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If you are in any doubts as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Mengniu Dairy Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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CHINA MENGNIU DAIRY COMPANY LIMITED
中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

**MAJOR TRANSACTION IN RELATION TO THE POSSIBLE CONDITIONAL
MANDATORY CASH OFFERS FOR CHINA MODERN DAIRY HOLDINGS LTD.
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to China Mengniu Dairy Company Limited



Joint financial adviser to China Mengniu Dairy Company Limited



A notice convening an EGM of China Mengniu Dairy Company Limited to be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 3 February 2017 at 10:00 a.m. is set out on pages V-1 to V-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong share registrar of China Mengniu Dairy Company Limited, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), not less than 48 hours before the time for holding the EGM. The completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) if you wish.

* For identification purposes only

16 January 2017

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“associate(s)”	has the meaning ascribed thereto under the Takeovers Code
“Business Day”	means a day other than a Saturday or Sunday or public holiday in Hong Kong
“Cayman Islands Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CMD”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued CMD Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“CMD Board”	the board of directors of CMD
“CMD Directors”	the directors of CMD
“CMD Group”	CMD and its subsidiaries
“CMD Option(s)”	outstanding share option(s) granted by CMD pursuant to the Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III
“CMD Shares”	ordinary share(s) of par value HK\$0.10 each in the share capital of CMD
“CMD Shareholder(s)”	holder(s) of the CMD Share(s)
“Composite Document”	the composite offer document and offeree board circular in respect of the Offers to be despatched to the CMD Shareholders and Optionholders
“Concert Parties”	with respect to a party, parties acting in concert with it as such term is defined under the Takeovers Code
“Conditions”	conditions to SPA Completion, further details of which are set out in the paragraph headed “Conditions to the SPA” under the section headed “Sale and Purchase Agreement” of this circular

DEFINITIONS

“connected person”	has the meaning ascribed to it in the Listing Rules
“Consideration”	HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350 or HK\$1.94 per Subject Share, which is equivalent to US\$0.25 per Subject Share, as determined by the Exchange Rate
“DBS”	DBS Asia Capital Limited, an institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the joint financial adviser to Mengniu in relation to the Offers
“EGM”	extraordinary general meeting of Mengniu to be held for the purpose of enabling Mengniu Shareholders to consider and vote to approve the Transaction
“Enlarged Group”	the Mengniu Group immediately after completion of the Offers
“€”	the euro, the official currency of the eurozone
“Exchange Rate”	US\$1:HK\$7.7565, being the closing mid-point HK\$ to US\$ “bank buy” and “bank sell” exchange rate announced by the Hong Kong and Shanghai Banking Corporation Limited on the date immediately preceding the date of the SPA
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing CMD Shares”	477,429,132 CMD Shares held by Success Dairy II as at the date of this circular
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Investor Option”	the option granted by CMD to Success Dairy II pursuant to which Success Dairy II shall have the right, but not an obligation, to request CMD to issue up to 488,036,618 CMD Shares (being the New CMD Shares) and to pay a cash top-up of US\$13,424,231 which remains to be payable by CMD to Success Dairy II to terminate certain valuation adjustment arrangement
“Joint Announcement”	the announcement jointly issued by Mengniu and CMD dated 4 January 2017
“Latest Practicable Date”	13 January 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	15 March 2017, or such other date as the parties to the SPA may agree in writing
“Main Board”	the Main Board of the Stock Exchange
“Management Option Scheme”	the share option scheme adopted by CMD on 31 October 2010
“Mengniu”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319)
“Mengniu Director(s)”	director(s) of Mengniu
“Mengniu Group”	Mengniu and its subsidiaries
“Mengniu Share(s)”	ordinary share(s) of par value HK\$0.10 each in the share capital of Mengniu
“Mengniu Shareholder(s)”	holder(s) of the Mengniu Share(s)

DEFINITIONS

“New CMD Shares”	488,036,618 CMD Shares to be issued by CMD to Success Dairy II prior to the SPA Completion Date pursuant to the Supplemental Deed
“Non-Accepting Shareholders”	the Individuals and the CMD Shareholders who (i) (whether by themselves or through their authorized representative) have unconditionally and irrevocably confirmed and undertaken to Mengniu and CMD that they will not; or (ii) are not in a position to, accept the Share Offer
“Offer Price”	HK\$1.94 or US\$0.25 per Offer Share
“Offer Share(s)”	all the CMD Share(s) in issue and any CMD Share(s) duly issued while the Offers remain open for acceptance, other than already owned or agreed to be acquired by Mengniu and its Concert Parties, which are subject to the Offers
“Offers”	the Share Offer and the Option Offer
“Optionholders”	the holders of the CMD Options
“Option Offer”	the proposal to be made by Mengniu in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding CMD Options
“Option Schemes”	collectively, Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III
“PRC”	the People’s Republic of China, (excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purpose of this circular)
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement” or “SPA”	the conditional sale and purchase agreement entered into between Success Dairy II and Mengniu dated 4 January 2017 in respect of the acquisition of the Subject Shares
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Share Offer”	the possible conditional mandatory cash offer to be made by UBS and DBS, for and on behalf of Mengniu for all the issued CMD Shares (other than those already owned or agreed to be acquired by Mengniu and its Concert Parties) in accordance with the Takeovers Code
“Share Option Scheme I”	the share option scheme adopted by CMD on 17 November 2011
“Share Option Scheme II”	the share option scheme adopted by CMD on 5 June 2014
“Share Option Scheme III”	the share option scheme adopted by CMD on 30 September 2016
“SPA Completion”	completion of the sale and purchase of the Subject Shares in accordance with the SPA
“SPA Completion Date”	the date which is two (2) Business Days after the date on which the last of the Conditions to be satisfied or waived is satisfied or waived (such date not being later than the Long Stop Date), or such other date as may be agreed in writing between Mengniu and CMD
“Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“Subject Shares”	965,465,750 CMD Shares, comprising the Existing CMD Shares and New CMD Shares
“Success Dairy II”	Success Dairy II Limited, an exempt company organized under the laws of the Cayman Islands (registered no. 281050) whose registered office is at Maple Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands
“Supplemental Deed”	the supplemental deed to the share and purchase agreement dated 6 July 2015, entered into, amongst others, between Success Dairy II and CMD as mentioned in the announcement of CMD dated 12 December 2016

DEFINITIONS

“Takeovers Code”	the Code on Takeovers and Mergers published by the SFC
“Third Party Rights”	any interest or equity of any person (including any right to acquire, option or right of pre-emption or conversion) or any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention or any other security agreement or arrangement, or any agreement to create any of the above
“Transaction”	the transactions contemplated by the Transaction Documents
“Transaction Documents”	the SPA, the Joint Announcement, the Composite Document and all of the agreed form documents and all other documents entered into on or after the date of the SPA which, in each case, is entered into pursuant to the SPA and/or any of the agreed form documents relating to the Transaction
“UBS”	UBS AG, acting through its Hong Kong branch, an institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the financial adviser to Mengniu in relation to the Transaction
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States of America



CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

Directors:

Mr. Jeffrey, Minfang Lu
Mr. Bai Ying
Ms. Wu Wenting
Mr. Ma Jianping[#]
Mr. Niu Gensheng[#]
Mr. Tim Ørting Jørgensen[#]
Mr. Filip Kegels[#]
Mr. Jiao Shuge (alias Jiao Zhen)*
Mr. Julian Juul Wolhardt*
Mr. Zhang Xiaoya*
Mr. Yau Ka Chi*

Company Secretary:

Mr. Kwok Wai Cheong, Chris

Registered Office:

Maples Corporate Services Limited
P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Principal Place of Business in

Hong Kong:

Suites 801-2, 8th Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

[#] *Non-executive director*

* *Independent Non-executive director*

16 January 2017

To Mengniu Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO THE POSSIBLE CONDITIONAL
MANDATORY CASH OFFERS FOR CHINA MODERN DAIRY HOLDINGS LTD.
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the Joint Announcement made by Mengniu and CMD dated 4 January 2017 where it was announced that on 4 January 2017, Mengniu entered into a sale and purchase agreement with Success Dairy II, pursuant to which Mengniu has conditionally agreed to acquire and Success Dairy II has conditionally agreed to sell

* *For identification purposes only*

LETTER FROM THE BOARD

965,465,750 CMD Shares (being the Subject Shares) for a Consideration of HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350, as determined by the Exchange Rate. The Consideration represents HK\$1.94 per CMD Share which is equivalent to US\$0.25 per CMD Share, as determined by the Exchange Rate, assuming the Investor Option is exercised. As at the date of this circular, Success Dairy II holds the Existing CMD Shares and the Investor Option.

As disclosed in CMD's announcement dated 12 December 2016, Success Dairy II has been granted the Investor Option. An irrevocable notice to exercise the Investor Option has been served on CMD by Success Dairy II on 28 December 2016, which is conditional upon, among other things, Mengniu Shareholders having approved the Transaction. Pursuant to the Supplemental Deed, upon exercise of the Investor Option and as clarified by CMD's announcement dated 21 December 2016, CMD shall issue 488,036,618 CMD Shares to Success Dairy II pursuant to the terms of the Investor Option. Together with the Existing CMD Shares held by Success Dairy II, Success Dairy II will hold an aggregate of 965,465,750 CMD Shares, representing approximately 16.7% of the total issued share capital of CMD on a fully diluted basis on SPA Completion, assuming no repurchases or other issuances of CMD Shares. Upon exercise of the Investor Option, Success Dairy II will also be entitled to receive a cash top-up amount of US\$13,424,231 which remains to be payable by CMD. Mengniu is not obliged to make payment of such cash top-up amount under the SPA.

As at the date of this circular, Mengniu owns 1,347,903,000 CMD Shares, representing approximately 25.4% of the total issued share capital of CMD. Immediately after SPA Completion, Mengniu and its Concert Parties are expected to beneficially own in aggregate 2,313,368,750 CMD Shares, representing approximately 39.9% of the total issued share capital of CMD. Mengniu will accordingly be required to make (i) a conditional mandatory cash offer for all the issued CMD Shares not already owned or agreed to be acquired by Mengniu and its Concert Parties pursuant to Rule 26.1 of the Takeovers Code, and (ii) an appropriate offer to the Optionholders for the cancellation of the outstanding CMD Options pursuant to Rule 13 of the Takeovers Code.

2. LISTING RULES IMPLICATIONS AND MAJOR TRANSACTION

Assuming SPA Completion takes place and all of CMD Shareholders (other than Mengniu and its Concert Parties and the Non-Accepting Shareholders) tender Offer Shares for acceptance under the Offers, CMD will become a subsidiary of Mengniu. As such, the applicable percentage ratios under Rule 14.07 of the Listing Rules for Mengniu in respect of the Offers are 25% or more but all applicable percentage ratios are less than 100%. Therefore the Offers constitute a major transaction for Mengniu which is subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Mengniu Directors, after having made all reasonable enquiries, no Mengniu Shareholder or any of their respective associates have any material interest in the Transaction which is different from other Mengniu Shareholders. As such, no Mengniu Shareholder would be required to abstain from voting in favour of the resolution approving the Transaction.

LETTER FROM THE BOARD

SPA Completion is conditional upon the fulfilment (or, with respect to certain Conditions, waiver) of the Conditions set out under the paragraph headed “Conditions to the SPA” under the section headed “Sale and Purchase Agreement” in this circular. Accordingly, SPA Completion may or may not take place and the Offers may or may not be made. Mengniu Shareholders and potential investors should therefore exercise caution when dealing in Mengniu Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

All statements, other than statements of historical facts included in this circular, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as “seek”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “plan”, “strategy”, “forecast” and similar expressions or future or conditional verbs such as “will”, “would”, “should”, “could”, “may” and “might”. These forward-looking statements reflect Mengniu’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Readers are cautioned that such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks, uncertainties and other factors, certain of which are beyond Mengniu’s control that may cause the actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to: actions taken by CMD, changes in applicable laws, general business and economic conditions and the behavior of other market participants. No assurance can be given that such forward-looking statements will prove to have been correct. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this circular. Mengniu disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable laws.

3. SALE AND PURCHASE AGREEMENT

Date: 4 January 2017

Parties: Mengniu

Success Dairy II

To the best of the knowledge, information and belief of Mengniu Directors, having made all reasonable enquiries, Success Dairy II and its ultimate beneficial owners are (i) third parties independent of and not connected with Mengniu and its connected persons, and are (ii) not their Concert Parties, save that Mr. Julian Juul Wolhardt, who is a Mengniu Director, is also a director of Success Dairy II.

LETTER FROM THE BOARD

The Subject Shares

The Subject Shares comprise the Existing CMD Shares and the New CMD Shares, representing approximately 16.7% of the total issued share capital of CMD on SPA Completion on a fully diluted basis, assuming no repurchases or other issuances of CMD Shares by CMD.

Upon SPA Completion, Success Dairy II will cease to hold any CMD Shares.

Consideration under the SPA

The Consideration under the SPA is HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350, as determined by the Exchange Rate. The Consideration represents HK\$1.94 per CMD Share or US\$0.25 per CMD Share, using the Exchange Rate, assuming the Investor Option is exercised. The Exchange Rate represents the closing mid-point HK\$ to US\$ "bank buy" and "bank sell" exchange rate announced by the Hong Kong and Shanghai Banking Corporation Limited on the date immediately preceding the date of the SPA.

Conditions to the SPA

SPA Completion is conditional on the following Conditions, among others, being satisfied or waived in accordance with the SPA:

- (a) Success Dairy II becoming the beneficial owner of 965,465,750 CMD Shares, representing not less than 16.7% of the issued share capital of CMD on SPA Completion on a fully diluted basis, assuming no repurchases or other issuances of CMD Shares by CMD;
- (b) the listing of the CMD Shares and the listing approval for the New CMD Shares to be issued upon the exercise of the Investor Option not having been withdrawn (or otherwise subject to any conditions), the CMD Shares continuing to be traded on the SEHK prior to the SPA Completion Date (save for any temporary suspension of trading of CMD Shares as a result of the Transaction); and
- (c) Mengniu Shareholders having approved the Transaction at the EGM.

As at the Latest Practicable Date, none of the Conditions had been satisfied or waived. The Condition set out in (c) may not be waived in any event by Mengniu or Success Dairy II. The Conditions set out in (a) and (b) may only be waived by Mengniu in writing.

If the above Conditions have not been satisfied or waived on or before 11:59 p.m. on the Long Stop Date, then the SPA shall terminate automatically with immediate effect.

LETTER FROM THE BOARD

SPA Completion

SPA Completion shall take place on the SPA Completion Date after the satisfaction or waiver of the Conditions above (as the case may be), save for Conditions which cannot be waived or which can only be satisfied upon SPA Completion.

Termination

If the Conditions have not been satisfied or waived on or before the Long Stop Date, the SPA will automatically terminate. In such event, no party to the SPA shall have any claim under the SPA against any other party except in respect of any rights and liabilities which have accrued before termination or under any surviving provisions.

4. POSSIBLE CONDITIONAL MANDATORY CASH OFFERS

Upon SPA Completion, UBS as the financial adviser and DBS as the joint financial adviser, will make the Offers, for and on behalf of Mengniu, in compliance with the Takeovers Code on the following terms:

Principal Terms of the Offers

The Share Offer

For each Offer Share HK\$1.94 or US\$0.25 in cash

The Offer Price of HK\$1.94 or US\$0.25 for each Offer Share under the Share Offer is the same as the equivalent consideration per Subject Share of HK\$1.94 or US\$0.25 pursuant to the SPA, assuming the Investor Option is exercised and as determined by the Exchange Rate.

The Share Offer is conditional only upon Mengniu having received acceptances in respect of CMD Shares which, together with the CMD Shares Mengniu intends to acquire from Success Dairy II, will result in Mengniu and its Concert Parties holding more than 50% of the total issued share capital of CMD.

The Option Offer

For each CMD Option with exercise
price lower than the Offer Price HK\$1.94 or US\$0.25 less
the exercise price in respect of
the relevant CMD Option in cash

For each CMD Option with exercise
price above the Offer Price HK\$0.0001 or US\$0.000013 in cash

LETTER FROM THE BOARD

The Option Offer will be extended to all eligible Optionholders in accordance with the Takeovers Code. The Option Offer will be conditional only upon the Share Offer becoming or being declared unconditional.

The offer price per CMD Option under the Option Offer is illustrated in the following table:

CMD Option	Vested	Exercise price per CMD Share	Offer price per CMD Option (HK\$/US\$) ^(Note)
CMD Options granted under the Management Option Scheme	Yes	HK\$0.86	HK\$1.08/US\$0.14
CMD Options granted under the Share Option Scheme I	Yes	HK\$2.89	HK\$0.0001/US\$0.000013
CMD Options granted under the Share Option Scheme II	No	HK\$3.38 HK\$2.83 HK\$1.52	HK\$0.0001/US\$0.000013 HK\$0.0001/US\$0.000013 HK\$0.42/US\$0.05
CMD Options granted under the Share Option Scheme III	No	HK\$1.71	HK\$0.23/US\$0.03

Note: The US\$ is converted using the Exchange Rate

The Offer Price is at HK\$1.94 or US\$0.25 and will not be increased. Further, the Offers will be open for acceptance for 21 days following the date on which the Composite Document is posted. Unless the Offers become unconditional as to acceptances, the Offers will not be extended beyond the first date on which it is permitted to be closed.

Payment

Accepting CMD Shareholders and Optionholders may elect to be paid in either Hong Kong dollars or in U.S. dollars, but not in both. If no election is made, such CMD Shareholder or Optionholder is deemed to have accepted payment in Hong Kong dollars.

LETTER FROM THE BOARD

Non-Accepting Shareholders

Mengniu and CMD have received written unconditional and irrevocable confirmations and undertakings from certain CMD Shareholders that they will not accept the Offers. Their details are as follows:

Non-Accepting CMD Shareholders	Number of CMD Shares held	% of issued CMD Shares ^(Note)	Details of Non-Acceptance
Ms. Lina Gao	4,800,000	0.08%	Ms. Lina Gao is an executive CMD Director. She has unconditionally and irrevocably confirmed and undertaken to Mengniu and CMD that until the Offers end, lapse or are withdrawn, she will continue to own the legal and beneficial interests in her CMD Shares and she will not accept any part of the Offers and will not tender her CMD Shares for acceptance.
Jinmu Holdings Company Limited ("Jinmu")	221,581,733	3.61%	Jinmu has unconditionally and irrevocably confirmed and undertaken to Mengniu and CMD that until the Offers end, lapse or are withdrawn, it will continue to own the legal and beneficial interests in its CMD Shares and it will not accept any part of the Offers and will not tender its CMD Shares for acceptance. Jinmu's controlling shareholder and sole director is Ms. Lina Gao.

LETTER FROM THE BOARD

Non-Accepting CMD Shareholders	Number of CMD Shares held	% of issued CMD Shares ^(Note)	Details of Non-Acceptance
ZUO Weilin	121,638,225	1.98%	As disclosed in CMD's circular to CMD Shareholders dated 15 July 2016, CMD had entered into a sale and purchase agreement dated 16 June 2016 with ZUO Weilin, YANG Jingchao, GUO Hanqing, SUN Yongping and LIU Yanbin (the " Individuals ") whereby a total of 338,602,205 CMD Shares would be issued to the Individuals by CMD as consideration shares at the completion date of such sale and purchase agreement (the " June 16 SPA "). It is expected that the completion date of the June 16 SPA will fall within the commencement and close of the Offers, upon which new CMD Shares will be issued to the Individuals in accordance with the terms of the June 16 SPA. Accordingly, the Share Offer will also be extended to these Individuals as and when the new CMD Shares are issued to them.
YANG Jingchao	12,163,823	0.20%	
GUO Hanqing	119,347,119	1.95%	
SUN Yongping	63,606,424	1.04%	
LIU Yanbin	21,846,614	0.36%	
Total	564,983,938	9.21%	

Pursuant to the terms the June 16 SPA, the Individuals have undertaken to CMD that they will not dispose of the CMD Shares to be issued to them ("**Lock-up**") within one year from the completion date of the June 16 SPA. To ensure compliance with the Lock-up, the CMD Shares owned by the Individuals will be held in an escrow account of which CMD has control. CMD has unconditionally and irrevocably confirmed and undertaken to Mengniu that it will not (1) agree to the Individuals accepting any part of the Offers; (2) allow the CMD Shares held in the escrow account to be released from the account; or (3) enable the Individuals to tender their CMD Shares for acceptance in the Offers.

Note: Assuming the Investor Option is exercised, CMD Shares are issued to the Individuals and none of the outstanding CMD Options is exercised.

LETTER FROM THE BOARD

Value of the Offers

Assuming that (a) all CMD Shareholders and Optionholders will accept the Offers (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), (b) the Investor Option is exercised, (c) there is no change in the issued share capital of CMD other than the issuance of New CMD Shares upon the exercise of the Investor Option, and (d) none of the outstanding CMD Options is exercised prior to the close of the Offers, the Offers are valued at approximately HK\$6,413,337,913 in aggregate.

