	0.45%
Risk-free interest rate	1.44%	1.44%
Sub-optional factor	2.2	1.6

Expected volatility was determined by using the historical volatility of the Company's share price over the years since being listed.

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the Directors. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-ii.

The Company recognised a share option expense of RMB4,516,000 in respect of the Share Options II-ii during the current year (2014: nil). None of the Share Options II-ii was exercisable as at 31 December 2015.

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

(c) Modern Farm Option Scheme

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

At 30 June 2010, the amount of paid-in capital in respect of which MF Grantees can subscribe for and remained outstanding under the Modern Farm 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 the 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 (RMB0.74) per share (the "Management Options") to replace the MF Options which lapsed and ceased to have effect at the same time. The Company's management considers that the Management Options granted is a replacement of the MF Options granted and the incremental fair value caused by the replacement of the MF Options with the Management Options is insignificant. The following table discloses movements of the Management Options during the current year:

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding and exercisable as at 31 December 2015
Management Options	60,073,756	–	–	–	60,073,756

Category	Outstanding as at 1 January 2014	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding and exercisable as at 31 December 2014
Management Options	60,073,756	—	—	—	60,073,756

None of share options was exercised during the year ended 31 December 2015 (2014:None).

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 in current year.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, short-term debenture and medium-term notes as disclosed in notes 25, 26 and 27 respectively, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, share premium and reserves.

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 issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31/12/2015 RMB'000	31/12/2014 RMB'000
Financial assets:		
Loans and receivables (including pledged bank balances and cash and bank balances)	1,890,828	1,859,467
Financial liabilities:		
Amortised cost	8,185,331	7,104,950
Financial liabilities at FVTPL		
– Other financial liabilities	1,155,472	147,099

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, pledged bank balances, cash and bank balances, other financial assets, trade and other payables, borrowings, short-term debenture, medium-term notes and other financial liabilities. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk, interest risk and other price 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.

Market risk

(i) Foreign currency risk

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

As at 31 December 2015, the major assets denominated in foreign currency are cash and bank balances disclosed in note 23. The major liabilities denominated in foreign currency are bank borrowings disclosed in notes 25. In addition, the Group's financial liabilities at FLTPL denominated in US$ also expose the Group to fluctuation of US$ relative to RMB.

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.

32. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

(i) Foreign currency risk *(continued)*

Foreign currency sensitivity analysis

2% (31 December 2014:2%) is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates.

The Group was primarily subject to foreign currency risk from the movement of the exchange rates between RMB and US$. At the end of each reporting period, if the exchange rate had been strengthen in RMB against US$ by 2% and all other variables were held constant, the Group's post-tax profit for each reporting period would increase as follow:

	31/12/2015 RMB'000	31/12/2014 RMB'000
US$ denominated assets and liabilities against RMB		
– financial liabilities at FVTPL	(23,109)	(2,942)
– other monetary assets and liabilities	(49,228)	(40,536)
Total	(72,337)	(43,478)

For a 2% weakening of the RMB against US$, there would be an equal and opposite impact on the post-tax profit.

(ii) 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 borrowings, short-term debenture and medium-term notes. 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 loan 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 and pledged 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 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 current year would decrease/increase by RMB18,172,000 (2014: RMB14,932,000).

32. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

(iii) Other price risk

The Group is exposed to stock price risk mainly through the Value Adjustement Undertakings included in other financial liabilities as disclosed in note 19.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to stock price risk at the end of the reporting period.

If stock price of the Company had been 5% higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2015 would increase/decrease by RMB34,546,000/RMB34,416,000.

Credit risk

As at 31 December 2015, 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 Group's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

The Group has concentration of credit risk as over 18% of total trade receivables as at 31 December 2015 (31 December 2014: 31%) were receivables due from the Mengniu Group (defined in note 37), the Group's largest customer with significant influence over the Company.

Liquidity risk

The Group had net current liabilities of approximately RMB4,285,909,000 as at 31 December 2015 (31 December 2014: RMB1,725,295,000). The Directors 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 funds to enable the Group to meet its financial obligations. In addition, the available credit facilities of the Group amounted to approximately RMB6,753,413,000 which remains unutilised as at 31 December 2015. In view of the above, the Directors consider 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 funds are available when required. The Directors monitor 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, the Directors consider the liquidity and source of capital for the daily operation are sufficient.

32. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

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.

	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 31 December 2015							
Non-interest bearing	–	1,408,225	529,855	–	–	1,938,080	1,938,080
Fixed interest rate bank borrowings	0.86-6.30	489,428	1,445,476	–	–	1,934,904	1,841,381
Short-term debentures	3.98	411,523	–	–	–	411,523	400,000
Medium-term notes	6.00	5,762	5,762	11,523	223,047	246,094	200,000
Variable interest rate bank borrowings	2.15-7.05	2,864,862	234,076	788,233	79,382	3,966,553	3,805,870
		5,179,800	2,215,169	799,756	302,429	8,497,154	8,185,331

	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 31 December 2014							
Non-interest bearing	—	1,096,776	220,326	—	—	1,317,102	1,317,102
Fixed interest rate bank borrowings	1.73-6.90	566,077	611,311	—	—	1,177,388	1,128,323
Short-term debentures	6.00-6.30	1,131,329	—	—	—	1,131,329	1,100,000
Variable interest rate bank borrowings	2.15-7.05	325,298	600,114	952,867	2,267,750	4,146,029	3,559,525
Other financial liabilities	—	—	—	—	602,980	602,980	147,099
		3,119,480	1,431,751	952,867	2,870,730	8,374,828	7,252,049

The Group's other financial liabilities are measured at FVTPL as see out in note 19. No liquidity analysis for the Group's financial liabilities at FVTPL as at 31 December 2015 is presented as the Company has the rights to choose to settle the liability in cash or in shares.

32. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

The amounts included above for variable interest rate borrowings are subject to change if changes in variable interest rates differ from these estimates of interest rates determined at the end of the reporting period.

33. FAIR VALUE MEASUREMENTS

Fair value of the Group's biological assets and other financial liabilities that are measured on a recurring basis

The Group's biological assets and other financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these assets and liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Fair value hierarchy

Assets/(liabilities)	Fair value as at 31 December 2015 RMB'000	Fair value as at 31 December 2014 RMB'000	Fair value hierarchy
Biological assets	7,590,878	6,530,814	level 3
Other financial liabilities	(1,155,472)	(147,099)	level 3

Valuation techniques used in fair value measurements

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used in the valuation models:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Put Option and Call Option	Binomial Option Pricing Model	Expected volatility and risk-free interest of the undertakings as disclosed in note 19.	An increase in expected volatility of the option would result in a smaller percentage increase in the fair value measurement of Put Option and Call Option, and vice versa. An increase in risk-free interest rate of the option would result in a smaller percentage increase in the fair value measurement of Put Option and Call Option, and vice versa.
The Value Adjustment Undertakings	Binomial Option Pricing Model	Expected volatility and risk-free interest of the undertakings as disclosed in note 19.	An increase in expected volatility of the Value Adjustment Undertakings would result in a smaller percentage increase in the fair value measurement of Value Adjustment Undertakings, and vice versa. An increase in risk-free interest rate of the Value Adjustment Undertakings would result in a smaller percentage increase in the fair value measurement of Value Adjustment Undertakings, and vice versa.