Assuming that (a) all CMD Shareholders will accept the Share Offer (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), (b) the Investor Option is exercised, (c) all CMD Options are exercised before they lapse prior to the close of the Offers, and (d) all CMD Shares issued on the exercise of the CMD Options will be tendered for acceptance under the Share Offer, the Offers are valued at approximately HK\$6,922,804,103 in aggregate.

The Total Consideration for the Transaction

The Consideration under the SPA was agreed between Mengniu and Success Dairy II after arm's length negotiation. Mengniu has undertaken to Success Dairy II that the Offer Price will be at HK\$1.94 or US\$0.25 per CMD Share and will not be increased. Accordingly, the Offer Price will remain at HK\$1.94 or US\$0.25 per CMD Share and will not be increased, and Mengniu does not reserve the right to do so. The Consideration was agreed between Mengniu and Success Dairy II after arm's length negotiation with reference to (i) the valuation adjustment mechanism as stated in CMD's announcement dated 12 December 2016, (ii) the historical operating and financial performance of the CMD Group; (iii) the historical and recent trading prices of CMD Shares; and (iv) the growth potential of the business of the CMD Group.

Mengniu believes that, through completion of the Transaction, Mengniu will become an integrated market leader with ability to control the entire value chain which will in turn allow it to further enhance operational efficiency. Completion of the Transaction will allow Mengniu to further strengthen its relationship with CMD and access to quality raw milk and drive both Mengniu and CMD to further develop high quality low temperature dairy products, among other benefits. Further discussion on the reasons and benefits of the Transaction are set out in the section headed "Reasons for the Transaction". Accordingly, the Mengniu Directors consider that the total consideration is fair and reasonable and in the interest of Mengniu and Mengniu Shareholders.

5. FINANCING OF THE TRANSACTION

Mengniu will finance the Transaction by internal resources and external debt facilities. The debt facilities that Mengniu had entered into to finance the Transaction are unsecured debt facilities. Following completion of the Transaction and over time, Mengniu may replace such external debt financing with a combination of longer term debt financing (whether in the form of loans that are not expected to have any dilution effect on

LETTER FROM THE BOARD

Mengniu Shareholders or other forms of capital raising). There is no current intention by any member of the Mengniu Group to raise capital by issuing equity securities. Mengniu Directors will take into consideration the interests of Mengniu Shareholders in any financing plans in the future and provide appropriate disclosures to Mengniu Shareholders in accordance with the Listing Rules.

6. MENGNIU'S INTEREST IN CMD FOLLOWING COMPLETION OF THE TRANSACTION

Time	No. of CMD Shares owned by Mengniu	% of total issued share capital of CMD (on a fully diluted basis at the relevant time)
As at the date of this circular	1,347,903,000 CMD Shares	25.4%
Immediately following issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option	1,347,903,000 CMD Shares	23.3%
Immediately following SPA Completion but before the commencement of the Offers, assuming no CMD Options are exercised	2,313,368,750 CMD Shares	39.9%
Immediately following completion of the Offers, assuming CMD Shares are issued to the Individuals, none of the outstanding CMD Options is exercised and all CMD Shares are tendered for acceptance by CMD Shareholders under the Share Offer (other than the Non-Accepting Shareholders) <i>(Note)</i>	5,566,422,768 CMD Shares	90.8%

Note: The Individuals referred to in the section headed "Non-Accepting Shareholders" in this circular will be issued 338,602,205 new CMD Shares by CMD pursuant to the terms of the June 16 SPA prior to the close of the Offers, thus enlarging the total issued share capital of CMD by 338,602,205 CMD Shares. The entirety of 338,602,205 CMD Shares will be subject to the Lock-up and thus will not be or are not in a position to be tendered for acceptance under the Share Offer. For further details, please refer to the section headed "Non-Accepting Shareholders" in this circular.

7. INFORMATION OF THE PARTIES

Mengniu

Mengniu is a company incorporated in the Cayman Islands with limited liability and Mengniu Shares have been listed on the Main Board of the Stock Exchange since 2004. The Mengniu Group is one of the leading dairy product

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manufacturers in the PRC, principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream, milk formula and other dairy products.

Success Dairy II

Success Dairy II is an exempt company organized under the laws of the Cayman Islands. It is principally engaged in investment holding services. Success Dairy II is a joint venture entity ultimately held by New Dairy Investment Ltd and Crown Dairy Holdings Limited. New Dairy Investment Ltd is a subsidiary of KKR China Growth Fund L.P. Crown Dairy Holdings Limited is wholly-owned by CDH Fund IV, L.P.

CMD

CMD is a company incorporated in the Cayman Islands with limited liability, and CMD Shares have been listed on the Main Board of the Stock Exchange since 2010. CMD Group is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. It is headquartered in China's eastern province of Anhui, and its primary business is raising dairy cows and selling raw milk to branded dairy companies for processing into consumer dairy products. As of 30 June 2016, CMD Group had 27 farms in operation in China with approximately 220,493 dairy cows in total. CMD Group's farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources.

The table below sets forth a summary of certain audited consolidated financial information of CMD Group for the years ended 31 December 2014 and 31 December 2015 extracted from the 2015 annual report of CMD Group and for the six months ended 30 June 2016 extracted from the 2016 interim report of CMD Group:

	FY2014	FY2015	1HFY2016
	(Audited)	(Audited)	(Unaudited)
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	5,026,706	4,826,341	2,229,110
Profits (Loss) before taxation	770,364	355,381	(589,673)
Profits (Loss) for the year/period attributable to owners of CMD	735,317	321,296	(565,668)
Net assets	6,655,952	7,950,032	7,348,023

8. FINANCIAL EFFECTS OF THE TRANSACTION

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if the Transaction had been completed on 30 June 2016, the changes of total assets and liabilities are laid out as below under three scenarios.

Scenario I: calculated based on the assumption that (a) none of CMD Shareholders and Optionholders accept the Offers following SPA Completion, (b) the Investor Option is

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exercised and (c) none of the outstanding CMD Options are exercised or cancelled prior to the close of the Offers. Under this assumption, Mengniu will hold 39.9% equity interests in CMD and CMD will remain an associate of Mengniu. The Mengniu Directors assume that Mengniu could not obtain any control over CMD in this scenario.

The total assets of the Enlarged Group would have increased by approximately RMB4,310,280,000 from approximately RMB51,322,913,000 to approximately RMB55,633,193,000, the total liabilities of the Enlarged Group would have increased by approximately RMB4,310,280,000 from approximately RMB24,541,572,000 to approximately RMB28,851,852,000.

Scenario II: calculated based on the assumption that (a) all CMD Shareholders and Optionholders accept the Offers (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), (b) the Investor Option is exercised, (c) there is no change in the issued share capital of CMD other than the issuance of New CMD Shares upon the exercise of the Investor Option, and (d) none of the outstanding CMD Options are exercised prior to the close of the Offers and all the outstanding CMD Options are cancelled in accordance with the Option Offer. Under this assumption, upon the completion of the Offers, Mengniu will hold 96.1% equity interests in CMD and CMD will become a subsidiary of Mengniu. The Mengniu Directors assume that Mengniu will obtain control over CMD in this scenario.

The total assets of the Enlarged Group would have increased by approximately RMB12,254,532,000 from approximately RMB51,322,913,000 to approximately RMB63,577,445,000, the total liabilities of the Enlarged Group would have increased by approximately RMB13,187,933,000 from approximately RMB24,541,572,000 to approximately RMB37,729,505,000.

Scenario III: calculated based on the assumption that (a) all CMD Shareholders accept the Share Offer (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), (b) the Investor Option is exercised, (c) all CMD Options are exercised before they lapse prior to the close of the Offers, and (d) all CMD Shares issued on the exercise of the CMD Options are tendered for acceptance under the Share Offer. Under this assumption, upon the completion of the Offers, Mengniu will hold 96.3% equity interest in CMD and CMD will become a subsidiary of Mengniu. The Mengniu Directors assume that Mengniu will obtain control over CMD in this scenario.

The total assets of the Enlarged Group would have increased by approximately RMB12,360,423,000 from approximately RMB51,322,913,000 to approximately RMB63,683,336,000, the total liabilities of the Enlarged Group would have increased by approximately RMB13,187,933,000 from approximately RMB24,541,572,000 to approximately RMB37,729,505,000.

The unaudited pro forma financial information of the Enlarged Group, as set out in Appendix III of this circular, has been prepared for illustrative purposes only, based on the judgments and assumptions of the Mengniu Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2016 or any future date. Moreover, since the actual fair values of the assets and

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liabilities of CMD Group and the total consideration for the SPA and the Offers upon completion of the SPA and the Offers would be different from their estimated fair values used in the preparation of the unaudited pro forma financial information of the Enlarged Group, the actual financial effects of the SPA and the Offers might be materially different from the financial position as shown in Appendix III to this circular.

Under Scenario I, CMD will remain an associate of Mengniu after closing of the Offers. Under Scenarios II and III CMD will become a subsidiary of Mengniu and the financial statement of CMD Group will be consolidated in the accounts of Mengniu Group after closing of the Offers. The Mengniu Directors anticipate that CMD Group will make a significant contribution to the profits of the Enlarged Group in the foreseeable future.

9. REASONS FOR THE TRANSACTION AND THE EXPECTED BENEFITS

(1) To strengthen Mengniu's positioning in high-end dairy products market

Mengniu Group is dedicated to improving the quality of its dairy products and to further expand into the high-end dairy products segment through continuous innovation in their products and their nutritional content as well as development of the overall business model. High quality and stable raw milk supply is essential to the success of high-end dairy products, and Mengniu Group has adopted a number of means to secure stable and high quality milk such as the construction of modernised dairy farms, investment in large-scale dairy farming companies and collaboration with leading dairy companies on farming technology and management.

CMD is the largest dairy farming company in terms of herd size and the largest raw milk producer in China and has won a widespread recognition for its stringent quality standards and stable, reliable quality assurance. As the key raw milk supplier, CMD Group's stable milk supply will enable Mengniu Group to focus on premium products with higher value-add to satisfy consumers' increasing demand for higher quality milk products.

(2) To support the development of low temperature dairy products

Given its large scale presence in China, CMD Group has excellent geographical advantages given its farms are in the close proximity of key dairy consumption regions. In addition, some of CMD Group's farms are close to Mengniu Group's downstream processing plants. Through the Transaction, Mengniu Group will be able to drive improved performance and strategic development of CMD Group in line with Mengniu Group's future growth plans. This in turn will provide strong support for the growth of Mengniu Group's low-temperature dairy production, strengthening Mengniu Group's leading position in the low-temperature dairy market.

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(3) To become an integrated market leader with demonstrated ability to control the entire value chain and further enhance operation efficiency

CMD Group started selling raw milk to Mengniu Group in 2006 and in October 2008, the supply relationship was further formalized when Mengniu entered into a 10-year raw milk supply off-take agreement with CMD. In addition, their strategic relationship was further strengthened when Mengniu acquired a strategic stake in CMD in May 2013 and as at the date of this circular, Mengniu is CMD's single largest shareholder with a 25.4% stake. The Transaction will enhance the current business collaboration and will ensure the continuity of high quality and safe raw milk supply to Mengniu Group.

In addition, CMD Group is a pioneer in domestic large-scale farming and its expertise in farming and quality management will help Mengniu Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve Mengniu Group's operational capabilities.

Based on the foregoing and having carefully reviewed and considered the terms and conditions of the Transaction, the Mengniu Directors consider that the Transaction are on normal commercial terms, the terms of which are fair and reasonable and in the interests of Mengniu and Mengniu Shareholders as a whole.

10. MENGNIU'S INTENTION FOR THE CMD GROUP

Operational matters, employees and senior management

After the close of the Offers, Mengniu intends to continue the existing principal business of CMD Group. Mengniu will conduct a review of the business operations and financial position of CMD Group with a view to formulating a long term strategy and business plan suited to CMD Group. Other than proposed changes to the CMD Board as mentioned below, Mengniu has no intention to make material changes to the management of CMD Group or to terminate the employment of any employee or other personnel of CMD Group.

Proposed change of board composition of CMD

The CMD Board is currently made up of 11 directors, comprising two executive CMD Directors, five non-executive CMD Directors and four independent non-executive CMD Directors. It is expected that Mr. Julian Juul WOLHARDT and Mr. HUI Chi Kin Max will resign as CMD Directors with effect from the first closing date of the Offers or such date as permitted by the Executive. In addition, Success Dairy II has agreed to use reasonable endeavours to procure certain of Mengniu's nominees to the CMD Board with effect from the date when the Composite Document is posted or such other date as the Executive may permit under Rule 26.4 of the Takeovers Code. Such appointments will be made in accordance with CMD's

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constitutional documents, the Takeovers Code and the Listing Rules, and their identities and relevant experience will be announced as and when they are appointed.

Notwithstanding the possible changes to the board composition of CMD, there are no changes to the independent non-executive CMD Directors. In any event, Mengniu and CMD will take all steps necessary to ensure that the number of independent non-executive CMD Directors does not fall below one-third of the total number of CMD Directors for a period longer than three months from the date that the Composite Document is posted, such that the CMD shall continue to be compliant with Rule 3.11 of the Listing Rules.

Listing Status of CMD

As the Non-Accepting Shareholders have indicated that they will not accept the Offers, Mengniu is not expected to be able to acquire the requisite percentage of CMD Shares to enable it to compulsorily acquire all the issued CMD Shares under Cayman Islands Companies Law and the Takeovers Code. Accordingly, after completion of the Offers, Mengniu will maintain the listing status of CMD. Assuming the Offers become or are declared unconditional in all respects, Mengniu will undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that such number of CMD Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame. Any future transactions between the CMD Group and Mengniu Group will be carried out on an arm's length basis and in compliance with the Listing Rules.

11. NOTICE OF EGM

A notice convening the EGM to be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 3 February 2017 at 10:00 a.m. is set out on pages V-1 to V-2 of this circular. At the EGM, ordinary resolution will be proposed to approve the SPA and the transactions contemplated thereunder. So far as Mengniu is aware, none of its shareholders will be required to abstain from voting at the EGM. Pursuant to Rule 13.39 of the Listing Rules, all votes of Mengniu Shareholders at general meetings must be taken by poll.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to Mengniu's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM if you so wish.

12. RECOMMENDATION

All Mengniu Directors confirm that the terms and conditions of the SPA and the Transaction are fair and reasonable and negotiated on an arm's length basis upon normal

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commercial terms. Having considered the terms and conditions of the SPA and the Transaction, all Mengniu Directors further confirm that the SPA and the Transaction are in the interests of Mengniu and the Mengniu Shareholders as a whole. Accordingly, Mengniu Directors recommend that the Mengniu Shareholders vote in favor of the ordinary resolution as set out in the notice of the EGM.

13. CLOSURE OF REGISTER OF MEMBERS

The register of members of Mengniu will be closed during the periods from Wednesday, 1 February 2017 to Friday, 3 February 2017, both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Mengniu's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 27 January 2017.

14. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully
By order of the board of directors
China Mengniu Dairy Company Limited
Jeffrey, Minfang Lu
Chief Executive Officer and Executive Director

APPENDIX I FINANCIAL INFORMATION OF MENGNIU GROUP

(1) FINANCIAL INFORMATION OF THE MENGNIU GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2013, 2014 AND 2015 AND SIX MONTHS ENDED 30 JUNE 2016

Financial information of the Mengniu Group for each of the three years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016 is disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and Mengniu (www.mengniuir.com):

- (a) Interim report of the Mengniu Group for the six months ended 30 June 2016 published on 28 September 2016 (pages 54 to 124);
- (b) Annual report of the Mengniu Group for the year ended 31 December 2015 published on 29 April 2016 (pages 97 to 280);
- (c) Annual report of the Mengniu Group for the year ended 31 December 2014 published on 29 April 2015 (pages 97 to 292); and
- (d) Annual report of the Mengniu Group for the year ended 31 December 2013 published on 29 April 2014 (pages 92 to 284).

(2) MATERIAL ACQUISITION SINCE THE LATEST AUDITED ACCOUNTS

In December 2015, Mengniu and Yashili International Holdings Ltd (“Yashili”; stock code: 1230 and a member of the Mengniu Group) jointly announced the acquisition of Dumex Baby Food Co., Ltd. (“Dumex China”) which specializes in the manufacture and sale of infant milk formula products, from Danone Asia Pacific Holdings Pte. Ltd. (“Danone”). The acquisition was completed on 31 May 2016 with Yashili given access to the sales channels of Dumex China, thus allowing it to expand its market in first- and second-tier cities, especially in Eastern China. Through acquiring Dumex China’s advanced production facilities and subsequent consolidation and optimization of business, Yashili will be able to enhance its production network and reduce production cost. Meanwhile, with the research capabilities of Dumex China and support from Danone, Yashili will gain capabilities in product development and upgrade.

The aggregate consideration for the acquisition of the entire equity interests in Dumex China was €150 million (equivalent to approximately HK\$1,230 million) in cash. The aggregate of the remuneration payable to and benefits in kind receivable by the Mengniu Directors will not be varied in consequence of the abovementioned acquisition.

Save as disclosed above, Mengniu Group has had no material acquisitions since 31 December 2015, the date to which the latest published audited financial statements of the Mengniu Group were made up.

(3) FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Mengniu has a prominent position in the dairy sector in China which continues to have significant room for growth driven by urbanization, rising income levels and the relaxation of the one-child policy. As consumption of dairy products grows in China, consumers are becoming more sophisticated and are increasingly demanding higher-end, healthier and more nutritious products and as such, Mengniu continues to place significant strategic emphasis on product innovation and research and development as well as on ensuring food safety by exercising quality control and optimization throughout its entire industrial chain.

The acquisition of CMD Group will play a significant role in the development of this strategy. The Enlarged Group will be an integrated market leader with demonstrated ability to control the entire value chain which will in turn facilitate improved product innovation by strengthening its position in the high-end dairy products market and supporting the development of low temperature dairy products. The acquisition will enhance the ongoing business collaboration between Mengniu Group and CMD Group, and will ensure the continuity of high quality and safe raw milk supply to the Enlarged Group, which is essential to the success of high-end dairy products, and provides significant strategic value to Mengniu.

The Enlarged Group intends that CMD Group will continue to operate its business in substantially its current state while it implements a business plan to improve integration, maximise synergies and drive improved performance and strategic development of CMD Group in line with Mengniu's future growth plans. With an integrated platform, the Enlarged Group will mainly focus on the following initiatives:

- *Strategic Cooperation and Integration.* In addition to greater strategic cooperation with CMD Group, Mengniu will continue to work together and cooperate with its strategic partners and stakeholders such as Danone, Arla, Yashili and Whitewave. Through leveraging on the expertise, experience and technology of its strategic partners, the Enlarged Group will continue to enhance its product offerings and expansion into different product segments as well as improve its operational efficiency and overall management.
- *Management of milk sources.* The Enlarged Group will continue to invest in advanced resources and technologies and work together with its strategic partners to further strengthen its milk sourcing capabilities in aspects such as deployment, structure, quality and technology. The Enlarged Group plans to fully leverage on CMD Group's expertise in domestic large-scale farming and quality management, to help the Enlarged Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve the Enlarged Group's operational capabilities. The stable supply of high quality milk from CMD Group will enable the Enlarged Group to focus on premium products with higher value-add to satisfy consumers' increasing demand for higher quality milk and higher-end products.

APPENDIX I FINANCIAL INFORMATION OF MENGNIU GROUP

- *Distribution network.* The Enlarged Group will continue to strengthen its sales channels with a key focus on “vertical flattening, horizontal integration, function optimization and enhancement in various sales regions” and by accelerating implementation of the Route to Market project, building real regional platforms and regional management centers. Furthermore, the Enlarged Group plans to leverage its extensive distribution network and strong resources to conduct more efficient distribution of CMD Group’s products as well as drive further integration throughout the Enlarged Group such as sharing e-commerce resources, joint negotiation for key account channels, and cross-selling opportunities.

- *Quality control.* The Enlarged Group will continue to strictly control the end-to-end risks throughout the entire industrial chain and safeguard product quality using the “four carriages mechanism” – i.e. the quality and safety management system and the three quality management centers for milk sources, operations and sales respectively. In addition, CMD Group is a pioneer in domestic large-scale farming and its expertise in farming and quality management will help the Enlarged Group in quality control of raw milk purchased from smaller dairy farmers which will further improve operational capabilities.

(4) INDEBTEDNESS

Borrowings

As at the close of business on 30 November 2016, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding borrowings:

	Secured	Unsecured	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	1,425,556	7,579,320	9,004,876
Short-term debentures	–	798,826	798,826
Mid-term notes	–	1,796,410	1,796,410
Other borrowings	75,489	–	75,489
Corporate bonds	–	3,675,139	3,675,139
Other loans	–	23,415	23,415
Long term payables	105,693	–	105,693
	<u>1,606,738</u>	<u>13,873,110</u>	<u>15,479,848</u>

The secured bank loans of RMB1,425,556,000 were secured by certain pledged bank deposits, land use rights, property, plant and equipment and dairy cows of the Enlarged Group; the secured other borrowings of RMB75,489,000 were secured by certain property, plant and equipment of the Enlarged Group; the secured long term payables of RMB105,693,000 were secured by certain property, plant and equipment of the Enlarged Group.

Borrowing facilities

As at 30 November 2016, the Enlarged Group had available and unutilized banking facilities of RMB19,770,569,000.

Created but unissued debt securities

As at 30 November 2016, the Enlarged Group had created but unissued debt securities of RMB2,950,000,000.

Guarantees

As at 30 November 2016, the Enlarged Group did not have any significant guarantees.

Contingencies

As at 30 November 2016, the Enlarged Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, none of the companies in the Enlarged Group had, at the close of business on 30 November 2016, any outstanding loan capital (issued and outstanding or agreed to be issued), bank overdrafts, debentures, loans or other similar indebtedness, mortgages or charges, or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The Mengniu Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 30 November 2016.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into RMB at the exchange rates of US\$1.00 to RMB6.8865, €1.00 to RMB7.3386 and HK\$1.00 to RMB0.88794 prevailing at the close of business on 30 November 2016.

(5) WORKING CAPITAL

The Mengniu Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the expected completion of the Offers and the Enlarged Group's present internal resources and available banking facilities, the Enlarged Group has sufficient working capital for its present requirement for at least the next 12 months from the date of this circular.

(6) NO MATERIAL ADVERSE CHANGE

Mengniu Shareholders should note that for the six months ended 30 June 2016, CMD Group recorded losses attributable to owners of CMD of RMB565,668,000. Reference is also made to Mengniu's profit warning announcement dated 15 December 2016, whereby it was stated that for the year ended 31 December 2016, Mengniu is expected to record a share of losses from a significant associated company of Mengniu. Upon completion of the Offers when the CMD Group becomes Mengniu's subsidiary, Mengniu Directors anticipate that the financial results of CMD Group will in turn have a significant impact on the financial results of the Enlarged Group.

Other than disclosed above and in Mengniu's interim report for the six months ended 30 June 2016, as at the Latest Practicable Date, the Mengniu Directors were not aware of any material adverse change in the financial or trading position or prospect of Mengniu Group since 31 December 2015, the date to which the latest published audited financial statements of the Mengniu Group were made up.

(1) **FINANCIAL INFORMATION OF CMD GROUP FOR THE SIX MONTHS ENDED 31 DECEMBER 2013, AND THE TWO YEARS ENDED 31 DECEMBER 2014 AND 2015**

The following is the text of a report set out on pages II-1 to II-87, received from CMD's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.

德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA MENGNIU DAIRY COMPANY LIMITED

Introduction

We report on the historical financial information of China Modern Dairy Holdings Ltd. ("CMD") and its subsidiaries (together, the "CMD Group") set out on pages II-3 to II-87, which comprises the consolidated statements of financial position of CMD Group as at 31 December 2013, 2014 and 2015, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 31 December 2013, and the two years ended 31 December 2014 and 2015 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-87 forms an integral part of this report, which has been prepared for inclusion in the circular of China Mengniu Dairy Company Limited dated 16 January 2017 (the "Circular") in connection with a possible conditional mandatory cash offers for CMD.

Directors' responsibility for the Historical Financial Information

The directors of CMD (the "CMD Directors") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 1 to Section B of the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that give a true and fair view in accordance with the basis of preparation set out in Note 1 to Section B of the Historical Financial Information in order to design 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. Our work also included 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 Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of CMD Group as at 31 December 2013, 2014 and 2015, and of the financial performance and cash flows of CMD Group for the Track Record Period in accordance with the basis of preparation set out in Note 1 to Section B of the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Historical Financial Statements as defined on page II-3 have been made.

Dividends

We refer to Note 12 to the Section B of the Historical Financial Information which contains information about the dividends paid by China Modern Dairy Holdings Ltd. in respect of the Track Record Period.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

16 January 2017

HISTORICAL FINANCIAL INFORMATION OF CMD GROUP**Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued consolidated financial statements of CMD Group for the Track Record Period. The previously issued consolidated financial statements were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Historical Financial Statements**").

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

A HISTORICAL FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended		
		31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	31 December 2015 RMB'000
Revenue	5	1,901,248	5,026,706	4,826,341
Cost of sales before biological fair value adjustment		(1,280,342)	(3,161,345)	(3,167,298)
Biological fair value adjustments included in cost of sales	7/20	(542,821)	(1,666,242)	(1,203,011)
Loss arising from changes in fair value less costs to sell of dairy cows	20	(16,408)	(329,069)	(474,910)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	20	542,821	1,666,242	1,203,011
Other income	6	15,902	40,213	32,094
Selling and distribution costs		(33,595)	(111,909)	(194,542)
Administrative expenses		(84,678)	(214,561)	(243,566)
Share of loss of an associate	17	(872)	(6,791)	(1,192)
Share of (loss) profit of joint ventures	18	(287)	7,004	5,782
Other gains and losses, net	7	(37,562)	(209,648)	(107,077)
Other expenses		(769)	(4,635)	(5,173)
Profit before finance costs and tax	7	462,637	1,035,965	670,459
Finance costs	8	(113,505)	(265,601)	(315,078)
Profit before tax		349,132	770,364	355,381
Income tax expense	9	(5,875)	(7,476)	(11,663)
Profit and total comprehensive income for the period/year		<u>343,257</u>	<u>762,888</u>	<u>343,718</u>
Profit and total comprehensive income attributable to:				
Owners of CMD		327,487	735,317	321,296
Non-controlling interests		15,770	27,571	22,422
		<u>343,257</u>	<u>762,888</u>	<u>343,718</u>
Earnings per share (RMB)	13			
Basic		6.79 cents	15.23 cents	6.37 cents
Diluted		6.72 cents	15.08 cents	6.32 cents

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2013 RMB'000	2014 RMB'000	2015 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	4,032,642	4,457,970	5,376,897
Land use rights	15	66,261	64,868	120,622
Goodwill	16	310,426	310,426	1,441,494
Interest in an associate	17	25,722	18,931	25,076
Interest in joint ventures	18	32,829	95,208	–
Biological assets	20	5,954,363	6,530,814	7,590,878
		<u>10,422,243</u>	<u>11,478,217</u>	<u>14,554,967</u>
CURRENT ASSETS				
Inventories	21	691,108	640,581	834,099
Trade and other receivables	22	544,710	826,772	1,097,794
Land use rights	15	1,667	1,667	3,743
Pledged bank balances	23	430,535	612,909	183,664
Cash and bank balances	23	369,041	556,964	833,569
		<u>2,037,061</u>	<u>2,638,893</u>	<u>2,952,869</u>
CURRENT LIABILITIES				
Trade and other payables	24	1,474,250	1,403,003	2,012,976
Tax payable		9,161	2,787	281
Borrowings — due within one year	25	1,788,799	1,858,398	4,825,521
Short-term debentures	26	1,200,000	1,100,000	400,000
		<u>4,472,210</u>	<u>4,364,188</u>	<u>7,238,778</u>
NET CURRENT LIABILITIES		<u>(2,435,149)</u>	<u>(1,725,295)</u>	<u>(4,285,909)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,987,094</u>	<u>9,752,922</u>	<u>10,269,058</u>
CAPITAL AND RESERVES				
Share capital	29	415,261	415,261	452,959
Share premium and reserves		5,327,763	6,094,978	7,328,938
Equity attributable to owners of CMD		5,743,024	6,510,239	7,781,897
Non-controlling interests		117,710	145,713	168,135
		<u>5,860,734</u>	<u>6,655,952</u>	<u>7,950,032</u>
NON-CURRENT LIABILITIES				
Borrowings — due after one year	25	1,959,867	2,829,450	821,730
Medium-term notes	27	–	–	200,000
Deferred income	28	124,862	120,421	141,824
Other financial liabilities	19	41,631	147,099	1,155,472
		<u>2,126,360</u>	<u>3,096,970</u>	<u>2,319,026</u>
		<u>7,987,094</u>	<u>9,752,922</u>	<u>10,269,058</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of CMD					Total RMB'000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note)	Share options reserve RMB'000	Retained earnings RMB'000			
Balance at 1 July 2013	414,564	2,403,730	1,585,752	10,798	991,940	5,406,784	101,940	5,508,724
Profit and total comprehensive income for the period	-	-	-	-	327,487	327,487	15,770	343,257
Recognition of equity-settled share-based payment (note 30(a) and (b))	-	-	-	2,764	-	2,764	-	2,764
Exercise of share options (note 30(c))	697	6,206	-	(914)	-	5,989	-	5,989
Balance at 31 December 2013	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	<u>452,959</u>	<u>3,292,068</u>	<u>1,585,752</u>	<u>75,078</u>	<u>2,376,040</u>	<u>7,781,897</u>	<u>168,135</u>	<u>7,950,032</u>

Note: Other reserve balance as at 1 July 2013 represented the contribution from the owners of CMD for the operation of CMD Group.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Six months ended	Year ended 31 December	
		31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
OPERATING ACTIVITIES				
Profit before tax		349,132	770,364	355,381
Adjustments for:				
Depreciation of property, plant and equipment	7	91,482	225,544	272,976
Impairment loss in respect of property, plant and equipment	7	–	42,628	–
Impairment loss in respect of goodwill	7	–	–	94,392
Release of land use rights and long-term prepaid rental	7	837	1,393	2,192
Bank interest income	6	(8,255)	(22,084)	(12,828)
Government grants credited to income	6	(5,155)	(11,457)	(16,375)
Finance costs	8	113,505	265,601	315,078
Share of loss of an associate		872	6,791	1,192
Share of loss (profit) of joint ventures		287	(7,004)	(5,782)
Gain on deemed partial disposal of interest in associate	7	–	–	(7,336)
Fair value loss from other financial liabilities	7	41,631	105,468	50,028
Loss (gain) on disposal of property, plant and equipment	7	786	28,758	(613)
Gain arising on disposal of a subsidiary	7	–	(2,226)	–
Gain on derecognition of financial liabilities		(25)	(417)	(102)
Gain arising on remeasurement of interests in joint ventures	7	–	–	(121,340)
Net foreign exchange (gain) loss		(6,302)	17,832	112,988
Expense recognised in respect of equity-settled share-based payments	30	2,764	31,898	30,532
Loss arising from changes in fair value less costs to sell of dairy cows	20	16,408	329,069	474,910

	<i>Notes</i>	Six months ended		
		31 December	Year ended 31 December	
		2013	2014	2015
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movements in working capital		597,967	1,782,158	1,545,293
(Increase) decrease in inventories		(348,968)	36,326	(72,055)
Increase in trade and other receivables		(182,677)	(230,326)	(225,494)
Increase in trade and other payables		144,836	6,584	211,922
		<u>211,158</u>	<u>1,594,742</u>	<u>1,459,666</u>
Cash generated from operations		211,158	1,594,742	1,459,666
Income taxes paid		(1,499)	(13,850)	(17,901)
		<u>209,659</u>	<u>1,580,892</u>	<u>1,441,765</u>
NET CASH FROM OPERATING ACTIVITIES		<u>209,659</u>	<u>1,580,892</u>	<u>1,441,765</u>
INVESTING ACTIVITIES				
Interest received		3,418	7,424	33,769
Purchases of property, plant and equipment		(357,659)	(939,237)	(665,892)
Addition in biological assets		(594,205)	(1,197,121)	(1,372,206)
Addition in pledged bank balances		(73,573)	(256,931)	(183,664)
Release of pledged bank balances		85,785	74,557	612,909
Proceeds from disposal of property, plant and equipment		925	1,414	7,097
Purchases of land use rights		-	-	(7,013)
Proceeds from disposal of dairy cows		167,584	462,071	416,992
Net cash inflow on disposal of a subsidiary		-	1,581	-
Net cash inflow on acquisition of subsidiaries	34	-	-	75,173
Investment in joint ventures		(33,116)	(55,375)	(66,280)
Government grants received	28	12,805	7,016	37,778
		<u>(788,036)</u>	<u>(1,894,601)</u>	<u>(1,111,337)</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(788,036)</u>	<u>(1,894,601)</u>	<u>(1,111,337)</u>

	Six months ended		
	31 December	Year ended 31 December	
	Notes 2013 RMB'000	2014 RMB'000	2015 RMB'000
FINANCING ACTIVITIES			
Interest paid	(112,528)	(274,690)	(317,802)
New borrowings raised	1,629,591	4,623,297	5,033,648
Repayment of borrowings	(1,453,664)	(3,701,947)	(4,187,233)
Proceeds from issue of short-term debentures	500,000	1,100,000	400,000
Proceeds from medium-term notes	–	–	200,000
Proceeds from issue of shares upon exercise of share options	5,989	–	–
Payment of transaction cost for borrowings, short-term debentures and medium-term notes	–	(45,028)	(33,433)
Repayment of short-term debentures	–	(1,200,000)	(1,100,000)
Dividends paid to owners of CMD	–	–	(49,003)
	<u>569,388</u>	<u>501,632</u>	<u>(53,823)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES			
	569,388	501,632	(53,823)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
	(8,989)	187,923	276,605
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	<u>378,030</u>	<u>369,041</u>	<u>556,964</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR,			
Represented by cash and bank balances	<u>369,041</u>	<u>556,964</u>	<u>833,569</u>

B NOTES TO HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION AND BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION**

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

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

The Historical Financial Information is presented in Renminbi (“**RMB**”), the currency of the primary economic environment in which the principal subsidiaries of CMD Group operate (the “**functional currency**”).

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”). In addition, the Historical Financial Information includes 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**”).

China Mengniu Dairy Company Limited has early applied IFRS 9 (2009) Financial Instruments and IFRS 9 (2013) Financial Instruments during the financial year ended 31 December 2014. In preparation of the Historical Financial Information, CMD Directors have considered the potential impacts on early application of IFRS 9 (2009) Financial Instruments and IFRS 9 (2013) Financial Instruments in accordance with the relevant accounting policies and the transitional provisions applied by China Mengniu Dairy Company Limited during Track Record Period and concluded that the measurement basis of CMD Group’s financial assets and financial liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement would not be materially different with the measurement basis if CMD Group early applied IFRS 9 (2009) and IFRS 9 (2013). Therefore, CMD Group has not early applied IFRS 9 for the purpose of preparation and presentation of the Historical Financial Information.

Basis of preparation of the Historical Financial Information

Pursuant to CMD’s announcement dated 20 November 2013, the board of CMD Directors (the “**CMD Board**”) decided to change the financial year end date of CMD and CMD Group from 30 June to 31 December. As the PRC subsidiaries of CMD Group (the “**PRC Subsidiaries**”) are statutorily required to have their financial year end date set at 31 December, such change of financial year end date is to align the financial year end date of CMD with that of the PRC Subsidiaries. Accordingly, the Historical Financial Information for that period covers a six-month period from 1 July 2013 to 31 December 2013.

In preparation the Historical Financial Information, CMD Directors have given careful consideration to the future liquidity of CMD Group in light of its net current liabilities of approximately RMB4,285,909,000 as at 31 December 2015. Having considered the available credit facilities of approximately RMB6,753,413,000 which remains unutilised as at 31 December 2015, CMD Directors are satisfied that CMD Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**(a) IFRSs that are mandatorily effective during the Track Record Period**

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, CMD Group has applied the IFRSs that are effective for the financial year beginning on 1 January 2015 consistently throughout the Track Record Period.

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

CMD 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
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
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
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle ⁶

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

6. Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as described below, CMD 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 the 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 CMD 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.

Based on the assessment of CMD Group's financial assets and financial liabilities as at 31 December 2015, CMD Directors are of the view that the expected credit loss model may result in early 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.

After preliminary assessment, CMD Directors do not anticipate the application of IFRS 15 will have a material effect on the consolidated financial statements, but CMD Directors are still assessing the impacts on the application of IFRS 15 on CMD Group's contracts with its customers and it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until CMD Group performs a detailed review.

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 classify cash repayments of the lease liability into a principal portion and an interest portion and present 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 36, total operating lease commitment of CMD Group in respect of property, plant and equipment and leased land as at 31 December 2015 amounted to RMB30,125,000. CMD Directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on CMD 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 Historical Financial Information has 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, CMD 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 the Historical Financial Information 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.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of CMD and entities controlled by CMD and its subsidiaries. Control is achieved when CMD:

- (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.

CMD 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 CMD Group obtains control over the subsidiary and ceases when CMD 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 CMD Group gains controls until the date when CMD Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of CMD and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of CMD 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 CMD Group's accounting policies.

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

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 CMD Group, liabilities incurred by CMD Group to the former owners of the acquiree and the equity interests issued by CMD 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 CMD 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, CMD 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 CMD 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.

Investments in an associate and joint ventures

An associate is an entity over which CMD 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 the Historical Financial Information 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 CMD 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 CMD Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When CMD Group's share of losses of an associate or a joint venture exceeds CMD Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of CMD Group's net investment in the associate or joint venture), CMD Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that CMD 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 CMD 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 CMD 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.

CMD 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 CMD Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in CMD Group's Historical Financial Information only to the extent of interests in the associate or joint venture that are not relate to CMD Group.

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:

- CMD Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- CMD 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 CMD 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 CMD 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.

CMD 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 CMD Group's prepaid lease payments for leasehold interest in land. CMD 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 CMD Group. Based on such assessment, CMD 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.

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 CMD 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, CMD Group recognises the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Other grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which CMD Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that CMD 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 CMD 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 CMD 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.

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 CMD 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, CMD 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 options 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.

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. CMD 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 Historical Financial Information 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 an associates, and interests in joint ventures, except where CMD 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 CMD 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.

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 CMD 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.

Impairment on tangible assets

At the end of the reporting period, CMD 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, CMD 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

CMD 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.

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

CMD 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.

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 CMD 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.

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 CMD Group after deducting all of its liabilities. Equity instruments issued by CMD 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 CMD 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 CMD 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, net" line item. Fair value is determined in the manner described in note 19.

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

CMD 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 CMD Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. If CMD Group retains substantially all the risks and rewards of a transferred financial asset, CMD Group continues to recognise 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, CMD 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 CMD Group's accounting policies, which are described in note 3, CMD 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 CMD 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 2013, 2014 and 2015, the carrying amount of goodwill were RMB310,426,000, RMB310,426,000 and RMB1,441,494,000, net of accumulated impairment loss of nil, nil and RMB94,392,000, respectively. Details of the recoverable amount calculation are disclosed in note 16.

Fair value measurements and valuation processes

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

In estimating the fair value of an asset or a liability, CMD Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, CMD 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 CMD Directors semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

CMD 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 CMD Group.

Specifically, CMD 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.

Segment revenue, results, assets and liabilities

Six months ended 31 December 2013

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	<u>1,786,814</u>	<u>204,322</u>	<u>1,991,136</u>	<u>(89,888)</u>	<u>1,901,248</u>
Segment cost of sales before biological fair value adjustment	<u>1,222,661</u>	<u>147,569</u>	<u>1,370,230</u>	<u>(89,888)</u>	<u>1,280,342</u>
Reportable segment profit	<u>437,211</u>	<u>57,240</u>	<u>494,451</u>	<u>-</u>	<u>494,451</u>
Loss arising from changes in fair value less costs to sell of dairy cows					(16,408)
Share of loss of an associate					(872)
Share of loss of joint ventures					(287)
Unallocated other income					8,308
Unallocated other gains and losses					(42,939)
Unallocated expenses					<u>(93,121)</u>
Profit before tax					<u>349,132</u>
As at 31 December 2013					
Segment assets	<u>11,129,939</u>	<u>446,997</u>	<u>11,576,936</u>	<u>(223,193)</u>	11,353,743
Unallocated assets					<u>1,105,561</u>
Consolidated assets					<u>12,459,304</u>
Segment liabilities	<u>6,469,099</u>	<u>282,367</u>	<u>6,751,466</u>	<u>(223,193)</u>	6,528,273
Unallocated liabilities					<u>70,297</u>
Consolidated liabilities					<u>6,598,570</u>

* 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 RMB89,888,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

Year ended 31 December 2014

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination*	Total RMB'000
Segment revenue	<u>4,672,151</u>	<u>832,686</u>	<u>5,504,837</u>	<u>(478,131)</u>	<u>5,026,706</u>
Segment cost of sales before biological fair value adjustment	<u>2,938,876</u>	<u>695,999</u>	<u>3,634,875</u>	<u>(473,530)</u>	<u>3,161,345</u>
Reportable segment profit	<u>1,229,399</u>	<u>75,037</u>	<u>1,304,436</u>	<u>(4,601)</u>	<u>1,299,835</u>
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					<u>(102,874)</u>
Profit before tax					<u>770,364</u>
As at 31 December 2014					
Segment assets	<u>12,517,530</u>	<u>937,065</u>	<u>13,454,595</u>	<u>(560,024)</u>	<u>12,894,571</u>
Unallocated assets					<u>1,222,539</u>
Consolidated assets					<u>14,117,110</u>
Segment liabilities	<u>6,661,750</u>	<u>1,152,988</u>	<u>7,814,738</u>	<u>(555,423)</u>	<u>7,259,315</u>
Unallocated liabilities					<u>201,843</u>
Consolidated liabilities					<u>7,461,158</u>

* 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.