33. FAIR VALUE MEASUREMENTS *(continued)*

Valuation techniques used in fair value measurements *(continued)*

Type	Valuation technique	Significant unobersvable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Heifers and calves	The fair value of 14 months old heifers is determined by reference to the local market selling price.	Average local market selling prices of the heifers of 14 months old were estimated at RMB 24,500 per head at 31 December 2015 (31 December 2014: RMB 24,500).	An increase in the estimated local market selling price used would result in a smaller percentage increase in the fair value measurement of the heifers and calves, and vice versa.
	The fair values of heifers and calves at age-group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of each reporting period to 14 months plus the margins that would normally be required by a raiser. Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of each reporting period plus the margins that would normally be required by a raiser.	Estimated average feeding costs per head plus margin that would normally be required by a raiser for heifers and calves younger than 14 months old are RMB 16,248 at 31 December 2015, (2014: RMB16,167); average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB 15,983 at 31 December 2015 (2014: RMB 16,222).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in a much smaller percentage increase/decrease in the fair value measurement of the heifers and calves older/younger than 14 months old, and vice versa.
Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	The estimated feed costs per kg of raw milk used in the valuation process are RMB 2.21 for the year ended 31 December 2015 (2014: RMB 2.37), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation.	An increase in the estimated feed costs per kg of raw milk used would result in a smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 24.0 kg to 26.0 kg for the year ended 31 December 2015 (31 December 2014: 24.0 kg to 25.0 kg), depending on the number of the lactation cycles and the individual physical condition.	An increase in the estimated daily milk yield per head used would result in a smaller percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Estimated local future market price for raw milk is RMB 4.39 per kg at 31 December 2015 (31 December 2014: RMB 4.80 per kg).	An increase in the estimated average selling price of raw milk used would result in a much higher percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Discount rate for estimated future cash flow used is 11.70% at 31 December 2015 (31 December 2014: 13.07%).	An increase in the estimated discount rate used would result in a smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.

33. FAIR VALUE MEASUREMENTS *(continued)*

Reconciliation of Level 3 fair value measurements

Biological assets

The reconciliations from the beginning balances to the ending balances for fair value measurements of the biological assets are disclosed in note 20.

The Put Option and Call Option

	Purchased Call Option RMB'000	Written Put Option RMB'000	Total RMB'000
31 December 2015			
At 1 January 2015	93,743	(240,842)	(147,099)
(Loss) gain in profit or loss	(93,743)	240,842	147,099
At 31 December 2015	–	–	–
31 December 2014			
At 1 January 2014	34,517	(76,148)	(41,631)
(Loss) gain in profit or loss	59,226	(164,694)	(105,468)
At 31 December 2014	93,743	(240,842)	(147,099)

The Value Adjustment Undertakings

31 December 2015	
At 1 January 2015	–
Recognition due to business combination (note 34)	(958,345)
Loss in profit or loss	(197,127)
At 31 December 2015	(1,155,472)

Fair value losses on the Group's other financial liabilities held at the year end are included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

34. BUSINESS COMBINATION

As set out in note 18, the Company acquired the ADH Companies on 20 July 2015 and since then the ADH Companies became 100% owned subsidiaries of the Company. The Directors believe that the acquisition of ADH Companies would strengthen the Group's market position as a leading dairy farming company and raw milk producer in the PRC.

Consideration transferred

	RMB'000
The fair value of the Consideration Shares (note i)	968,833
The fair value of the Value Adjustment Undertakings (note ii)	958,345
Total	1,927,178

Notes:

i. Pursuant to the Share Purchase Agreement, the Company issued 477,429,132 Consideration Shares to Success Dairy. RMB968,833,000 represents the fair value of the Consideration Shares issued, using the average price of the last trading day before the date of the Acquisition.

ii. Under the value adjustment undertaking arrangement, the Company provided the Value Adjustment Undertaking I to Success Dairy and Success Dairy provided the Value Adjustment Undertaking II to the Company (note 19). RMB958,345,000 represents the estimated fair value of the Value Adjustment Undertakings as at the date of the Acquisition.

Assets acquired and liabilities recognised at the date of the Acquisition are as follows:

	RMB'000
Property, plant and equipment	485,468
Biological assets	468,827
Land use right	53,009
Inventories	62,483
Trade and other receivables	22,517
Cash and bank balance	75,173
Trade and other payables	(177,150)
Total	990,327

The fair value of trade and other receivable at the date of acquisition amounted to RMB22,517,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB22,517,000 at the date of acquisition.

34. BUSINESS COMBINATION *(continued)*

Consideration transferred *(continued)*

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	1,927,178
Add: fair value of the equity interest in the ADH Companies previously held by the Group	288,609
Less: fair value of identifiable net assets acquired	(990,327)
Goodwill arising on acquisition	1,225,460

Goodwill arose in the Acquisition because the cost of combination included a control premium. In addition, consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the ADH Companies. These benefit are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash inflow on the Acquisition:	RMB'000
Cash consideration paid	—
Less: cash and cash equivalent balances acquired	75,173
	75,173

Included in the profit for the year is RMB87,416,000 attributable to the additional business generated by the ADH Companies. Revenue for the year includes RMB75,777,000 generated by the ADH Companies.