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	<u>4,055,913</u>	<u>1,501,875</u>	<u>5,557,788</u>	<u>(731,447)</u>	<u>4,826,341</u>
Segment cost of sales before biological fair value adjustment	<u>2,768,777</u>	<u>1,126,444</u>	<u>3,895,221</u>	<u>(727,923)</u>	<u>3,167,298</u>
Reportable segment profit	<u>712,851</u>	<u>220,530</u>	<u>933,381</u>	<u>(3,524)</u>	<u>929,857</u>
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					<u>(107,080)</u>
Profit before tax					<u>355,381</u>
As at 31 December 2015					
Segment assets	<u>15,833,395</u>	<u>1,353,217</u>	<u>17,186,612</u>	<u>(577,422)</u>	<u>16,609,190</u>
Unallocated assets					<u>898,646</u>
Consolidated assets					<u>17,507,836</u>
Segment liabilities	<u>7,571,794</u>	<u>1,381,373</u>	<u>8,953,167</u>	<u>(569,298)</u>	<u>8,383,869</u>
Unallocated liabilities					<u>1,173,935</u>
Consolidated liabilities					<u>9,557,804</u>

* 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.

Other segment information

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

Six months ended 31 December 2013

	Dairy farming <i>RMB'000</i>	Liquid milk products <i>RMB'000</i>	Total <i>RMB'000</i>
Additions to non-current assets	1,097,890	7,609	1,105,499
Depreciation and amortisation charged to profit or loss	76,047	11,063	87,110
Loss on disposal of property, plant and equipment	779	–	779
Interest income	331	20	351
Finance cost	38,454	4,322	42,776
	<u>1,113,391</u>	<u>16,014</u>	<u>1,129,405</u>

Year ended 31 December 2014

	Dairy farming <i>RMB'000</i>	Liquid milk products <i>RMB'000</i>	Total <i>RMB'000</i>
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
	<u>2,553,001</u>	<u>343,058</u>	<u>2,896,059</u>

Year ended 31 December 2015

	Dairy farming <i>RMB'000</i>	Liquid milk products <i>RMB'000</i>	Total <i>RMB'000</i>
Additions to non-current assets	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
	<u>4,967,884</u>	<u>183,353</u>	<u>5,151,237</u>

The accounting policies of the operating segments are the same as CMD 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

Revenue from major products

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

	Six months ended		Year ended 31 December	
	31 December 2013	2014	2014	2015
	RMB'000		RMB'000	
Raw milk	1,696,926	4,194,020	3,324,466	
Processed liquid milk	204,322	832,686	1,501,875	
	<u>1,901,248</u>	<u>5,026,706</u>	<u>4,826,341</u>	

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

For the six months ended 31 December 2013 and the years ended 31 December 2014 and 2015, included in revenue arising from sales of raw milk to external customers of RMB1,696,926,000, RMB4,194,020,000 and RMB3,324,466,000 are revenue of approximately RMB1,345,269,000, RMB3,006,934,000 and RMB2,304,424,000, respectively, which arose from sales to a single external customer. No other single customer contributed 10% or more to CMD Group's revenue for the six months ended 31 December 2013, the two years ended 31 December 2014, 2015.

6. OTHER INCOME

	Six months ended		Year ended 31 December	
	31 December 2013	2014	2014	2015
	RMB'000		RMB'000	
Bank interest income	8,255	22,084	12,828	
Government grants related to				
– Biological assets (<i>note i</i>)	–	–	4,000	
– Other assets (<i>note 28</i>)	5,155	11,457	12,375	
– Income (<i>note ii</i>)	851	2,497	2,674	
	<u>6,006</u>	<u>13,954</u>	<u>19,049</u>	
Others	1,641	4,175	217	
	<u>15,902</u>	<u>40,213</u>	<u>32,094</u>	

Notes:

- These government grants are unconditional government subsidies received by CMD Group from relevant government bodies for the purpose of supporting CMD Group to purchase dairy cows.
- These government grants are unconditional government subsidies received by CMD Group from relevant government bodies for the purpose of giving immediate financial support to CMD Group's operation.

7. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	2015 RMB'000
Cost of sales before biological fair value adjustments			
Breeding costs to produce raw milk	1,132,773	2,626,282	2,252,096
Production costs for liquid milk products	147,569	535,063	915,202
	<u>1,280,342</u>	<u>3,161,345</u>	<u>3,167,298</u>
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	542,821	1,666,242	1,203,011
	<u>1,823,163</u>	<u>4,827,587</u>	<u>4,370,309</u>
Other gains and losses:			
Fair value losses (gains) from Put Option and Call Option (as defined in note 18)	41,631	105,468	(147,099)
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 (gain) loss	(4,855)	28,976	92,048
Loss (gain) from disposal of property, plant and equipment	786	28,758	(613)
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	–	6,044	(102)
	<u>37,562</u>	<u>209,648</u>	<u>107,077</u>
Depreciation of property, plant and equipment	166,210	382,103	473,342
Less: capitalised in biological assets	(74,728)	(156,559)	(200,366)
	<u>91,482</u>	<u>225,544</u>	<u>272,976</u>
Depreciation charged to profit or loss	91,482	225,544	272,976
Employee benefits expenses	163,933	360,815	374,785
Less: capitalised in biological assets	(48,360)	(98,286)	(103,615)
	<u>115,573</u>	<u>262,529</u>	<u>271,170</u>
Employee benefits charged to profit or loss	115,573	262,529	271,170
Auditors' remuneration	2,680	3,850	4,300
Release of land use rights	837	1,393	2,192

8. FINANCE COSTS

	Six months ended		
	31 December 2013 RMB'000	Year ended 31 December 2014 2015 RMB'000	
Interest expenses on:			
Borrowings	113,902	236,412	269,352
Short-term debentures	20,249	67,228	32,788
Medium-term notes	–	–	10,796
	<u> </u>	<u> </u>	<u> </u>
Total borrowing cost	134,151	303,640	312,936
Cost of discount of bills receivable	–	–	11,600
Less: amounts capitalised for construction of property, plant and equipment	(20,646)	(38,039)	(9,458)
	<u> </u>	<u> </u>	<u> </u>
	<u>113,505</u>	<u>265,601</u>	<u>315,078</u>

For the six months ended 31 December 2013 and the years ended 31 December 2014 and 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 5.98%, 6.32% and 5.52% respectively.

9. INCOME TAX EXPENSE

	Six months ended		
	31 December 2013 RMB'000	Year ended 31 December 2014 2015 RMB'000	
Income tax recognised in profit or loss:			
Current tax:			
PRC Enterprise Income Tax	5,875	7,476	11,663
	<u> </u>	<u> </u>	<u> </u>

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%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividend income of Aquitair (defined in note 39) from Modern Farming (Group) Co., Ltd (“**Modern Farm**”) is subject to Irish Income Tax at 25%. As at 31 December 2013, 2014 and 2015, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,609,717,000, RMB1,018,615,000 and RMB1,512,302,000. No liability has been recognised in respect of these differences because CMD 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.

According to the prevailing tax rules and regulation in the PRC, CMD Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC. CMD Group's subsidiaries engaged in agricultural business during the Track Record Period are listed as below:

	Six months ended	Year ended 31 December	
	31 December 2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Modern Farm	Exempted	Exempted	Exempted
Helingeer Modern Farm Co., Ltd.	Exempted	Exempted	Exempted
Zhangjiakou Saibei Modern Farm Co., Ltd.	Exempted	Exempted	Exempted
Wenshang Modern Farm Co., Ltd.	Exempted	Exempted	Exempted
Shangzhi Modern Farm Co., Ltd.	Exempted	Exempted	Exempted
Hongya Modern Farm Co., Ltd.	Exempted	Exempted	Exempted
Modern Farming (Chabei) Co., Ltd.	Exempted	Exempted	Exempted
Modern Farming (Baoji) Co., Ltd.	Exempted	Exempted	Exempted
Modern Farm (Feidong) Co., Ltd.	Exempted	Exempted	Exempted
Modern Farming (Tongshan) Co., Ltd.	Exempted	Exempted	Exempted
Modern Farming (Tongliao) Co., Ltd.	Exempted	Exempted	Exempted
Modern Farm (Chabei) Hengsheng Co., Ltd.	Exempted	Exempted	Exempted
Modern Farm (Bengbu) Co., Ltd.	Exempted	Exempted	Exempted
Modern Farm (Shuangcheng) Co., Ltd.	N/A	Exempted	Exempted
Modern Farm (Jinan) Co., Ltd.	N/A	N/A	Exempted
Modern Farm (Shanghe) Co., Ltd.	N/A	N/A	Exempted

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

The tax expense for each reporting period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Six months ended	Year ended 31 December	
	31 December 2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	349,132	770,364	355,381
Tax at applicable income tax rate at 25%	87,283	192,591	88,846
Effect of tax exemption granted to agricultural entities	(93,869)	(191,621)	(79,452)
Tax effect of tax losses not recognised	12,461	6,506	2,269
Income tax expense	5,875	7,476	11,663

As at 31 December 2013, 2014 and 2015, CMD Group had unused tax losses of RMB51,337,000, RMB75,901,000 and RMB23,063,000, respectively. CMD Group's unused tax losses will expire in 5 years after they are incurred 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:

	Six months ended 31 December 2013				Total RMB'000
	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	
Executive directors					
Ms. Gao Lina	-	575	279	12	866
Mr. Han Chunlin	-	472	184	12	668
Mr. Sun Yugang	-	423	130	12	565
Non-executive directors					
Mr. Yu Xubo	-	-	-	-	-
Mr. Wolhardt Julian Juul	-	-	-	-	-
Mr. Hui Chi Kin Max	-	-	-	-	-
Mr. Lei Yongsheng (note ii)	-	-	-	-	-
Mr. Ding Sheng	-	-	-	-	-
Independent non-executive directors					
Professor Li Shengli	100	-	-	-	100
Mr. Lee Kong Wai Conway	100	-	-	-	100
Mr. Liu Fuchun	100	-	-	-	100
Mr. Kang Yan	100	-	-	-	100
	<u>400</u>	<u>1,470</u>	<u>593</u>	<u>36</u>	<u>2,499</u>

	Year ended 31 December 2014				Total RMB'000
	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	
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 iii)	-	-	-	-	-
Mr. Wu Jingshui (note iv)	-	-	-	-	-
Independent non-executive directors					
Professor Li Shengli	200	-	-	-	200
Mr. Lee Kong Wai Conway	200	-	-	-	200
Mr. Zou Fei (note v)	67	-	-	-	67
Mr. Kang Yan	200	-	-	-	200
Mr. Liu Fuchun (note vi)	133	-	-	-	133
	<u>800</u>	<u>4,378</u>	<u>7,277</u>	<u>75</u>	<u>12,530</u>

	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
	<u>800</u>	<u>4,133</u>	<u>7,212</u>	<u>75</u>	<u>12,220</u>

Ms. Gao Lina, Mr. Han Chunlin and Mr. Sun Yugang are also the chief executives of CMD and their emoluments disclosed above were for the management of the affairs of CMD and CMD Group, the executive directors were also granted share options under the share option schemes of CMD. 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 CMD Directors.

Notes:

- i. No directors waived or agreed to waive any remuneration during the Track Record Period.
- ii. Mr. Lei Yongsheng, a non-executive director, resigned from his office with effect from 11 December 2013.
- iii. Mr. Ding Sheng, a non-executive director, resigned from his office with effect from 26 June 2014.
- iv. Mr. Wu Jingshui has been appointed as non-executive director with effect from 26 June 2014.
- v. Mr. Zou Fei has been appointed as independent non-executive director with effect from 25 August 2014.
- vi. Mr. Liu Fuchun, an independent non-executive director, resigned from his office with effect from 25 August 2014.

11. FIVE HIGHEST PAID EMPLOYEES

During the Track Record Period, of the five individuals with the highest remuneration in CMD Group, three are CMD Directors whose emoluments are included in the disclosures in note 10 above. Details of the remuneration of the remaining two individuals for each reporting period are as follows:

	Six months ended	Year ended 31 December	
	31 December 2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and allowances	529	1,037	1,128
Retirement benefits scheme contribution	17	50	50
Equity-settled share option expense	56	1,572	2,345
	<u>602</u>	<u>2,659</u>	<u>3,523</u>

No remuneration was paid by CMD Group to the directors of CMD or the five highest paid individuals as inducement to join or upon joining CMD Group or as compensation for loss of office during the Track Record Period.

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

	Six months ended	Year ended 31 December	
	31 December 2013	2014	2015
HK\$1,000,001 to HK\$1,500,000	2	–	1
HK\$1,500,001 to HK\$2,000,000	–	2	–
HK\$2,500,001 to HK\$3,000,000	–	–	1
	<u>2</u>	<u>2</u>	<u>2</u>

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

12. DIVIDENDS

	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 2015 RMB'000	
Dividends for ordinary shareholders of CMD recognised as distribution in each reporting period:			
2014 Final — 1.2481 HK cents per share (2013 and 2014: nil)	—	—	49,003

Note: During the year ended 31 December 2015, 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 CMD through CMD's share premium account.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of CMD for each reporting period is based on the following data:

	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 2015 RMB'000	
Earnings			
Earnings for the purposes of basic and diluted earnings per share	327,487	735,317	321,296
	<u>327,487</u>	<u>735,317</u>	<u>321,296</u>
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,820,592,960	4,827,338,751	5,041,854,854
Effect of share options issued by CMD	51,866,777	49,890,418	39,783,628
	<u>4,872,459,737</u>	<u>4,877,229,169</u>	<u>5,081,638,482</u>

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 July 2013	3,204,765	31,919	892,154	275,953	4,404,791
Additions	–	1,760	43,222	383,311	428,293
Transfer	451,652	–	106,247	(557,899)	–
Disposals	(53)	(698)	(4,580)	–	(5,331)
Balance at 31 December 2013	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 (<i>note 35</i>)	(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 (<i>note 34</i>)	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	<u>5,048,809</u>	<u>27,267</u>	<u>1,757,808</u>	<u>163,977</u>	<u>6,997,861</u>
Accumulated depreciation and impairment					
Balance at 1 July 2013	(414,773)	(9,788)	(207,960)	–	(632,521)
Charge for the period	(108,252)	(1,947)	(56,011)	–	(166,210)
Eliminated on disposals of assets	33	519	3,068	–	3,620
Balance at 31 December 2013	(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	<u>(1,059,206)</u>	<u>(9,485)</u>	<u>(552,273)</u>	<u>–</u>	<u>(1,620,964)</u>
Carrying amounts					
Balance at 31 December 2013	<u>3,133,372</u>	<u>21,765</u>	<u>776,140</u>	<u>101,365</u>	<u>4,032,642</u>
Balance at 31 December 2014	<u>3,280,748</u>	<u>20,522</u>	<u>1,033,439</u>	<u>123,261</u>	<u>4,457,970</u>
Balance at 31 December 2015	<u>3,989,603</u>	<u>17,782</u>	<u>1,205,535</u>	<u>163,977</u>	<u>5,376,897</u>

As at 31 December 2013, 2014 and 2015, certain of CMD Group's buildings with an aggregate carrying amount of RMB59,192,000, RMB54,623,000 and RMB50,042,000, respectively, have been pledged as security for bank borrowings of CMD Group (note 25).

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 six months ended 31 December 2013, the two years ended 31 December 2014 and 2015, depreciation charge amounting to RMB74,728,000, RMB156,559,000 and RMB200,366,000 respectively, has been capitalised in CMD Group's biological assets.

Impairment losses recognised during the Track Record Period

Pursuant to CMD's announcement dated 28 November 2014, CMD Group would shut down dairy farming operation in Tongshan Farm by 26 November 2015. Management of CMD Group carried out an impairment review of the recoverable amount of the property, plant and equipment in Tongshan Farm and recognised an impairment loss of RMB42,628,000 in other gains and losses in profit or loss in the year ended 31 December 2014.

15. LAND USE RIGHTS

	<i>RMB'000</i>
Balance at 1 July 2013	68,765
Release to profit or loss	<u>(837)</u>
Balance at 31 December 2013	67,928
Release to profit or loss	<u>(1,393)</u>
Balance at 31 December 2014	66,535
Addition	7,013
Acquired in a business combination (<i>note 34</i>)	53,009
Release to profit or loss	<u>(2,192)</u>
Balance at 31 December 2015	<u><u>124,365</u></u>

	As at 31 December		
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
Analysed for reporting purpose as:			
– Current assets	1,667	1,667	3,743
– Non-current assets	<u>66,261</u>	<u>64,868</u>	<u>120,622</u>
	<u><u>67,928</u></u>	<u><u>66,535</u></u>	<u><u>124,365</u></u>

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 2013, 2014 and 2015, land use rights with carrying amount of RMB10,165,000, RMB9,921,000 and RMB9,677,000, respectively, were pledged for certain banking borrowings of CMD Group (note 25).

16. GOODWILL

	<i>RMB'000</i>
Cost	
Balance at 1 July 2013, 31 December 2013 and 2014	310,426
Arising on acquisition of ADH Companies (as defined in note 18)	1,225,460
Impairment loss on goodwill	<u>(94,392)</u>
Balance at 31 December 2015	<u><u>1,441,494</u></u>

CMD 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 CMD 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 12.48%, 13.07%, 11.70% at 31 December 2013, 2014 and 2015, respectively. Cash flows beyond the budgeted period are extrapolated using a 4.00%, 4.00%, 2.50% growth rate at 31 December 2013, 2014 and 2015, respectively. 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 Track Record Period.

CMD 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 CMD 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 11.70%. 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 CMD 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
		As at 31 December			31/12/2013	31/12/2014	31/12/2015	
		2013	2014	2015	%	%	%	
Qiushi Grass Industry Co., Ltd. ("Qiushi")	PRC	RMB118,000,000	RMB118,000,000	RMB147,500,000	18.0	18.0	14.4	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 Qiushi in exchange of 20% equity interest in Qiushi. Upon the completion of the transaction, CMD's share in the equity interest of Qiushi was diluted from 18.0% to 14.4% and CMD Group's share of interest in Qiushi increased RMB7,336,000 which was credited to CMD Group's profit or loss.

CMD 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 Historical Financial Information.

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

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current assets	378,473	373,632	501,065
Non-current assets	104,712	115,327	177,625
Current liabilities	(275,705)	(326,682)	(442,866)
Non-current liabilities	(64,583)	(57,103)	(60,079)

	Six months ended		
	31 December 2013	Year ended 31 December 2014	
	RMB'000	RMB'000	RMB'000
Revenue	132,290	377,217	331,173
Loss and total comprehensive loss for each reporting period	(4,847)	(37,723)	(8,209)
Dividend	-	-	-

Reconciliation of the above summarise financial information to the carrying amount of the interest in the associate recognised in the Historical Financial Information:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Net assets of the associate	142,897	105,174	175,745
Less: net assets attributable to non-controlling interests	-	-	(1,607)
Net assets of attributable to owners of Qiushi	142,897	105,174	174,138
Proportion of CMD Group's ownership interest in Qiushi	18%	18%	14.4%
Carrying amount of CMD Group's interest in Qiushi	25,722	18,931	25,076

18. INTERESTS IN JOINT VENTURES

Movement of CMD Group's interests in joint ventures are as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Cost of investments in joint ventures	33,116	88,491	154,771
Share of post-acquisition profits and other comprehensive income	(287)	6,717	12,499
Decrease due to acquisition of subsidiaries (note 34)	-	-	(167,270)
	32,829	95,208	-

Details of the interests in joint ventures at 31 December 2013, 2014 and 2015 are as follows:

Name of company	Place of establishment	Issued and fully paid capital			Proportion of ownership interest			Principal activities
		As at 31 December			31/12/2013	31/12/2014	31/12/2015	
		2013	2014	2015	%	%	%	
Asia Dairy Holdings Limited (the "ADH I")	Cayman Islands	US\$10	US\$16	US\$20	18	18	N/A	Breeding dairy cows and production of raw milk
Asia Dairy Holdings II Limited (the "ADH II")	Cayman Islands	N/A	US\$10	US\$20	N/A	18	N/A	Breeding dairy cows and production of raw milk

On 23 September 2013, CMD entered into an agreement (the "JV Agreement I") with Success Dairy II Limited ("Success Dairy"). Pursuant to the JV Agreement I, CMD 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 of ADH I 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, CMD Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company I.

On 23 September 2013, CMD 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, CMD 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 of ADH II 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, CMD Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company II.

Pursuant to the JV Agreements, CMD 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 CMD. CMD 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 CMD and Success Dairy.

Pursuant to the JV Agreements: (1) CMD granted to Success Dairy an option to require CMD 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 CMD an option to require Success Dairy to sell to CMD 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.