Had the acquisition been completed on January 2015, total group revenue for the year would have been RMB 4,890 million, and profit for the year would have been RMB370 million. The pro forma information is for illustrative purposes only and is not necessarily an indication for revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments under operating leases recognised during the year is RMB12,374,000 (2014: RMB7,437,000).

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

	31/12/2015 RMB'000	31/12/2014 RMB'000
Within one year	10,868	1,197
In the second to fifth year inclusive	19,257	729
	30,125	1,926

Operating lease payments represent rentals payable by the Group for property, plant and equipment and leased land which are negotiated for terms ranging from two to five years and rentals are fixed.

36. CAPITAL COMMITMENTS

	31/12/2015 RMB'000	31/12/2014 RMB'000
Capital expenditure contracted but not provided for:		
in respect of acquisition of property, plant and equipment	151,498	139,351
in respect of capital contribution to joint ventures	–	66,085
	151,498	205,436

37. RELATED PARTY TRANSACTIONS

a. Names and relationship with related parties are as follows:

Qiushi	An associate of the Group
China Mengniu Dairy Co., Ltd. ("Mengniu Company") *	A shareholder with significant influence over the Company
Inner Mongolia Mengniu Dairy (Group) Company Limited **	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy Taian Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Maanshan) Co., Ltd. **	A subsidiary of Mengniu Company
Hubei Frealth Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Shangzhi) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Chabei) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Baoji) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy Meishan Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Saibei Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Suqian) Co., Ltd. **	A subsidiary of Mengniu Company
Shijiazhuang Junlebao Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Wuhan) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Tongliao) Co., Ltd. **	A subsidiary of Mengniu Company
Inner Mongolia Mengniu Hi-tech Dairy Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu HiTech Dairy (Maanshan) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Jiaozuo) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Tai Yuan) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Qingyuan) Co., Ltd.**	A subsidiary of Mengniu Company
Mengniu Dairy (Beijing) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Baoding) Co., Ltd. **	A subsidiary of Mengniu Company
Baoding Mengniu Beverage Co., Ltd.**	A subsidiary of Mengniu Company
Mengniu Dairy (Hengshui) Co., Ltd. **	A subsidiary of Mengniu Company
Mengniu Dairy (Tangshan) Co., Ltd. **	A subsidiary of Mengniu Company
Modern Farm (Shanghe) Co., Ltd.***	A subsidiary of ADH I
Modern Farm (Jinan) Co., Ltd.***	A subsidiary of ADH II

* Mengniu Company has become a substantial shareholder of the Company and was able to exercise significant influence over the Group since 22 May 2013. Mengniu Company is principally engaged in milk processing industry in the PRC and listed on the Main Board of the Stock Exchange.

** These entities are subsidiaries of Mengniu Company (collectively referred to as "Mengniu Group").

*** These two entities became subsidiaries of the Group since the Acquisition on 20 July 2015. The related party transaction disclosed in this note include the transaction between the Group and these two entities before the Acquisition.

37. RELATED PARTY TRANSACTIONS *(continued)*

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

Amounts due from

	31/12/2015 RMB'000	31/12/2014 RMB'000
Mengniu Group		
Trade and other receivable		
Within 120 days based on invoice date	162,520	197,657
Modern Farm (Shanghe) Co., Ltd.		
Receivable for disposal of dairy cows	N/A	27,571
Modern Farm (Jinan) Co., Ltd.		
Receivable for disposal of dairy cows	N/A	236

Amounts due to

	31/12/2015 RMB'000	31/12/2014 RMB'000
Mengniu Group		
Advance from customers	8,333	22,661
Qiushi		
Trade payable		
Within 60 days based on invoice date	6,086	81,142
Modern Farm (Shanghe) Co., Ltd.		
Other payable	N/A	12,208

37. RELATED PARTY TRANSACTIONS *(continued)*

c. During the reporting period, the Group had the following transactions with related parties

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Sales of raw milk to the Mengniu Group	2,304,424	3,006,934
Purchases of forage grass from Qiushi	156,572	328,074
Disposals of property, plant and equipment to Qiushi	10,867	—

	For the period from 1Janurary 2015 to 20 July 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Disposals of dairy cows to Modern Farm (Shanghe) Co., Ltd.	15,807	165,192

The sales and purchase prices were based on mutually agreed terms.

d. Compensation of key management personnel

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

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Salaries and other benefits	7,043	7,803
Recognition of equity-settled share-based payments	10,030	9,633
Retirement benefits scheme contributions	162	179
	17,235	17,615

38. SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2015 and 2014 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
			31 December 2015		31 December 2014			
			Directly %	Indirectly %	Directly %	Indirectly %		
Advanced Dairy Company (Luxemburg) Limited ("Lux")	Luxemburg	US$138,500,000	100	–	100	—	Hong Kong	Investment holding
Aquitair Holdings Limited ("Aquitair")	Republic of Ireland	US$472,307,046	–	100.00	—	100.00	Hong Kong	Investment holding
Modern Farm (note i)	PRC	RMB563,301,046	–	97.87	—	97.87	PRC	Production of milk
Asia Dairy Holdings Co., Ltd. (note iii)	Cayman Islands	US$20	100.00	–	N/A	N/A	Hong Kong	Investment holding
Asia Dairy Holdings II Co., Ltd. (note iii)	Cayman Islands	US$20	100.00	–	N/A	N/A	Hong Kong	Investment holding
Asia Dairy Trading and Holdings Co., Ltd. (note iii)	Hong Kong	HK$5	–	100.00	N/A	N/A	Hong Kong	Investment holding
Asia Dairy Trading and Holdings II Co., Ltd. (note iii)	Hong Kong	HK$4	–	100.00	N/A	N/A	Hong Kong	Investment holding
Modern Farm (Shanghe) Co., Ltd (note iii)	PRC	RMB425,000,000	–	100.00	N/A	N/A	PRC	Breeding dairy cows and production of milk
Modern Farm (Jinan) Co., Ltd. (note iii)	PRC	RMB425,000,000	–	100.00	N/A	N/A	PRC	Breeding dairy cows and production of milk
Helingeer Modern Farming Co., Ltd. (note ii)	PRC	RMB93,670,447	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. (note ii)	PRC	RMB90,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Wenshang Modern Farm Co., Ltd. (note ii)	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Shangzhi Modern Farm Co., Ltd. (note ii)	PRC	RMB55,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Hongya Modern Farm Co., Ltd (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Production of fertilisers
Modern Farming (Chabei) Co., Ltd (note ii)	PRC	RMB8,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming (Baoji) Co., Ltd (note ii)	PRC	RMB10,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Maanshan Modern Farming Feedstock Co., Ltd. (note ii)	PRC	RMB18,000,000	–	97.87	—	97.87	PRC	Sales of feeds

38. 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
			31 December 2015		31 December 2014			
			Directly %	Indirectly %	Directly %	Indirectly %		
Modern Farm (Feidong) Co., Ltd. (note ii)	PRC	RMB50,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming (Tongshan) Co., Ltd. (note ii)	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming (Tongliao) Co., Ltd (note ii)	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd (note ii)	PRC	RMB5,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farm (Bengbu) Co., Ltd (note ii)	PRC	RMB30,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farm (Anhui) Dairy Product Sales Co., Ltd.	PRC	RMB45,000,000	–	97.87	—	97.87	PRC	Sales of milk
Modern Farm (Shuangcheng) Co., Ltd. (note ii)	PRC	RMB20,000,000	–	97.87	—	97.87	PRC	Breeding dairy cows and production of milk
Modern Farm Shanghe Feeding Co., Ltd. (note ii)	PRC	RMB10,000,000	–	97.87	—	—	PRC	Production of fodder
China Modern Dairy I Ltd.	Cayman Islands	US$1.00	100.00	–	100.00	—	Hong Kong	Investment holding
China Modern Dairy II Ltd.	British Virgin Islands	US$1.00	–	100.00	—	100.00	Hong Kong	Investment holding
China Leading Dairy Ltd.	Hong Kong	HK$1.00	–	100.00	—	100.00	Hong Kong	Investment holding
Modern Farming (Anhui) Dairy Co.,Ltd (note i)	PRC	RMB20,000,000	–	98.91	—	98.91	PRC	Sales of milk
Modern Farm (Bengbu) Dairy Product Sales Co., Ltd.	PRC	RMB5,000,000	–	53.83	—	53.83	PRC	Sales of milk
Modern Farm (Saibei) Dairy Product Sales Co., Ltd.	PRC	RMB5,000,000	–	53.83	—	53.83	PRC	Sales of milk

Notes:

i. The entity was established in PRC and became a sino-foreign investment enterprise.