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

- (i) $((\text{Market capitalization of CMD} + \text{CMD net debt}) / \text{CMD last twelve months (the "LTM") Cash EBITDA} \times 0.8 \times \text{ADH Companies LTM Cash EBITDA} - \text{ADH Companies net debt}) \times \text{Success Dairy's shareholding interest in the ADH Companies};$
- (ii) $(12 \times \text{ADH Companies LTM Cash EBITDA} - \text{ADH Companies net debt}) \times \text{Success Dairy's shareholding interests in the ADH Companies};$ 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, CMD and Success Dairy entered into an agreement (the "**Share Purchase Agreement**") pursuant to which CMD 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 CMD (note 34). The 18% equity interests previously held by CMD 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 CMD for the Acquisition shall be the issuance of 477,429,132 ordinary shares of CMD (the "**Consideration Shares**"), representing approximately 9.0% of the enlarged issued share capital of CMD.

Pursuant to the Share Purchase Agreement, Success Dairy has undertaken to CMD 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, CMD shall pay Success Dairy by further issuance of ordinary shares of CMD 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 CMD 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 CMD (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**").

(a) ADH I

The summarised financial information in respect of the ADH I:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Current assets	<u>182,012</u>	<u>76,433</u>	<u>N/A</u>
Non-current assets	<u>439</u>	<u>452,036</u>	<u>N/A</u>
Current liabilities	<u>(67)</u>	<u>(184,882)</u>	<u>N/A</u>
Non-current liabilities	<u>-</u>	<u>(550)</u>	<u>N/A</u>
The above amounts of assets and liabilities include the following:			
Cash and cash equivalents	<u>177,409</u>	<u>34,144</u>	<u>N/A</u>
Current financial liabilities (excluding trade and other payables and provisions)	<u>-</u>	<u>-</u>	<u>N/A</u>
Non-current financial liabilities (excluding trade and other payables and provisions)	<u>-</u>	<u>-</u>	<u>N/A</u>
	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	The period from 1 January 2015 to 20 July 2015 RMB'000
Revenue	<u>-</u>	<u>14,098</u>	<u>63,987</u>
Profit and total comprehensive income for the period/year	<u>1,592</u>	<u>37,599</u>	<u>13,282</u>
Dividend	<u>-</u>	<u>-</u>	<u>-</u>

	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	The period from 1 January 2015 to 20 July 2015 RMB'000
Depreciation and amortisation	–	3,661	3,641
Interest income	62	2,537	273
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 Historical Financial Information:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Net assets of ADH I	182,384	343,037	N/A
Proportion of the ownership interests in ADH I	18%	18%	N/A
Carrying amount of the interests in ADH I	<u>32,829</u>	<u>61,747</u>	<u>N/A</u>

(b) ADH II

The summarised financial information in respect of ADH II:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Current assets	<u>N/A</u>	<u>44,324</u>	<u>N/A</u>
Non-current assets	<u>N/A</u>	<u>172,814</u>	<u>N/A</u>
Current liabilities	<u>N/A</u>	<u>(28,145)</u>	<u>N/A</u>
Non-current liabilities	<u>N/A</u>	<u>(3,099)</u>	<u>N/A</u>

The above amounts of assets and liabilities include the following:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Cash and cash equivalents	<u>N/A</u>	<u>19,926</u>	<u>N/A</u>
Current financial liabilities (excluding trade and other payables and provisions)	<u>N/A</u>	<u>-</u>	<u>N/A</u>
Non-current financial liabilities (excluding trade and other payables and provisions)	<u>N/A</u>	<u>-</u>	<u>N/A</u>
	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	The period from 1 January 2015 to 20 July 2015 RMB'000
Revenue	<u>N/A</u>	<u>-</u>	<u>-</u>
Profit and total comprehensive income for the period/year	<u>N/A</u>	<u>1,310</u>	<u>8,842</u>
Dividend	<u>N/A</u>	<u>-</u>	<u>-</u>
	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	The period from 1 January 2015 to 20 July 2015 RMB'000
Depreciation and amortisation charged to profit or loss	<u>N/A</u>	<u>254</u>	<u>4,536</u>
Interest income	<u>N/A</u>	<u>442</u>	<u>867</u>
Interest expense	<u>N/A</u>	<u>-</u>	<u>-</u>
Income tax expense	<u>N/A</u>	<u>-</u>	<u>-</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the Historical Financial Information:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Net assets of ADH II	N/A	185,894	N/A
Proportion of the ownership interest in ADH II	N/A	18%	N/A
Carrying amount of the interest in ADH II	N/A	33,461	N/A

19. OTHER FINANCIAL LIABILITIES

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Financial liabilities measured at FVTPL			
The Put Option and Call Option (<i>note i</i>)	41,631	147,099	–
Contingent consideration (<i>note ii</i>)	–	–	1,155,472
	41,631	147,099	1,155,472

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 2013 and 2014 have been determined by using a Binomial Option Pricing Model with the following key assumptions:

	31/12/2013		31/12/2014	
	JV Agreement I	JV Agreement II	JV Agreement I	JV Agreement II
Spot price	US\$24,600,000	N/A	US\$51,291,000	US\$24,600,000
Exercise price	US\$25,056,000	N/A	US\$55,898,000	US\$26,810,000
Expected volatility	39.78%	N/A	40.66%	41.18%
Risk-free interest rate	1.309%	N/A	1.10%	1.47%
Dividend yield	–	N/A	–	–
Return rate	7.00%	N/A	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 20 July 2015 and 31 December 2015 were independently valued by JLL and have been determined by using a Binomial Option Pricing Model with the following assumptions:

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

20. BIOLOGICAL ASSETS

A. Nature of activities

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

The quantity of dairy cows owned by CMD Group at end of the reporting period is shown below. CMD 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.

	As at 31 December		
	2013 <i>heads</i>	2014 <i>heads</i>	2015 <i>heads</i>
Milkable cows	98,791	107,578	114,751
Heifers and calves	88,047	93,929	110,791
Total dairy cows	<u>186,838</u>	<u>201,507</u>	<u>225,542</u>

CMD Group is exposed to fair value risks arising from changes in price of raw milk. CMD Group does not anticipate that the price of the raw milk will decline significantly in the foreseeable future and CMD Directors are of the view that there is no available derivative or other contracts which CMD 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 six 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.

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

i. Regulatory and environmental risks

CMD Group is subject to laws and regulations in the location in which it operates plantation and breeding. CMD 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

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

B. Quantity of the agricultural produce of CMD Group's biological assets

	Six months ended		
	31 December	Year ended 31 December	
	2013	2014	2015
	KG	KG	KG
Volume of milk sold	373,280,309	931,334,000	924,092,000

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:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Milkable cows	3,780,863	4,347,114	4,813,178
Heifers and calves	2,173,500	2,183,700	2,777,700
Total dairy cows	5,954,363	6,530,814	7,590,878

	Heifers and calves	Milkable cows	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 July 2013	2,367,300	3,097,708	5,465,008
Increase due to purchase			
Feeding cost	668,933	–	668,933
Transfer	(1,057,541)	1,057,541	–
Decrease due to disposal	(25,363)	(137,807)	(163,170)
Gain (loss) arising from changes in fair value less costs of dairy cows	220,171	(236,579)	(16,408)
	<u>2,173,500</u>	<u>3,780,863</u>	<u>5,954,363</u>
Balance at 31 December 2013	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)
	<u>2,183,700</u>	<u>4,347,114</u>	<u>6,530,814</u>
Balance at 31 December 2014	2,183,700	4,347,114	6,530,814
Increase due to business combination (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)
	<u>2,777,700</u>	<u>4,813,178</u>	<u>7,590,878</u>
Balance at 31 December 2015	<u>2,777,700</u>	<u>4,813,178</u>	<u>7,590,878</u>

CMD Directors have engaged JLL to assist CMD Group in assessing the fair values of CMD Group's dairy cows. The independent valuer and the management of CMD 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 2013, 2014 and 2015, CMD Group has pledged dairy cows of RMB4,087,534,000, RMB3,316,177,000 and RMB2,769,734,000, respectively, to banks to secure certain borrowings of CMD Group (note 25).

The aggregate gain or loss arising during the six months ended 31 December 2013 and the years ended 31 December 2014 and 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:

	Six months ended	Year ended 31 December	
	31 December 2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	542,821	1,666,242	1,203,011
Loss arising from changes in fair value less costs to sell of dairy cows	(16,408)	(329,069)	(474,910)
	<u>526,413</u>	<u>1,337,173</u>	<u>728,101</u>

21. INVENTORIES

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Feeds	642,913	542,961	705,291
Finished goods	–	34,194	51,627
Others	48,195	63,426	77,181
	<u>691,108</u>	<u>640,581</u>	<u>834,099</u>

22. TRADE AND OTHER RECEIVABLES

During the Track Record Period, CMD 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 each reporting period, which approximated the respective revenue recognition dates at the end of each reporting period:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Trade receivables			
– within 120 days based on invoice date	462,775	636,715	880,751
– after 120 days based on invoice date	–	–	2,000
	<u>462,775</u>	<u>636,715</u>	<u>882,751</u>
Bills receivable	–	–	23,153
Advances to suppliers	69,464	126,425	105,082
Receivable in respect of sales of self-reproduced dairy cows	–	27,469	57,922
Input value added tax recoverable	–	7,888	7,905
Interest receivables	8,190	22,850	1,909
Receivable in respect of disposal of equipment	–	–	10,868
Others	4,281	5,425	8,204
	<u>544,710</u>	<u>826,772</u>	<u>1,097,794</u>

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

Before accepting any new customer, CMD 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. 100%, 100% and 99% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internally credit quality as at 31 December 2013, 2014 and 2015.

As at 31 December 2015, included in CMD Group's trade receivable balance is a debtor with aggregate carrying amount of RMB2,000,000, which is past due as at the reporting date for which CMD Group has not provided for impairment loss. CMD Group does not hold any collateral over this balance. The age of this receivable is 440 days.

Transfers of Financial Assets

The following were CMD 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 31 December 2015. As CMD 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 CMD Group's Historical Financial Information.

As the 31 December 2015

	Bills receivable endorsed to suppliers with full recourse <i>RMB'000</i>
Carrying amount of transferred assets	23,153
Carrying amount of associated liabilities	(23,153)
	<hr/>
Net position	<hr/> <hr/> –

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

CMD Group did not have any significant bills receivable that were transferred to suppliers by endorsing the bills on a full resource basis but not matured as at 31 December 2013 and 2014.

23. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES**Pledged bank balances**

The pledged bank balances represent deposits pledged for bank borrowings. The pledged bank balances carry interest at prevailing market saving rates ranging from 0.35% to 3.30%, 0.35% to 3.75%, and 0.35% to 3.25% per annum at 31 December 2013, 2014 and 2015, respectively.

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 3.00%, 0.35% to 3.75%, and 0.35% to 2.38% per annum at 31 December 2013, 2014 and 2015, respectively.

Cash and bank balances are denominated in United States Dollar ("US\$"), Euro ("EUR"), Hong Kong Dollar ("HK\$"), Australia Dollar ("AU\$") 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:

	As at 31 December		
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
US\$	79,052	299,642	140,297
EUR	675	714	924
HK\$	4,901	951	14,318
AU\$	–	5,018	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Trade payables			
Within 60 days based on invoice date	644,377	696,563	817,966
Over 60 days based on invoice date	38,307	40,786	83,331
Bills payable (<i>note</i>)	130,500	104,827	310,268
	<u>813,184</u>	<u>842,176</u>	<u>1,211,565</u>
Payable for acquisition of property, plant and equipment	479,318	382,405	631,208
Accrued staff costs	45,321	56,960	61,084
Interest payable	35,447	56,480	28,680
Advance payments from customers	55,949	28,941	12,931
Others	45,031	36,041	67,508
	<u>661,066</u>	<u>560,827</u>	<u>801,411</u>
	<u>1,474,250</u>	<u>1,403,003</u>	<u>2,012,976</u>

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

25. BORROWINGS

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Bank borrowings	<u>3,748,666</u>	<u>4,687,848</u>	<u>5,647,251</u>
Unsecured borrowings	1,533,139	885,818	1,796,381
Secured borrowings (<i>note i</i>)	1,964,527	3,335,030	3,165,870
Guaranteed borrowings (<i>note ii</i>)	251,000	467,000	685,000
	<u>3,748,666</u>	<u>4,687,848</u>	<u>5,647,251</u>
Carrying amount repayable:			
Within one year	1,788,799	1,858,398	4,825,521
Between one to two years	1,042,337	792,538	749,230
Between two to five years	917,530	2,036,912	72,500
	<u>3,748,666</u>	<u>4,687,848</u>	<u>5,647,251</u>
Less: Amounts due within one year shown under current liabilities	<u>1,788,799</u>	<u>1,858,398</u>	<u>4,825,521</u>
	<u>1,959,867</u>	<u>2,829,450</u>	<u>821,730</u>

The bank borrowings comprise:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	1,343,185	1,128,323	1,841,381
Variable-rate borrowings	2,405,481	3,559,525	3,805,870
	<u>3,748,666</u>	<u>4,687,848</u>	<u>5,647,251</u>

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

	Six months ended		
	31 December 2013	Year ended 31 December 2014	Year ended 31 December 2015
	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	2.00%-6.90%	1.73%-6.90%	0.86%-6.30%
Variable-rate borrowings	2.15%-7.05%	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 ("LIBOR").

As at 31 December 2013, 2014 and 2015, bank borrowings denominated in RMB are approximately RMB3,263,273,000, RMB2,361,421,000 and RMB3,045,530,000 respectively, and denominated in US\$ are RMB485,393,000, RMB2,326,427,000 and RMB2,601,721,000 respectively.

Notes:

- i. The loans were secured by
 - 1) certain property, land use rights, biological assets and bank deposits owned by CMD Group as set out in notes 14, 15, 20 and 23 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 CMD Group.

In respect of bank loans with a carrying amount of US\$390,000,000 (equivalent to approximately RMB2,537,340,000) as at 31 December 2015, CMD was not able to meet certain of the terms of the bank loans, which are primarily related to the leverage ratio of CMD 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 31 December 2015, these loans have been classified as current liabilities as at 31 December 2015.

Subsequent to 31 December 2015, CMD has obtained the waivers from these lenders to waive their rights to call for immediate repayment of the loans. CMD Group early repaid the bank loans of US\$300,000,000 in April 2016.

26. SHORT-TERM DEBENTURES

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Short-term debentures - unsecured	<u>1,200,000</u>	<u>1,100,000</u>	<u>400,000</u>

Notes:

- i. On 27 March 2013, Modern Farm issued short-term debentures 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 bears a fixed interest rate of 4.99% per annum and is discounted at effective interest rate of 5.41% per annum after taking into account the effect of issue costs. It was repaid on 27 March 2014.
- ii. On 6 December 2013, Modern Farm issued short-term debentures with a principal amount of RMB500,000,000 through China Construction Bank Co., Ltd., the leading underwriter, with maturity of six months. The short term debenture bears a fixed interest rate of 6.90% per annum. It was repaid on 9 June 2014.
- iii. On 25 April 2014, Modern Farm issued short-term debentures 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.
- iv. On 23 May 2014, Modern Farm issued short-term debentures 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.
- v. On 24 June 2015, Modern Farm issued short-term debentures with a principal amount of RMB400,000,000 through Industrial and Commercial Bank of China Co., Ltd., the leading underwriter, with maturity of six months. The short-term debenture bears a fixed interest rate of 3.98% per annum.

27. MEDIUM-TERM NOTES

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Medium-term notes (<i>note</i>)	<u>-</u>	<u>-</u>	<u>200,000</u>

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 July 2013	117,212
Addition	12,805
Released to income	<u>(5,155)</u>
Balance at 31 December 2013	124,862
Addition	7,016
Released to income	<u>(11,457)</u>
Balance at 31 December 2014	120,421
Addition	33,778
Released to income	<u>(12,375)</u>
Balance at 31 December 2015	<u><u>141,824</u></u>

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 Share '000	Shares capital HK\$'000
Authorised		
At 1 July 2013, at 31 December 2013, 2014 and 2015	<u>10,000,000</u>	<u>1,000,000</u>
At 1 July 2013	4,818,536	481,854
Issue of ordinary shares upon exercise of share options (note 30(c))	<u>8,803</u>	<u>880</u>
At 31 December 2013 and at 31 December 2014	4,827,339	482,734
Issue of ordinary shares (note)	<u>477,429</u>	<u>47,743</u>
At 31 December 2015	<u><u>5,304,768</u></u>	<u><u>530,477</u></u>
	As at 31 December	
	2013	2014
	RMB'000	RMB'000
Presented as	<u>415,261</u>	<u>415,261</u>
		<u>452,959</u>

Note: Pursuant to the Share Purchase Agreement, CMD issued 477,429,132 ordinary shares of CMD 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) CMD's Share Option Scheme I

CMD'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 CMD 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 CMD from time to time. Unless approved by the shareholders of CMD in general meeting in the manner prescribed in the Rules Governing the Listing of Securities on the Stock Exchange, the CMD 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 CMD then in issue.

On 12 December 2012, CMD 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 CMD were granted to two directors and 128 eligible employees (collectively, the "**Scheme I Grantees**"), subject to acceptance of the Grantees, under CMD's Share Option Scheme I adopted by CMD 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.

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 CMD 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 CMD Directors ("**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 CMD Director with effect on 28 June 2013.

Other information of the Share Options 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 Share Options I become vested

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

Category	Outstanding as at 1 July 2013	Forfeited during the year	Outstanding as at 31 December 2013
Share Option A	4,780,267	–	4,780,267
Share Option B	31,329,718	(2,482,212)	28,847,506
	<u>36,109,985</u>	<u>(2,482,212)</u>	<u>33,627,773</u>
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
	<u>33,627,773</u>	<u>(1,521,590)</u>	<u>32,106,183</u>
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
	<u>32,106,183</u>	<u>(2,722,427)</u>	<u>29,383,756</u>

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.

CMD recognised a share option expense of RMB2,764,000, RMB5,694,000 and RMB2,370,000 during the six months ended 31 December 2013 and the two years ended 31 December 2014 and 2015, respectively in respect of the Share Option I. None of the Share Options I were exercisable as at 31 December 2013 and 2014. All of the Share Options I are exercisable as at 31 December 2015.

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

CMD'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 CMD 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 CMD as at the date of 5 June 2014. Unless approved by the shareholders of CMD 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 CMD then in issue.

(i) *The Share Options II-i*

On 6 June 2014, CMD 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 I-i Grantees, under the Share Option Scheme II adopted by CMD 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.

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 CMD Directors (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

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

Category	Outstanding as at 1 January 2014	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 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

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

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-optimal factor	2.2	1.6

Expected volatility was determined by using the historical volatility of CMD'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 CMD Directors. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-i.

CMD recognised a share option expense of RMB26,204,000 and RMB23,646,000 in respect of the Share Option Scheme II-i during the two years ended 31 December 2014 and 2015 respectively. 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, CMD 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 CMD on 5 June 2014.

The Share Options II-ii shall entitle the Scheme II-ii Grantees to subscribe for an aggregate of 10,966,673 new shares upon the exercise of the Share Options II-ii in full at an exercise price of HK\$2.83 per share.

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 CMD (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

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

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 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\$3,772,000 (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-optimal factor	2.2	1.6

Expected volatility was determined by using the historical volatility of CMD'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 CMD Directors. Changes in variables and assumptions may result in changes in the fair value of the Share Options II-ii.

CMD recognised a share option expense of RMB4,516,000 in respect of the Share Options II-ii during the year ended 31 December 2015. None of the Share Options II-ii were exercisable as at 31 December 2015.

(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, CMD granted to the MF Grantees a total of 87,412,507 share options of CMD 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. CMD’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 July 2013	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding and exercisable as at 31 December 2013
Management Options	68,876,774	–	(8,803,018)	–	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

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

31. CAPITAL RISK MANAGEMENT

CMD Group manages its capital to ensure that entities in CMD 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. CMD Group's overall strategy remains unchanged in current year.

The capital structure of CMD Group consists of net debt, which includes bank and other borrowings, short-term debentures 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 CMD, comprising issued share capital, share premium and reserves.

CMD 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. CMD 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

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Financial assets:			
Loans and receivables (including pledged bank balances and cash and bank balances)	<u>1,274,822</u>	<u>1,859,467</u>	<u>1,890,828</u>
Financial liabilities:			
Amortised cost	6,366,967	7,104,950	8,185,331
Financial liabilities at FVTPL			
– Other financial liabilities	<u>41,631</u>	<u>147,099</u>	<u>1,155,472</u>

Financial risk management objectives and polices

CMD Group's major financial instruments include trade and other receivables, pledged bank balances, cash and bank balances, trade and other payables, borrowings, short-term debentures, 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*

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

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 note 25. In addition, CMD Group's financial liabilities at FVTPL denominated in US\$ also expose CMD Group to fluctuation of US\$ relative to RMB.

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

Foreign currency sensitivity analysis

2% is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates.

CMD 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, CMD Group's post-tax profit for each reporting period would increase as follow:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
US\$ denominated assets and liabilities against RMB			
– financial liabilities at FVTPL	(833)	(2,942)	(23,109)
– other monetary assets and liabilities	<u>(8,127)</u>	<u>(40,536)</u>	<u>(49,228)</u>
Total	<u><u>(8,960)</u></u>	<u><u>(43,478)</u></u>	<u><u>(72,337)</u></u>

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*

CMD 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.

CMD Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, short-term debentures and medium-term notes. CMD 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, CMD Group's profit for the six months ended 31 December 2013 and the years ended 31 December 2014 and 2015 would decrease/increase by RMB4,263,500, RMB14,932,000 and RMB18,172,000 respectively.

(iii) *Other price risk*

CMD Group is exposed to stock price risk mainly through the Value Adjustment 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 31 December 2015.

If stock price of CMD 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

CMD Group's maximum exposure to credit risk which will cause a financial loss to CMD 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 CMD 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 CMD Group's management based on prior experience and the current economic environment. CMD 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, CMD Directors consider that CMD Group's credit risk is significantly reduced.

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

CMD Group has concentration of credit risk as over 47%, 31% and 18% of total trade receivables as at 31 December 2013, 2014 and 2015, were receivables due from the Mengniu Group (defined in note 38), CMD Group's largest customer with significant influence over CMD.

Liquidity risk

CMD Group had net current liabilities of approximately RMB4,285,909,000 as at 31 December 2015. CMD Directors closely monitor the cash flows of CMD Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, when necessary, to ensure CMD Group has sufficient funds to enable CMD Group to meet its financial obligations. In addition, the available credit facilities of CMD Group amounted to approximately RMB6,753,413,000 which remains unutilised as at 31 December 2015. In view of the above, CMD Directors consider CMD Group's liquidity risk is significantly reduced.

CMD 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. CMD Directors monitor the liquidity position of CMD Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilised facilities, CMD Directors consider the liquidity and source of capital for the daily operation are sufficient.

The following table details CMD 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 CMD Group can be required to pay.

APPENDIX II
FINANCIAL INFORMATION OF CMD GROUP

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 2013							
Non-interest bearing		1,418,301	-	-	-	1,418,301	1,418,301
Fixed interest rate bank borrowings	2.00-6.90	323,995	766,065	291,848	-	1,381,908	1,343,185
Short-term debentures	4.99-6.90	1,228,652	-	-	-	1,228,652	1,200,000
Variable interest rate bank borrowings	2.15-7.05	394,214	470,201	868,789	1,032,128	2,765,332	2,405,481
Other financial liabilities		-	-	-	-	-	41,631
		<u>3,365,162</u>	<u>1,236,266</u>	<u>1,160,637</u>	<u>1,032,128</u>	<u>6,794,193</u>	<u>6,408,598</u>
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
		<u>3,119,480</u>	<u>1,431,751</u>	<u>952,867</u>	<u>2,870,730</u>	<u>8,374,828</u>	<u>7,252,049</u>
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
		<u>5,179,800</u>	<u>2,215,169</u>	<u>799,756</u>	<u>302,429</u>	<u>8,497,154</u>	<u>8,185,331</u>

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

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 each reporting period.

33. FAIR VALUE MEASUREMENTS

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

CMD 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			Fair value hierarchy
	2013 RMB'000	2014 RMB'000	2015 RMB'000	
Biological assets	5,954,363	6,530,814	7,590,878	level 3
Other financial liabilities	(41,631)	(147,099)	(1,155,472)	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.

Type	Valuation technique	Significant unobservable 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 RMB24,300, RMB24,500, RMB24,500 per head as at 31 December 2013, 2014 and 2015, respectively.	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.

Reconciliation of Level 3 fair value measurements

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
	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 RMB15,256, RMB16,167, RMB16,248 at 31 December 2013, 2014 and 2015, respectively; average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB15,036, RMB16,222, RMB15,983 at 31 December 2013, 2014 and 2015, respectively.	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 RMB2.40, RMB2.37, RMB2.21 as at 31 December 2013, 2014 and 2015, respectively, 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.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 22.0 kg to 23.0kg, 24.0 kg to 25.0 kg, 24.0 kg to 26.0 kg as at 31 December 2013, 2014 and 2015, respectively, 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 RMB4.75, RMB4.80, RMB4.39 per kg as at 31 December 2013, 2014 and 2015, respectively.	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 12.48%, 13.07%, 11.70% as at 31 December 2013, 2014 and 2015, respectively.	An increase in the estimated discount rate used would result in a slightly smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.

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 2013			
At 1 July 2013			
Gain (loss) in profit or loss	34,517	(76,148)	(41,631)
At 31 December 2013	<u>34,517</u>	<u>(76,148)</u>	<u>(41,631)</u>
31 December 2014			
At 1 January 2014	34,517	(76,148)	(41,631)
Gain (loss) in profit or loss	59,226	(164,694)	(105,468)
At 31 December 2014	<u>93,743</u>	<u>(240,842)</u>	<u>(147,099)</u>
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	<u>-</u>	<u>-</u>	<u>-</u>

The Value Adjustment Undertakings

	Value Adjustment Undertakings RMB'000
At 1 July 2013, 31 December 2013 and 2014	–
Recognition due to business combination (<i>note 34</i>)	(958,345)
Loss in profit or loss	<u>(197,127)</u>
At 31 December 2015	<u><u>(1,155,472)</u></u>

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

34. BUSINESS COMBINATION

As set out in note 18, CMD acquired the ADH Companies on 20 July 2015 and since then the ADH Companies became 100% owned subsidiaries of CMD. CMD Directors believe that the acquisition of ADH Companies would strengthen CMD 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 (<i>note i</i>)	968,833
The fair value of the Value Adjustment Undertakings (<i>note ii</i>)	<u>958,345</u>
Total	<u><u>1,927,178</u></u>

Notes:

- i. Pursuant to the Share Purchase Agreement, CMD 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, CMD provided the Value Adjustment Undertaking I to Success Dairy and Success Dairy provided the Value Adjustment Undertaking II to CMD (*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:

	<i>RMB'000</i>
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	<u>(177,150)</u>
 Total	 <u><u>990,327</u></u>

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.

Goodwill arising on acquisition:

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

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:

	<i>RMB'000</i>
Cash consideration paid	–
Less: cash and cash equivalent balances acquired	<u>75,173</u>
	<u><u>75,173</u></u>

Included in the profit for the year ended 31 December 2015 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 1 January 2015, total group revenue for the year ended 31 December 2015 would have been RMB4,890 million, and profit for the year ended 31 December 2015 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 CMD 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. DISPOSAL OF A SUBSIDIARY

On 31 December 2014, CMD Group disposed of its 56% equity interest in Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd to the non-controlling shareholder of Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd. The subsidiary was mainly engaged in sales of liquid milk products.

	At date of disposal
	<i>RMB'000</i>
Consideration received	
Consideration received in cash and cash equivalents	1,680
Analysis of asset and liabilities over which control was lost:	
Cash and cash equivalents	99
Trade and other receivables	35
Inventories	290
Property plant and equipment	132
Trade and other payables	(1,534)
Net liabilities disposed of	(978)
Gain on disposal of a subsidiary	
Consideration received	1,680
Net liabilities disposed of	978
Non-controlling interests	(432)
Gain on disposal	2,226
Net cash inflow on disposal of a subsidiary	
Consideration received in cash and cash equivalents	1,680
Less: cash and cash equivalent balances disposed of	(99)
	1,581

36. OPERATING LEASE COMMITMENTS

CMD Group as lessee

Minimum lease payments under operating leases recognised during the six months ended 31 December 2013 and the two years ended 31 December 2014 and 2015 are RMB8,451,000, RMB7,437,000 and RMB12,374,000 respectively.

At the end of each reporting period, CMD 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:

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Within one year	579	1,197	10,868
In the second to fifth year inclusive	364	729	19,257
Over five years	748	–	–
	<u>1,691</u>	<u>1,926</u>	<u>30,125</u>

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

37. CAPITAL COMMITMENTS

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Capital expenditure contracted but not provided for:			
in respect of acquisition of property, plant and equipment	78,527	139,351	151,498
in respect of capital contribution to joint ventures	120,719	66,085	–
	<u>199,246</u>	<u>205,436</u>	<u>151,498</u>

38. RELATED PARTY TRANSACTIONS

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

Qiushi	An associate of CMD Group
China Mengniu Dairy Co., Ltd. (“ Mengniu Company ”)*	A shareholder with significant influence over CMD
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 CMD and was able to exercise significant influence over CMD 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 CMD Group since the Acquisition on 20 July 2015. The related party transaction disclosed in this note include the transaction between CMD Group and these two entities before the Acquisition.

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

Amounts due from

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Mengniu Group			
Trade receivable			
Within 120 days based on invoice date	215,356	197,657	162,520
	<u> </u>	<u> </u>	<u> </u>
Modern Farm (Shanghe) Co., Ltd.			
Receivable for disposal of dairy cows	–	27,571	N/A
	<u> </u>	<u> </u>	<u> </u>
Modern Farm (Jinan) Co., Ltd.			
Receivable for disposal of dairy cows	N/A	236	N/A
	<u> </u>	<u> </u>	<u> </u>

Amounts due to

	As at 31 December		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Mengniu Group			
Advance from customers	46,101	22,661	8,333
	<u> </u>	<u> </u>	<u> </u>
Qiushi			
Trade payable			
Within 60 days based on invoice date	27,820	81,142	6,086
Bills payable	60,000	–	–
	<u> </u>	<u> </u>	<u> </u>
Modern Farm (Shanghe) Co., Ltd.			
Other payable	–	12,208	N/A
	<u> </u>	<u> </u>	<u> </u>

- c. During the Track Record Period, CMD Group had the following transactions with related parties:

	Six months ended	Year ended 31 December	
	31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
Sales of raw milk to the Mengniu Group	1,345,269	3,006,934	2,304,424
Processing liquid milk products for the Mengniu Group	854	–	–
	<u> </u>	<u> </u>	<u> </u>
Purchases of forage grass from Qiushi	99,471	328,074	156,572
	<u> </u>	<u> </u>	<u> </u>
Disposals of property, plant and equipment to Qiushi	–	–	10,867
	<u> </u>	<u> </u>	<u> </u>

	Six months ended 31 December 2013 RMB'000	For the year ended 31 December 2014 RMB'000	For the period from 1 January 2015 to 20 July 2015 RMB'000
Disposals of diary cows to Modern Farm (Shanghe) Co., Ltd.	–	165,192	15,807

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

d. Compensation of key management personnel

The emoluments of key management during the Track Record Period were as follows:

	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	2015 RMB'000
Salaries and other benefits	2,622	7,803	7,043
Recognition of equity-settled share-based payments	706	9,633	10,030
Retirement benefits scheme contributions	67	179	162
	<u>3,395</u>	<u>17,615</u>	<u>17,235</u>

39. SUBSIDIARIES

Particulars of CMD's subsidiaries at 31 December 2013, 2014 and 2015 and at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to CMD as at						The date of this report		Principal activities	Statutory auditors	Financial period	
			31 December 2013		31 December 2014		31 December 2015		Directly	Indirectly				
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly						
			%	%	%	%	%	%	%	%				
Advanced Dairy Company (Luxemburg) Limited ("Lux")	Luxemburg 18 August 2008	US\$138,500,000	100.00	-	100.00	-	100.00	-	100.00	-	-	Investment holding	Deloitte Audit Limited Liability Company (note ix)	Year ended 31 December 2013, 2014 and 2015
Aquiair Holdings Limited ("Aquiair")	Republic of Ireland 24 July 2008	US\$472,307,046	-	100.00	-	100.00	-	100.00	-	100.00	-	Investment holding	Deloitte Chartered Accountants and Statutory Audit Firm (note ix)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (notes i and viii)	PRC 7 July 2008	RMB563,301,046	-	97.87	-	97.87	-	97.87	-	97.87	-	Production of milk	Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch 德勤華永會計師事務所 (特殊普通合夥) 北京分所	Year ended 31 December 2013, 2014 and 2015
Shandong Mengniu International Trading Co., Ltd. (notes ii, v and viii)	PRC 5 November 2003	RMB20,000,000	-	97.87	-	97.87	-	97.87	-	97.87	-	Import and export agency services	Anhui Jiangnan Certified Public Accountants ("Anhui Jiangnan") (安徽江南會計師事務所)	Year ended 31 December 2013
Asia Dairy Holdings Co., Ltd. (note iii)	Cayman Islands 16 September 2013	US\$20	N/A	N/A	N/A	100.00	-	100.00	-	100.00	-	Investment holding	Not applicable (note vi)	N/A
Asia Dairy Holdings II Co., Ltd. (note iii)	Cayman Islands 3 January 2014	US\$20	N/A	N/A	N/A	100.00	-	100.00	-	100.00	-	Investment holding	Not applicable (note vi)	N/A

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to CMD as at						The date		Statutory auditors	Financial period	
			31 December 2013		31 December 2014		31 December 2015		of this report				
			Directly %	Indirectly %	Directly %	Indirectly %	Directly %	Indirectly %	Directly %	Indirectly %			
Asia Dairy Trading and Holdings Co., Ltd. (note iii)	Hong Kong 4 September 2013	HK\$5	N/A	N/A	N/A	N/A	-	100.00	-	100.00	Investment holding	Not applicable (note vii)	N/A
Asia Dairy Trading and Holdings II Co., Ltd. (note iii)	Hong Kong 23 December 2013	HK\$4	N/A	N/A	N/A	N/A	-	100.00	-	100.00	Investment holding	Not applicable (note vii)	N/A
Modern Farm (Shanghe) Co., Ltd (notes i, iii and vii)	PRC 12 October 2013	RMB425,000,000	N/A	N/A	N/A	N/A	-	100.00	-	100.00	Breeding dairy cows and production of milk	Jinan Youyi Certified Public Accountants Co. Ltd. ("Jinan Youyi") (濟南友誼有限責任會計師事務所) ("濟南友誼")	Year ended 31 December 2015
Modern Farm (Jinan) Co., Ltd. (notes i, iii and vii)	PRC 10 March 2014	RMB425,000,000	N/A	N/A	N/A	N/A	-	100.00	N/A	N/A	Breeding dairy cows and production of milk	Jinan Youyi (濟南友誼)	Year ended 31 December 2015
Helingeer Modern Farming Co., Ltd. (notes ii and vii)	PRC 12 July 2004	RMB93,670,447	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Zhangjiakou Saibei Modern Farm Co., Ltd. (notes ii and vii)	PRC 1 December 2005	RMB90,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Wenshang Modern Farm Co., Ltd. (notes ii and vii)	PRC 12 May 2006	RMB55,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Shangzhi Modern Farm Co., Ltd. (notes ii and vii)	PRC 25 May 2006	RMB55,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Hongya Modern Farm Co., Ltd (notes ii and vii)	PRC 14 June 2007	RMB10,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd (notes i and vii)	PRC 26 May 2008	RMB10,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to CMD as at						Principal activities	Statutory auditors	Financial period		
			31 December 2013		31 December 2014		31 December 2015						
			Directly %	Indirectly %	Directly %	Indirectly %	Directly %	Indirectly %					
Modern Farming (Chabei) Co., Ltd (notes ii and viii)	PRC 17 November 2008	RMB8,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farming (Baoji) Co., Ltd (notes ii and viii)	PRC 2 December 2008	RMB10,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Maanshan Modern Farming Feedstock Co., Ltd. (notes ii and viii)	PRC 24 February 2009	RMB18,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Sales of feeds	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (Feidong) Co., Ltd. (notes ii and viii)	PRC 2 December 2009	RMB50,000,000	-	97.87	-	97.87	-	97.87	-	97.87	Breeding dairy cows, production of milk and sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd. (notes ii, iv and viii)	PRC 30 April 2010	N/A	-	54.81	N/A	N/A	N/A	N/A	N/A	N/A	Sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Baoji Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 18 September 2009	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Hongya Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 16 September 2009	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Shangzhi Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 16 September 2009	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Wenshang Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 1 April 2011	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to CMD as at						Principal activities	Statutory auditors	Financial period	
			31 December 2013		31 December 2014		31 December 2015					The date of this report
			Directly %	Indirectly %	Directly %	Indirectly %	Directly %	Indirectly %				
Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 19 April 2010	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 26 April 2010	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Tongshan Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 25 August 2011	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Tongliao Sijibao Organic Fertiliser Co., Ltd. (notes ii, v and viii)	PRC 15 August 2011	N/A	-	97.87	N/A	N/A	N/A	N/A	N/A	Production of fertilisers	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013
Modern Farming (Tongshan) Co., Ltd (notes ii and viii)	PRC 15 May 2010	RMB30,000,000	-	97.87	-	97.87	-	97.87	-	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farming (Tongliao) Co., Ltd (notes ii and viii)	PRC 25 June 2010	RMB30,000,000	-	97.87	-	97.87	-	97.87	-	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (Chabei) Hengsheng Co., Ltd (notes ii and viii)	PRC 25 June 2009	RMB5,000,000	-	97.87	-	97.87	-	97.87	-	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (Bengbu) Co., Ltd (notes ii and viii)	PRC 15 July 2011	RMB30,000,000	-	97.87	-	97.87	-	97.87	-	Breeding dairy cows, production of milk and sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (Anhui) Dairy Product Sales Co., Ltd. (notes i and viii)	PRC 28 November 2011	RMB45,000,000	-	53.83	-	53.83	-	53.83	-	Sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2013, 2014 and 2015
Modern Farm (Shuangcheng) Co., Ltd. (notes ii and viii)	PRC 9 April 2014	RMB20,000,000	N/A	N/A	-	97.87	-	97.87	-	Breeding dairy cows and production of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2014 and 2015

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to CMD as at						The date of this report		Principal activities	Statutory auditors	Financial period
			31 December 2013		31 December 2014		31 December 2015		Directly	Indirectly			
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly					
Modern Farm Shanghe Feeding Co., Ltd. (notes i and viii)	PRC 1 April 2015	RMB10,000,000	N/A	N/A	N/A	N/A	-	97.87	-	97.87	Production of fodder	Anhui Jiangnan (安徽江南)	Year ended 31 December 2015
China Modern Dairy I Ltd.	Cayman Islands 13 February 2014	US\$1.00	N/A	N/A	100.00	-	100.00	-	100.00	-	Investment holding	Not applicable (note vi)	N/A
China Modern Dairy II Ltd.	British Virgin Islands 13 February 2014	US\$1.00	N/A	N/A	-	100.00	-	100.00	-	100.00	Investment holding	Not applicable (note vi)	N/A
China Leading Dairy Ltd. (note vii)	Hong Kong 13 February 2014	HK\$1.00	N/A	N/A	-	100.00	-	100.00	-	100.00	Investment holding	Deloitte Touche Tohmatsu	Year ended 31 December 2014
Modern Farming (Anhui) Dairy Co., Ltd. (notes i and viii)	PRC 19 June 2014	RMB20,000,000	N/A	N/A	-	98.91	-	98.91	-	98.91	Sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2014 and 2015
Modern Farm (Bengbu) Dairy Product Sales Co., Ltd. (notes i and viii)	PRC 19 August 2014	RMB5,000,000	N/A	N/A	-	53.83	-	53.83	-	53.83	Sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2014 and 2015
Modern Farm (Saibei) Dairy Product Sales Co., Ltd. (notes i and viii)	PRC 21 August 2014	RMB5,000,000	N/A	N/A	-	53.83	-	53.83	-	53.83	Sales of milk	Anhui Jiangnan (安徽江南)	Year ended 31 December 2014 and 2015
Modern Farm (Hefei) Co., Ltd. (note ii)	PRC 16 May 2016	RMB50,000,000	N/A	N/A	N/A	N/A	N/A	N/A	-	97.87	Breeding dairy cows and production of milk	N/A	N/A
Nanchang Modern Farm Co., Ltd. (note ii)	PRC 31 October 2016	RMB5,000,000	N/A	N/A	N/A	N/A	N/A	N/A	-	49.91	Sales of milk	N/A	N/A
Chengdu Modern Farm Dairy Products Sales Co., Ltd. (note ii)	PRC 26 July 2016	RMB1,000,000	N/A	N/A	N/A	N/A	N/A	N/A	-	68.47	Sales of milk	N/A	N/A
Wuhan Modern Farm Dairy Products Sales Co., Ltd. (note ii)	PRC 16 May 2016	RMB1,000,000	N/A	N/A	N/A	N/A	N/A	N/A	-	68.47	Sales of milk	N/A	N/A

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to CMD as at						Principal activities	Statutory auditors	Financial period
			31 December 2013		31 December 2014		31 December 2015				
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly			
			%	%	%	%	%	%			
			The date of this report								
			Directly	Indirectly	Directly	Indirectly	Directly	Indirectly			
			%	%	%	%	%	%			
Modern Farm (Shenzhen) Sales Company (<i>note ii</i>)	PRC 8 June 2016	RMB1,000,000	N/A	N/A	N/A	N/A	-	58.72	N/A	N/A	
Modern Farm (Jinan) Dairy Products Sales Co., Ltd. (<i>note ii</i>)	PRC 9 November 2016	RMB1,000,000	N/A	N/A	N/A	N/A	-	73.40	N/A	N/A	

CMD's subsidiaries have adopted 31 December as their financial year end date.