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

iii. These entities were acquired during the current year (note 34).

iv. None of the subsidiaries have issued any debt securities at the end of the year.

39. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2015	31/12/2014	31/12/2015 RMB'000	31/12/2014 RMB'000	31/12/2015 RMB'000	31/12/2014 RMB'000
Modern Farm	PRC	2.13%	2.13%	22,422	27,571	168,135	145,713

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	31/12/2015 RMB'000	31/12/2014 RMB'000
Current assets	2,735,326	2,505,702
Non-current assets	11,959,321	11,077,115
Current liabilities	(4,848,027)	(4,414,604)
Non-current liabilities	(3,849,490)	(3,579,344)
Equity attributable to owners of the Company	5,828,995	5,443,156
Non-controlling interests	168,135	145,713

39. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(continued)*

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Revenue	4,750,816	5,026,706
Expenses	4,342,555	4,089,362
Profit for the year	408,261	937,344
Profit attributable to owners of the Company	385,839	909,773
Profit attributable to the non-controlling interests	22,422	27,571
Profit for the year	408,261	937,344
Dividend paid to shareholder	–	—
Net cash inflow from operating activities	1,445,969	1,616,200
Net cash outflow from investing activities	(1,112,901)	(1,806,991)
Net cash (outflow) inflow from financing activities	(83,352)	336,303
Net cash inflow	249,716	145,512

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	31/12/2015 RMB'000	31/12/2014 RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries	5,506,345	3,315,522
Investment in joint ventures	—	95,208
Amounts due from a subsidiary	2,913,422	2,460,407
	8,419,767	5,871,137
CURRENT ASSETS		
Other receivables	35,406	36,581
Cash and bank balances	73,118	86,591
	108,524	123,172
CURRENT LIABILITIES		
Other payables - others	12,230	10,857
Amounts due to subsidiaries	17,625	3,819
Borrowings - within one year	2,537,340	—
	2,567,195	14,676
NET CURRENT ASSETS	(2,458,671)	108,496
TOTAL ASSETS LESS CURRENT LIABILITIES	5,961,096	5,979,633
CAPITAL AND RESERVES		
Share capital	452,959	415,261
Reserves	4,352,665	3,552,353
	4,805,624	3,967,614
NON-CURRENT LIABILITIES		
Borrowings - due after one year	—	1,864,920
Other financial liabilities	1,155,472	147,099
	1,155,472	2,012,019
	5,961,096	5,979,633

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in equity

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note)	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2014	415,261	2,409,936	1,382,199	12,648	(136,480)	4,083,564
Loss and total comprehensive expense for the year	—	—	—		(147,848)	(147,848)
Recognition of equity-settled share-based payment	—	—	—	31,898	—	31,898
Balance at 31 December 2014	415,261	2,409,936	1,382,199	44,546	(284,328)	3,967,614
Loss and total comprehensive expense for the year	–	–	–	–	(112,352)	(112,352)
Payment of dividends	–	(49,003)	–	–	–	(49,003)
Recognition of equity-settled share-based payment	–	–	–	30,532	–	30,532
Issue of ordinary shares for acquisition of the subsidiaries	37,698	931,135	–	–	–	968,833
Balance at 31 December 2015	452,959	3,292,068	1,382,199	75,078	(396,680)	4,805,624

Note: Other reserve represented the contribution from the owners of the Company for the operation of the Group.

41. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 25, there is no other significant events after the reporting period.

Five-year Financial Summary

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000	For the 6 months ended 31 December 2013 RMB'000
Revenue	4,826,341	5,026,706	1,901,248
Cost of sales before biological fair value adjustment	(3,167,298)	(3,161,345)	(1,280,342)
Biological fair value adjustment included in cost of sales	(1,203,011)	(1,666,242)	(542,821)
Loss arising from changes in fair value less costs to sell of dairy cows	(474,910)	(329,069)	(16,408)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	1,203,011	1,666,242	542,821
Other income	32,094	40,213	15,902
Selling and distribution costs	(194,542)	(111,909)	(33,595)
Administrative expenses	(243,566)	(214,561)	(84,678)
Share of loss of an associate	(1,192)	(6,791)	(872)
Share of profit (loss) of joint ventures	5,782	7,004	(287)
Other gains and losses, net	(107,077)	(209,648)	(37,562)
Other expenses	(5,173)	(4,635)	(769)
Profit before finance costs and tax	670,459	1,035,965	462,637
Finance costs	(315,078)	(265,601)	(113,505)
Profit before tax	355,381	770,364	349,132
Income tax expense	(11,663)	(7,476)	(5,875)
Profit and total comprehensive income for the year/period	343,718	762,888	343,257
Profit and total comprehensive income attributable to:			
Owners of the Company	321,296	735,317	327,487
Non-controlling interests	22,422	27,571	15,770
	343,718	762,888	343,257
Earnings per share (RMB)			
Basic (cents)	6.37	15.23	6.79
Diluted (cents)	6.32	15.08	6.72

	From 1 July 2012 to 30 June 2013 RMB'000	From 1 July 2011 to 30 June 2012 RMB'000
Sales of milk produced	2,480,561	1,677,615
(Loss)/gain arising from changes in fair value less costs to sell of dairy cows	(38,599)	131,481
Other income	106,343	116,551
Farm operating expenses	(1,655,803)	(1,148,697)
Employee benefits expenses	(170,847)	(127,989)
Depreciation	(135,472)	(94,798)
Share of profit of an associate	3,371	1,983
Net foreign exchange gain (loss)	9,127	(4,335)
Other gains and losses	(2,400)	(1,052)
Other expenses	(92,555)	(71,985)
Profit before finance costs and tax	503,726	478,774
Finance costs	(153,679)	(71,323)
Profit before tax	350,047	407,451
Income tax expense	(8,051)	(143)
Profit and total comprehensive income for the year	341,996	407,308
Attributable to:		
Equity shareholders of the Company	323,832	398,482
Minority interests	18,164	8,826
Profit and total comprehensive income for the year	341,996	407,308
Earnings per share (RMB)		
Basic (cents)	6.74	8.30
Diluted (cents)	6.67	8.22

	31/12/2015 RMB'000	31/12/2014 RMB'000	31/12/2013 RMB'000	30/6/2013 RMB'000	30/6/2012 RMB'000
Assets and liabilities					
Property, plant and equipment	5,376,897	4,457,970	4,032,642	3,772,270	2,964,585
Land use rights	120,622	64,868	66,261	67,098	67,577
Goodwill	1,441,494	310,426	310,426	310,426	310,426
Interest in an associate	25,076	18,931	25,722	26,594	15,483
Interest in joint ventures	—	95,208	32,829	—	—
Long-term prepaid rentals	—	—	—	—	65
Deposit for acquisition of biological assets	—	—	—	—	9,024
Biological assets	7,590,878	6,530,814	5,954,363	5,465,008	4,185,600
Other financial assets	—	—	34,517	—	—
Net current liabilities	(4,285,909)	(1,725,295)	(2,446,062)	(1,777,128)	(402,045)
Total assets less current liabilities	10,269,058	9,752,922	8,010,698	7,864,268	7,150,715
Non-current liabilities	(2,319,026)	(3,096,970)	(2,149,964)	(2,355,544)	(2,017,999)
NET ASSETS	7,950,032	6,655,952	5,860,734	5,508,724	5,132,716
Capital and reserves					
Share capital	452,959	415,261	415,261	414,564	413,075
Share premium and Reserves	7,328,938	6,094,978	5,327,763	4,992,220	4,653,415
Total equity attributable to equity shareholders of the Company	7,781,897	6,510,239	5,743,024	5,406,784	5,066,490
Non-controlling interests	168,135	145,713	117,710	101,940	66,226
	7,950,032	6,655,952	5,860,734	5,508,724	5,132,716