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 owned by Modern Farm.
- iii. These entities were acquired in 2015 (note 34), and Modern Farm (Jinan) Co., Ltd. was deregistered in February 2016 and its business, assets and liabilities were transferred to Modern Farm (Shanghe) Co., Ltd..
- iv. Modern Farm (Inner Mongolia) Dairy Product Sales Co., Ltd. was disposed in 2014 (note 35).
- v. Baoji Sijibao Organic Fertiliser Co., Ltd., Hongya Sijibao Organic Fertiliser Co., Ltd., Shangzhi Sijibao Organic Fertiliser Co., Ltd, Wenshang Sijibao Organic Fertiliser Co., Ltd., Zhangjiakou Chabei Sijibao Organic Fertiliser Co., Ltd., Zhangjiakou Saibei Sijibao Organic Fertiliser Co., Ltd., Tongshan Sijibao Organic Fertiliser Co., Ltd., Tongliao Sijibao Organic Fertiliser Co., Ltd. and Shandong Mengniu International Trading Co., Ltd. were liquidated in 2014.

- vi. No statutory financial statements have been prepared for the entity as there is no statutory requirement for the entity to issue audited financial statements under the Companies Law of the Cayman Islands and British Virgin Islands.
- vii. Except for the statutory financial statements for China Leading Dairy Ltd. for the year ended 31 December 2014 were prepared in accordance with Hong Kong Financial Reporting Standards, no statutory financial statements of these entities were prepared for the relevant years as appropriate over the Track Record Period.
- viii. The statutory financial statements of these entities were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC.
- ix. The statutory financial statements of Lux was prepared in accordance with generally accepted accounting principles in Luxembourg, and the statutory financial statements of Aquitair was prepared in accordance with IFRSs.

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

The table below shows details of non-wholly-owned subsidiary of CMD 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		
		31/12/2013 RMB'000	31/12/2014 RMB'000	31/12/2013 RMB'000	31/12/2014 RMB'000	31/12/2013 RMB'000	31/12/2014 RMB'000	31/12/2015 RMB'000
Modern Farm	PRC	2.13%	2.13%	15,770	27,571	117,710	145,713	168,135
						22,422		

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

	As at 31 December		
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current assets	<u>2,017,874</u>	<u>2,505,702</u>	<u>2,735,326</u>
Non-current assets	<u>10,084,309</u>	<u>11,077,115</u>	<u>11,959,321</u>
Current liabilities	<u>(4,483,183)</u>	<u>(4,414,604)</u>	<u>(4,848,027)</u>
Non-current liabilities	<u>(2,968,426)</u>	<u>(3,579,344)</u>	<u>(3,849,490)</u>
Equity attributable to owners of CMD	<u>4,532,864</u>	<u>5,443,156</u>	<u>5,828,995</u>
Non-controlling interests	<u>117,710</u>	<u>145,713</u>	<u>168,135</u>
	Six months ended		
	31 December 2013 <i>RMB'000</i>	Year ended 31 December 2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
Revenue	<u>1,901,248</u>	<u>5,026,706</u>	<u>4,750,816</u>
Expenses	<u>1,500,205</u>	<u>4,089,362</u>	<u>4,342,555</u>
Profit for the period/year	<u>401,043</u>	<u>937,344</u>	<u>408,261</u>
Profit attributable to owners of CMD	<u>385,273</u>	<u>909,773</u>	<u>385,839</u>
Profit attributable to the non-controlling interests	<u>15,770</u>	<u>27,571</u>	<u>22,422</u>
Profit for the period/year	<u>401,043</u>	<u>937,344</u>	<u>408,261</u>
Dividend paid to shareholder	<u>-</u>	<u>-</u>	<u>-</u>
Net cash inflow from operating activities	<u>228,657</u>	<u>1,616,200</u>	<u>1,445,969</u>
Net cash outflow from investing activities	<u>(754,934)</u>	<u>(1,806,991)</u>	<u>(1,112,901)</u>
Net cash (outflow) inflow from financing activities	<u>523,080</u>	<u>336,303</u>	<u>(83,352)</u>
Net cash inflow	<u>(3,197)</u>	<u>145,512</u>	<u>249,716</u>

41. STATEMENTS OF FINANCIAL POSITION AND RESERVES OF CMD

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

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Investment in subsidiaries	3,190,529	3,315,522	5,506,345
Investment in joint ventures	33,116	66,341	–
Amounts due from a subsidiary	896,357	2,460,407	2,913,422
	<u>4,120,002</u>	<u>5,842,270</u>	<u>8,419,767</u>
CURRENT ASSETS			
Other receivables	368	36,581	35,406
Cash and bank balances	11,789	86,591	73,118
	<u>12,157</u>	<u>123,172</u>	<u>108,524</u>
CURRENT LIABILITIES			
Other payables — others	6,677	10,857	12,230
Amounts due to subsidiaries	–	3,819	17,625
Borrowings — within one year	–	–	2,537,340
	<u>6,677</u>	<u>14,676</u>	<u>2,567,195</u>
NET CURRENT ASSETS (LIABILITIES)	<u>5,480</u>	<u>108,496</u>	<u>(2,458,671)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,125,482</u>	<u>5,950,766</u>	<u>5,961,096</u>
CAPITAL AND RESERVES			
Share capital	415,261	415,261	452,959
Reserves	3,668,590	3,523,486	4,352,665
	<u>4,083,851</u>	<u>3,938,747</u>	<u>4,805,624</u>
NON-CURRENT LIABILITIES			
Borrowings — due after one year	–	1,864,920	–
Other financial liabilities	41,631	147,099	1,155,472
	<u>41,631</u>	<u>2,012,019</u>	<u>1,155,472</u>
	<u>4,125,482</u>	<u>5,950,766</u>	<u>5,961,096</u>

Movement in reserves

	Share premium RMB'000	Other reserve RMB'000	Share options reserve RMB'000 (note)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 July 2013	2,403,730	1,382,199	10,798	(82,736)	3,713,991
Loss and total comprehensive expense for the period	-	-	-	(53,457)	(53,457)
Recognition of equity-settled share-based payment	-	-	2,764	-	2,764
Exercise of share options	6,206	-	(914)	-	5,292
Balance at 31 December 2013	2,409,936	1,382,199	12,648	(136,193)	3,668,590
Loss and total comprehensive expense for the year	-	-	-	(177,002)	(177,002)
Recognition of equity-settled share-based payment	-	-	31,898	-	31,898
Balance at 31 December 2014	2,409,936	1,382,199	44,546	(313,195)	3,523,486
Loss and total comprehensive expense for the year	-	-	-	(83,485)	(83,485)
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	931,135	-	-	-	931,135
Balance at 31 December 2015	<u>3,292,068</u>	<u>1,382,199</u>	<u>75,078</u>	<u>(396,680)</u>	<u>4,352,665</u>

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

42. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 25, CMD Group had the following significant events after 31 December 2015:

In June 2016, CMD Group obtained approval from China Securities Regulatory Commission to issue corporate bonds in the PRC of an aggregate principal amount up to RMB2,000 million within 24 months. In August, 2016, CMD Group issued the first tranche of the corporate bonds of an aggregate principal amount of RMB250 million.

On 9 September 2016, CMD announced that a total of 9,033,327 share options to subscribe for ordinary shares of HK\$0.10 each of CMD were granted to two directors and five eligible employees, the details of which are set out in CMD's announcement dated 11 September 2016. On 8 November 2016, CMD announced that a total of 146,650,000 share options to subscribe for ordinary shares of HK\$0.10 each of CMD were granted to two directors and 227 eligible employees, the details of which are set out in CMD's announcement dated 8 November 2016. As at the date of the report, the CMD Directors are still in the process of assessing the financial impact of the above share options granted. In addition, on 9 September 2016, CMD announced that it has approved the adoption of a new share award scheme on 9 September 2016, pursuant to which, a maximum of 55,000,000 ordinary shares of CMD may be granted to directors and employees of CMD, the details of which are set out in the CMD's announcement dated 9 September 2016.

On 12 December 2016, CMD and Success Dairy entered into a supplemental deed to the Share Purchase Agreement (as defined in note 18), pursuant to which, either party is granted an option to request the counterparty to early settle the Value Adjustment Undertakings. Upon the exercise of the option by either party, the option granted to the counterparty will lapse automatically. Pursuant to the supplemental deed, Success Dairy shall have the rights to request CMD to settle the Value Adjustment Undertakings by delivery of shares and/or cash at the exercise price set out in the supplemental deed, the details of which are included in CMD's announcement dated 12 December 2016.

On 28 December 2016, Success Dairy issued a conditional exercise notice to CMD, pursuant to which Success Dairy conditionally exercised its option to early settle the Value Adjustment Undertakings at total considerations of US\$254,800,000 including values of the Consideration Shares previously issued to Success Dairy. Pursuant to the settlement arrangement, CMD shall issue additional 488,036,618 ordinary shares and pay cash of US\$13,424,231. The exercise notice is conditional on that the signing of a sale and purchase agreement between Success Dairy and China Mengniu Dairy Company Limited in respect of CMD's ordinary shares owned by Success Dairy on or before 6 January 2017 and the shareholders' approval of the sale and purchase agreement at the shareholders' meeting of China Mengniu Dairy Company Limited on or before 13 March 2017.

On 4 January 2017, a sale and purchase agreement was entered into between Success Dairy and China Mengniu Dairy Company Limited in respect of CMD's ordinary shares owned by Success Dairy.

At the date of this report, shareholders' approval from China Mengniu Dairy Company Limited is still pending.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by CMD and its subsidiaries comprising CMD Group in respect of any period subsequent to 31 December 2015.

(2) FINANCIAL INFORMATION OF CMD GROUP FOR THE SIX MONTHS ENDED
30 JUNE 2016CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME*For the six months ended 30 June 2016*

	Notes	Six months ended 30 June	
		2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Revenue	4	2,229,110	2,437,320
Cost of sales before biological fair value adjustment		(1,503,741)	(1,548,426)
Biological fair value adjustment included in cost of sales		(557,307)	(636,944)
Loss arising from changes in fair value less costs to sell of dairy cows		(499,245)	(199,269)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		557,307	636,944
Other income	5	40,177	14,708
Selling and distribution costs		(136,172)	(67,688)
Administrative expenses		(129,891)	(111,485)
Share of (loss) profit of an associate		(1,583)	1,432
Share of profit of joint ventures		–	2,569
Other gains and losses, net	6	(388,752)	148,733
Other expenses		(3,786)	(2,063)
(Loss) profit before finance costs and tax	6	(393,883)	675,831
Finance costs	7	(195,790)	(153,917)
(Loss) profit before tax		(589,673)	521,914
Income tax expense	8	(205)	(14,600)
(Loss) profit and total comprehensive income for the period		<u>(589,878)</u>	<u>507,314</u>
(Loss) profit and total comprehensive income attributable to:			
Owners of CMD		(565,668)	476,952
Non-controlling interests		(24,210)	30,362
		<u>(589,878)</u>	<u>507,314</u>
(Loss) earnings per share (RMB)	10		
Basic		(10.66) cents	9.88 cents
Diluted		(10.66) cents	9.80 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016	31 December 2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		5,310,139	5,376,897
Land use rights		125,345	120,622
Goodwill		1,441,494	1,441,494
Interest in an associate	11	–	25,076
Available-for-sale investment	11	24,955	–
Biological assets	12	7,576,003	7,590,878
		<u>14,477,936</u>	<u>14,554,967</u>
CURRENT ASSETS			
Inventories		793,211	834,099
Trade and other receivables	13	1,204,430	1,097,794
Land use rights		3,913	3,743
Pledged bank balances		178,765	183,664
Cash and bank balances		1,139,694	833,569
		<u>3,320,013</u>	<u>2,952,869</u>
CURRENT LIABILITIES			
Trade and other payables	14	1,986,910	2,012,976
Tax payable		149	281
Bank borrowings — due within one year	15	3,079,631	4,825,521
Short-term debenture	16	997,950	400,000
Other borrowing — due within one year	17	39,066	–
		<u>6,103,706</u>	<u>7,238,778</u>
NET CURRENT LIABILITIES		<u>(2,783,693)</u>	<u>(4,285,909)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>11,694,243</u></u>	<u><u>10,269,058</u></u>

		30 June 2016	31 December 2015
	<i>Notes</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
CAPITAL AND RESERVES			
Share capital		452,959	452,959
Share premium and reserves		<u>6,775,739</u>	<u>7,328,938</u>
Equity attributable to owners of CMD		7,228,698	7,781,897
Non-controlling interests		<u>119,325</u>	<u>168,135</u>
		<u>7,348,023</u>	<u>7,950,032</u>
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	15	815,430	821,730
Medium-term notes	18	1,795,446	200,000
Deferred income		134,895	141,824
Other financial liabilities	19	1,543,265	1,155,472
Other borrowing — due after one year	17	<u>57,184</u>	<u>—</u>
		<u>4,346,220</u>	<u>2,319,026</u>
		<u><u>11,694,243</u></u>	<u><u>10,269,058</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of CMD							
	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 2015 (audited)	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 period	-	-	-	-	476,952	476,952	30,362	507,314
Recognition of equity-settled share-based payment (note 20(a)(b)(c))	-	-	-	17,065	-	17,065	-	17,065
Dividends	-	(49,003)	-	-	-	(49,003)	-	(49,003)
Balance at 30 June 2015 (unaudited)	<u>415,261</u>	<u>2,360,933</u>	<u>1,585,752</u>	<u>61,611</u>	<u>2,531,696</u>	<u>6,955,253</u>	<u>176,075</u>	<u>7,131,328</u>
Balance at 1 January 2016 (audited)	452,959	3,292,068	1,585,752	75,078	2,376,040	7,781,897	168,135	7,950,032
Loss and total comprehensive income for the period	-	-	-	-	(565,668)	(565,668)	(24,210)	(589,878)
Recognition of equity-settled share-based payment (note 20(a)(b)(c))	-	-	-	12,469	-	12,469	-	12,469
Transfer due to forfeiture of share options after vesting (note 20(a))	-	-	-	(616)	616	-	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	(25,200)	(25,200)
Capital contribution from non-controlling interests	-	-	-	-	-	-	600	600
Balance at 30 June 2016 (unaudited)	<u>452,959</u>	<u>3,292,068</u>	<u>1,585,752</u>	<u>86,931</u>	<u>1,810,988</u>	<u>7,228,698</u>	<u>119,325</u>	<u>7,348,023</u>

Note: Other reserve balance as at 1 January 2015 represented the contribution from the owners of CMD for the operation of CMD Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Net cash generated from operating activities	404,420	769,637
Net cash used in investing activities		
Purchases of property, plant and equipment	(210,790)	(314,630)
Additions in biological assets	(588,838)	(590,103)
Additions in pledged bank balances	(123,884)	(50,586)
Release of pledged bank balances	128,783	534,732
Proceeds from disposal of dairy cows	300,399	223,437
Investment in joint ventures	–	(67,667)
Interest received	5,980	28,502
Government grants received	26,929	13,875
Purchases of land use rights	(6,784)	(6,500)
Proceeds from disposal of property, plant and equipment	6,290	3,245
	(461,915)	(225,695)
Net cash generated from (used in) financing activities		
Interest paid	(146,724)	(192,267)
New borrowings raised	1,815,091	1,332,077
Repayment of borrowings	(3,568,597)	(985,498)
Proceeds from short-term debenture	1,000,000	300,000
Repayment of short-term debenture	(400,000)	(1,100,000)
Proceeds from medium-term notes	1,600,000	200,000
Payment of transaction cost for borrowings, short-term debenture and medium-term notes	(7,800)	(1,000)
Proceeds from other borrowing	96,250	–
Dividends paid to owners of CMD	–	(49,003)
Dividends paid to non-controlling interests	(25,200)	–
Capital contribution from non-controlling interests	600	–
	363,620	(495,691)
Net increase in cash and cash equivalents	306,125	48,251
Cash and cash equivalents at 1 January	833,569	556,964
Cash and cash equivalents at 30 June, represented by cash and bank balances	<u>1,139,694</u>	<u>605,215</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

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 CMD is Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman, KYI-1104, Cayman Islands. The principal place of business of CMD is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People’s Republic of China (the “**PRC**”).

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

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

2. BASIS OF PREPARATION

In preparation the condensed consolidated financial statements for the six months ended 30 June 2016, the CMD Directors have given careful consideration to the future liquidity of CMD Group in light of its net current liabilities of approximately RMB2,783,693,000 as at 30 June 2016 (31 December 2015: RMB4,285,909,000). Having considered the secured credit facilities of approximately RMB5,953,836,000 available to finance CMD Group’s operation which remains unutilised as at 30 June 2016, the Directors are satisfied that CMD Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements of CMD Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and with International Accounting Standard 34 “Interim Financial Reporting”.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for: (i) the biological assets, which are measured at fair value less costs to sell; and (ii) other financial liabilities, which are measured at fair value through profit or loss (FVTPL).

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those followed in the preparation of CMD Group’s consolidated financial statements for the year ended 31 December 2015.

In the current interim period, CMD Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“**IFRSs**”) issued by International Accounting Standards Board that are mandatorily effective for the current interim period.

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

4. SEGMENT INFORMATION

The following is an analysis of CMD Group's revenue and results by reportable segments:

Segment revenue, results, assets and liabilities

Six months ended 30 June 2016 (unaudited)

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter- segment elimination* RMB'000	Total RMB'000
Segment revenue	<u>1,914,987</u>	<u>655,395</u>	<u>2,570,382</u>	<u>(341,272)</u>	<u>2,229,110</u>
Segment cost of sales before biological fair value adjustment	<u>1,290,322</u>	<u>534,856</u>	<u>1,825,178</u>	<u>(321,437)</u>	<u>1,503,741</u>
Reportable segment profit	<u>362,118</u>	<u>165</u>	<u>362,283</u>	<u>(19,835)</u>	342,448
Loss arising from changes in fair value less costs to sell of dairy cows					(499,245)
Share of loss of an associate					(1,583)
Unallocated other income					6,218
Unallocated other gains and losses					(387,817)
Unallocated expenses					<u>(49,694)</u>
Loss before tax					<u>(589,673)</u>
As at 30 June 2016 (unaudited)					
Segment assets	<u>15,790,461</u>	<u>1,638,795</u>	<u>17,429,256</u>	<u>(786,183)</u>	16,643,073
Unallocated assets					<u>1,154,876</u>
Consolidated assets					<u>17,797,949</u>
Segment liabilities	<u>7,895,429</u>	<u>1,743,574</u>	<u>9,639,003</u>	<u>(758,225)</u>	8,880,778
Unallocated liabilities					<u>1,569,148</u>
Consolidated liabilities					<u>10,449,926</u>

* 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 RMB341,272,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

Segment revenue, results, assets and liabilities

Six months ended 30 June 2015 (unaudited)

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter- segment elimination* RMB'000	Total RMB'000
Segment revenue	<u>2,031,191</u>	<u>789,493</u>	<u>2,820,684</u>	<u>(383,364)</u>	<u>2,437,320</u>
Segment cost of sales before biological fair value adjustment	<u>1,364,963</u>	<u>564,266</u>	<u>1,929,229</u>	<u>(380,803)</u>	<u>1,548,426</u>
Reportable segment profit	<u>439,891</u>	<u>171,281</u>	<u>611,172</u>	<u>(2,561)</u>	608,611
Loss arising from changes in fair value less costs to sell of dairy cows					(199,269)
Share of profit of an associate					1,432
Share of profit of joint ventures					2,569
Unallocated other income					7,644
Unallocated other gains and losses					150,491
Unallocated expenses					<u>(49,564)</u>
Profit before tax					<u>521,914</u>
As at 31 December 2015 (audited)					
Segment assets	<u>15,833,395</u>	<u>1,353,217</u>	<u>17,186,612</u>	<u>(577,422)</u>	16,609,190
Unallocated assets					<u>898,646</u>
Consolidated assets					<u>17,507,836</u>
Segment liabilities	<u>7,571,794</u>	<u>1,381,373</u>	<u>8,953,167</u>	<u>(569,298)</u>	8,383,869
Unallocated liabilities					<u>1,173,935</u>
Consolidated liabilities					<u>9,557,804</u>

* 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 RMB383,364,000, which are charged at prices internally agreed between dairy farming segment and processed liquid milk segment.

Geographic information

Since all of 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 RMB1,573,715,000 (for the six months ended 30 June 2015: RMB1,647,827,000) are revenue of approximately RMB1,123,999,000 (for the six months ended 30 June 2015: RMB1,217,819,000) which arose from sales to a single external customer. No other single customer contributed 10% or more to CMD Group's revenue for the six months ended 30 June 2016 and 2015.

5. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	4,972	7,881
Government grants related to		
– Biological assets (<i>note i</i>)	20,000	–
– Other assets	6,929	5,895
– Income (<i>note ii</i>)	5,759	875
	<hr/>	<hr/>
Others	32,688	6,770
	<hr/>	<hr/>
	2,517	57
	<hr/>	<hr/>
	40,177	14,708
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- i. These government grants are unconditional government subsidies received by CMD Group from relevant government bodies for the purpose of supporting CMD Group to purchase dairy cows.
- ii. These government grants are unconditional government subsidies received by CMD Group from relevant government bodies for the purpose of giving immediate financial support to CMD Group's operation.

6. (LOSS) PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Cost of sales before biological fair value adjustment		
Breeding costs to produce raw milk	1,057,934	1,099,706
Production costs for liquid milk products	445,807	448,720
	<u>1,503,741</u>	<u>1,548,426</u>
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	<u>557,307</u>	<u>636,944</u>
	<u>2,061,048</u>	<u>2,185,370</u>
Other gains and losses:		
Fair value gain from Put Option and Call Option (as defined in note 19)	–	(147,099)
Fair value losses from Value Adjustment Undertakings (as defined in note 19)	387,793	–
Net foreign exchange loss (gain)	4,256	(2,850)
Loss on disposal of property, plant and equipment, net	1,595	1,276
Gains arising on deemed disposal of an associate	(1,462)	–
Others	(3,430)	(60)
	<u>388,752</u>	<u>(148,733)</u>
Depreciation of property, plant and equipment	274,293	229,489
Less: capitalised in biological assets and agricultural produce	<u>(124,590)</u>	<u>(97,041)</u>
Depreciation charged to profit or loss	<u>149,703</u>	<u>132,448</u>
Employee benefits expenses	213,906	198,108
Less: capitalised in biological assets and agricultural produce	<u>(66,127)</u>	<u>(50,642)</u>
Employee benefits charged to profit or loss	<u>147,779</u>	<u>147,466</u>
Auditors' remuneration	<u>700</u>	<u>700</u>
Release of land use rights	<u>1,891</u>	<u>1,268</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	144,052	122,641
Short-term debenture	18,663	26,490
Medium-term notes	27,223	5,233
Other borrowing	427	–
	<u>190,365</u>	<u>154,364</u>
Total borrowing cost	190,365	154,364
Less: amounts capitalised for construction of property, plant and equipment	(1,603)	(4,238)
Cost of discount of bills receivable	7,028	3,791
	<u>195,790</u>	<u>153,917</u>

For the six months ended 30 June 2016, 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 4.52% per annum (six months ended 30 June 2015: 5.86% per annum).

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	205	14,600
	<u>205</u>	<u>14,600</u>

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 periods). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividend income of Aquitair Holdings Limited from Modern Farming (Group) Co., Ltd (“**Modern Farm**”) is subject to Irish Income Tax at 25%. As at 30 June 2016, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farm was approximately RMB1,474,169,000 (31 December 2015: RMB1,512,302,000). No liability has been recognised in respect of these differences because CMD 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.

According to the prevailing tax rules and regulation in the PRC, CMD Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

9. DIVIDENDS

No interim dividends (six months ended 30 June 2015: nil) were paid, declared or proposed for current period.

12. BIOLOGICAL ASSETS

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

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Milkable cows	4,829,003	4,813,178
Heifers and calves	2,747,000	2,777,700
	<u>7,576,003</u>	<u>7,590,878</u>
Total dairy cows	<u>7,576,003</u>	<u>7,590,878</u>

CMD Group's dairy cows were fair valued by the Directors at 30 June 2016 while the fair value of CMD Group's dairy cows at 31 December 2015 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. 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 24.

13. TRADE AND OTHER RECEIVABLES

CMD Group used to allow credit periods of 30 to 120 days to its customers. In current period, CMD Group extended credit periods to 1 year for 30% of the sales amount to the relevant customers in liquid milk product segment to deal with the market competitions.

The following is an aging 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:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Trade receivables		
– within 120 days based on invoice date	729,269	880,751
– 120 days to 1 year based on invoice date	303,873	2,000
	<u>1,033,142</u>	<u>882,751</u>
Bills receivable	–	23,153
Advances to suppliers	136,741	105,082
Receivable in respect of sales of self-reproduced dairy cows	–	57,922
Input value added tax recoverable	16,241	7,905
Interest receivables	901	1,909
Receivable in respect of disposal of equipment	6,152	10,868
Others	11,253	8,204
	<u>1,204,430</u>	<u>1,097,794</u>
	<u>1,204,430</u>	<u>1,097,794</u>

14. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date and the analysis used by CMD Group's management to monitor CMD Group's financial position.

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Trade payables		
Within 60 days based on invoice date	759,607	817,966
Over 60 days based on invoice date	85,616	83,331
Bills payable (<i>note</i>)	<u>352,045</u>	<u>310,268</u>
	1,197,268	1,211,565
Payable for acquisition of property, plant and equipment	629,519	631,208
Accrued staff costs	57,824	61,084
Interest payable	42,143	28,680
Advance payments from customers	7,631	12,931
Others	<u>52,525</u>	<u>67,508</u>
	<u>1,986,910</u>	<u>2,012,976</u>

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

15. BANK BORROWINGS

During the current period, CMD Group obtained new bank borrowings amounting to RMB1,815,091,000 (six months ended 30 June 2015: RMB1,332,077,000) and repaid RMB3,568,597,000 (six months ended 30 June 2015: RMB985,498,000).

The annual interest rate of the bank borrowings during the current period ranged from 1.81% to 6.40% (six months ended 30 June 2015: 0.86% to 7.05%). As at 30 June 2016, CMD Group's interest-bearing bank borrowings were denominated in RMB and US\$.

16. SHORT-TERM DEBENTURE

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Short term debenture — unsecured	<u>997,950</u>	<u>400,000</u>

Notes:

- i. On 25 January 2016, Modern Farm issued short-term debenture with a principal amount of RMB500,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 3.89% per annum. Related transaction costs amounted to RMB1,500,000.
- ii. On 16 June 2016, Modern Farm issued short-term debenture with a principal amount of RMB500,000,000 through China Construction Bank Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 4.67% per annum. Related transaction costs amounted to RMB1,500,000.

- iii. 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 born a fixed interest rate of 3.98% per annum. It was repaid on 19 June 2016.

17. OTHER BORROWING

In June 2016, CMD Group entered into a financing arrangement with Far Eastern Leasing Co., Ltd, pursuant to which CMD Group transferred the legal title of certain equipment of CMD Group to Far Eastern Leasing Co., Ltd at net consideration of RMB96,250,000. CMD Group is obligated to pay quarterly instalment of RMB11,325,000 from July 2016 to July 2018 and the remaining balance of RMB6,913,000 will be paid in October 2018. Upon the maturity of the lease, CMD Group is entitled to purchase back the equipment at cash consideration of RMB100. Despite the arrangement involves a legal form of a lease, CMD Group accounted for the arrangement as a collateralised borrowing at amortised cost using effective interest method, in accordance with the substance of the arrangement.

	30 June 2016
	<i>RMB'000</i>
	(unaudited)
Amount payable:	
Within one year	39,066
Within a period of more than one year but not more than two years	40,667
Within a period of more than two years but not more than five years	<u>16,517</u>
	96,250
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(39,066)</u>
Amount due for settlement after 12 months	<u><u>57,184</u></u>

18. MEDIUM-TERM NOTES

	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Medium term notes	<u>1,795,446</u>	<u>200,000</u>

Notes:

- i. On 23 March 2016, Modern Farm issued medium-term notes with an aggregate principal amount of RMB1,000,000,000 which will mature in two years. The medium-term notes bear a fixed interest rate of 4.60% per annum. Related transaction costs amounted to RMB3,000,000.
- ii. On 23 March 2016, Modern Farm issued medium-term notes with an aggregate principal amount of RMB600,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 4.75% per annum. Related transaction costs amounted to RMB1,800,000.
- iii. 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.

19. OTHER FINANCIAL LIABILITIES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Financial liabilities carried at FVTPL		
Contingent consideration	1,543,265	1,155,472

It represents the fair value of the Value Adjustment Undertakings (as defined below) has been recognised as a financial liability at FVTPL.

On 23 September 2013, CMD entered into an agreement (the “**JV Agreement I**”) with Success Dairy II Limited (“**Success Dairy**”). Pursuant to the JV Agreement I, CMD and Success Dairy established Asia Dairy Holdings Limited (“**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), an entity 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, CMD Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of ADH I.

On 23 September 2013, CMD 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, CMD and Success Dairy established Asia Dairy Holdings II Limited (“**ADH II**”) (ADH I and 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), an entity established in the PRC. The principal activities of ADH II and its subsidiaries are dairy farming operation in Shandong province, the PRC. According to the JV Agreement II, CMD Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the ADH II.

Pursuant to the JV Agreements: (1) CMD granted to Success Dairy an option to require CMD to purchase from Success Dairy up to all loans or borrowings owed by the 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 CMD an option to require Success Dairy to sell to CMD 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.

On 6 July 2015, CMD and Success Dairy entered into an agreement (the “**Share Purchase Agreement**”) pursuant to which CMD 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 CMD.

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

Pursuant to the Share Purchase Agreement, Success Dairy has undertaken to CMD 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 20 July 2015, 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 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, CMD shall pay Success Dairy by further issuance of ordinary shares of CMD 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 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 CMD 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 CMD (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**”).

The fair values of the Value Adjustment Undertakings as at 30 June 2016 and 31 December 2015 were independently valued by JJL and have been determined by using a Binomial Option Pricing Model with the following assumptions:

	30 June 2016 <i>US\$'000</i>	31 December 2015 <i>US\$'000</i>
Spot price	68,921	123,811
Exercise price		
– Value Adjustment Undertaking I	308,000	308,000
– Value Adjustment Undertaking II	363,000	363,000
Expected volatility	42.000%	40.000%
Risk-free interest rate	1.29%	1.33%
Dividend yield	1.12%	0.64%

20. SHARE-BASED PAYMENT TRANSACTIONS

(a) CMD’s Share Option Scheme I

CMD’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 CMD 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 CMD from time to time. Unless approved by the shareholders of CMD in general meeting in the manner prescribed in the Rules Governing the Listing of Securities on the Stock Exchange, the board of directors of CMD (the “**CMD 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 CMD then in issue.

On 12 December 2012, CMD 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 CMD were granted to two directors and 128 eligible employees (collectively, the “**Scheme I Grantees**”), subject to acceptance of the Grantees, under CMD’s Share Option Scheme I adopted by CMD 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.

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 CMD 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 CMD (“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 CMD with effect on 28 June 2013.

Other information of the Share Options 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 Share Options I become vested

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

Category	Outstanding as at 1 January 2016	Forfeited* during the period	Outstanding as at 30 June 2016
Share Option A	4,780,267	–	4,780,267
Share Option B	24,603,489	(1,250,000)	23,353,489
	<u>29,383,756</u>	<u>(1,250,000)</u>	<u>28,133,756</u>
Category	Outstanding as at 1 January 2015	Forfeited during the period	Outstanding as at 30 June 2015
Share Option A	4,780,267	–	4,780,267
Share Option B	27,325,916	(1,476,307)	25,849,609
	<u>32,106,183</u>	<u>(1,476,307)</u>	<u>30,629,876</u>

* Pursuant to the rules of Share Options I, the Share Options I were forfeited after vesting due to the fact that the relevant Scheme I Grantees had not been exercised within one month after resignation from CMD Group. Accordingly, the amount of RMB616,000 previously recognised in share options reserve in relation to these forfeited options was transferred to retained earnings.

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.

No share option expense in respect of the Share Options I was recognised during the current period (six months ended 30 June 2015: RMB1,750,000). All of the Share Options I are exercisable as at 30 June 2016.

(b) The Share Option Scheme II

CMD'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 CMD 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 CMD as at the date of 5 June 2014. Unless approved by the shareholders of CMD in general meeting in the manner prescribed in the Listing Rules, the CMD 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 CMD then in issue.

(i) The Share Options II-i

On 6 June 2014, CMD 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 CMD 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.

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 CMD 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 CMD (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

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

Category	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2016
Share Option C	16,779,823	-	-	-	16,779,823
Share Option D	52,542,911	-	-	(2,433,332)	50,109,579
	<u>69,322,734</u>	<u>-</u>	<u>-</u>	<u>(2,433,332)</u>	<u>66,889,402</u>
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 C	17,000,000	-	-	-	17,000,000
Share Option D	60,848,683	-	-	-	60,848,683
	<u>77,848,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,848,683</u>

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 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.

CMD recognised a share option expense of RMB11,572,000 in respect of the Share Option Scheme II-i during the current period (the six months ended 30 June 2015: RMB11,203,000), taking into consideration of forfeiture before vesting. None of the Share Options II-i was exercisable as at 30 June 2015 and 2016.

(ii) *The Share Options II-ii*

On 17 June 2015, CMD 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 CMD on 5 June 2014.

The Share Options II-ii shall entitle the Scheme II-ii Grantees to subscribe for an aggregate of 10,966,673 new shares upon the exercise of the Share Options II-ii in full at an exercise price of HK\$2.83 per share.

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 CMD 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 CMD (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

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

Category	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2016
Share Option E	3,333,333	-	-	-	3,333,333
Share Option F	4,969,456	-	-	(542,767)	4,426,689
	<u>8,302,789</u>	<u>-</u>	<u>-</u>	<u>(542,767)</u>	<u>7,760,022</u>

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	-	-	7,633,340
	<u>-</u>	<u>10,966,673</u>	<u>-</u>	<u>-</u>	<u>10,966,673</u>

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\$3,772,000 (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-optimal factor	2.2	1.6

Expected volatility was determined by using the historical volatility of CMD'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.

CMD recognised a share option expense of RMB897,000 in respect of the Share Options II-ii during the current period (the six months ended 30 June 2015: RMB4,112,000), taking into consideration of forfeiture before vesting. None of the Share Options II-ii was exercisable as at 30 June 2015 and 2016.

(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, CMD granted to the MF Grantees a total of 87,412,507 share options of CMD 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. CMD'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 period:

Category	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at 30 June 2016
Management Options	60,073,756	-	-	-	60,073,756

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
Management Options	60,073,756	-	-	-	60,073,756

None of share options was exercised during the period ended 30 June 2016 (the six months ended 30 June 2015: None).

21. OPERATING LEASE COMMITMENTS

CMD Group as lessee

At the end of the reporting period, CMD 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:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within one year	11,979	10,868
In the second to fifth year inclusive	15,099	19,257
	<u>27,078</u>	<u>30,125</u>

22. CAPITAL COMMITMENTS

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	<u>135,539</u>	<u>151,498</u>

23. RELATED PARTY TRANSACTIONS

(a) Names and relationship with related parties are as follows:

Qishi*	An associate of CMD Group
China Mengniu Dairy Co., Ltd. ("Mengniu Company") **	A shareholder with significant influence over CMD
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

* Qiushi is no longer related to CMD Group since 24 June 2016 (as disclosed in note 11). The related party transaction disclosed in this note include the transaction between CMD Group and Qiushi from 1 January 2016 to 24 June 2016.

** Mengniu Company has become a substantial shareholder of CMD and was able to exercise significant influence over CMD 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 CMD Group since the Acquisition on 20 July 2015. On 22 February 2016, CMD Group merged these two entities into Modern Farm (Shanghe) Co., Ltd. and Modern Farm (Jinan) Co., Ltd. was liquidated during the current period. The related party transaction disclosed in this note include the transaction between CMD Group and these two entities before the Acquisition.

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

Amount due from

	30 June 2016	31 December
	<i>RMB'000</i>	<i>2015</i>
	(unaudited)	(audited)
Mengniu Group		
Trade receivable		
Within 120 days based on invoice date	181,184	162,520

Amount due to

	30 June 2016	31 December
	<i>RMB'000</i>	<i>2015</i>
	(unaudited)	(audited)
Mengniu Group		
Advance from customers	–	8,333
Qiushi		
Trade payable		
Within 60 days based on invoice date	N/A	6,086

2. During the current period, CMD Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Sales of raw milk to Mengniu Group	1,123,999	1,217,819
Disposal of dairy cows to Modern Farm (Shanghe) Co., Ltd.	N/A	15,807
	For the period from 1 January 2016 to 24 June 2016 RMB'000	For the six months ended 30 June 2015 RMB'000
Purchase of raw material from Qiushi	27,266	70,931

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

3. Compensation of key management personnel

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

	Six months ended 30 June	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Salaries and other benefits	3,631	3,658
Recognition of equity-settled share-based payment	4,776	5,359
Retirement benefits scheme contributions	90	101
	8,497	9,118

24. FAIR VALUE MEASUREMENTS

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

CMD 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 30 June 2016 RMB'000	Fair value as at 31 December 2015 RMB'000	Fair value hierarchy
Biological assets	7,576,003	7,590,878	level3
Other financial liabilities	<u>(1,543,265)</u>	<u>(1,155,472)</u>	level3

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
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 decrease in the fair value measurement of Value Adjustment Undertakings, and vice versa.
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 RMB23,700 per head at 30 June 2016 (31 December 2015: RMB24,500).	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 RMB16,003 at 30 June 2016 (31 December 2015: RMB16,248); average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB15,761 at 30 June 2016 (31 December 2015: RMB15,982).	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.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
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 RMB1.97 for the six months ended 30 June 2016 (for the year ended 2015: RMB2.21), 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 six months ended 30 June 2016 (for the year ended 2015: 24.0 kg to 26.0 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 RMB4.02 per kg at 30 June 2016 (31 December 2015: RMB4.39 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 11.91% at 30 June 2016 (31 December 2015: 11.70%).	An increase in the estimated discount rate used would result in a slightly smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.

Reconciliation of Level 3 fair value measurements of other financial liabilities*The Value Adjustment Undertakings*

	Value Adjustment Undertakings <i>RMB'000</i> (unaudited)
30 June 2016	
At 1 January 2016	(1,155,472)
Loss in profit or loss	(387,793)
	<hr/>
At 30 June 2016	(1,543,265)
	<hr/> <hr/>

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

Reconciliation of Level 3 fair value measurements of biological assets

	Heifers, calves and milkable cows <i>RMB'000</i> (unaudited)
Balance at 1 January 2016	7,590,878
Feeding cost	726,848
Decrease due to disposal	(242,478)
Loss arising from changes in fair value less costs of dairy cows	(499,245)
	<hr/>
At 30 June 2016	7,576,003
	<hr/> <hr/>

25. EVENTS AFTER THE REPORTING PERIOD

There is no significant events after the reporting period.

(3) MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF CMD GROUP

Financial Overview

Herd Size

CMD Group did not purchase any heifers and milkable cows for the six months ended 31 December 2013. As at 31 December 2013, the herd size was 186,838 compared to 177,921 as at 30 June 2013. As at 31 December 2014, 31 December 2015 and 30 June 2016, the herd size was 201,507, 225,542 and 220,493, respectively.

As at 31 December 2014, 31 December 2015 and 30 June 2016, CMD Group was the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC.

The table below sets forth CMD Group's herd size as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016:

	As at 31 December 2013 <i>Head</i>	31 December 2014 <i>Head</i>	31 December 2015 <i>Head</i>	30 June 2016 <i>Head</i>
Dairy cows				
Milkable cows	98,791	107,578	114,751	114,587
Heifers and calves	88,047	93,929	110,791	105,906
Total dairy cows	<u>186,838</u>	<u>201,507</u>	<u>225,542</u>	<u>220,493</u>

CMD Group's financial results are directly affected by its milk yield per cow. In general, as milk yield per cow improves, the costs of production of a unit of milk decreases. Milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix.

CMD Group achieved an average annual milk yield of 8.9 tons for the year ended 31 December 2014, representing an increase of 6.0% from 8.4 tons for last corresponding period.

CMD Group achieved an average annual milk yield of 9.1 tons per cow for the year ended 31 December 2015, representing an increase of 2.3% from 8.9 tons for last corresponding period.

CMD Group achieved an average annual milk yield of 9.4 tons for the six months ended 30 June 2016, representing an increase of 3.3% from 9.1 tons for last corresponding period.

Such increases were attributable to effective herd management, genetic improvement of CMD Group's cows through generations and increase in number of cows reaching the peak stage of lactation.

During the year ended 31 December 2014, revenue from CMD Group's dairy farming business increased substantially primarily due to growth of its cow herd and increase in average selling price of its high-end quality raw milk. Revenue attributable to the internal use of raw milk increased substantially due to strong growth of its liquid milk business.

During the year ended 31 December 2015, revenue from CMD Group's dairy farming business decreased primarily due to decrease in average selling price of its quality raw milk as a result of the decrease in selling price of raw milk in the PRC. Revenue attributable to the internal use of raw milk increased substantially due to strong growth of its liquid milk business.

During the six months ended 30 June 2016, revenue from CMD Group's dairy farming business decreased primarily due to decrease in average selling price of its quality raw milk as a result of the decrease in selling price of raw milk in the PRC.

(b) *Liquid milk products business*

Revenue from CMD Group's liquid milk products business increased by 159.2% from RMB321.3 million for the year ended 31 December 2013 to RMB832.7 million for the year ended 31 December 2014, which accounted for 16.6% and 9.8% of its consolidated revenue for the year ended 31 December 2014 and 2013, respectively. The strong growth of its liquid milk products business was a result of strong market demand. The total volume of liquid milk sold increased by 203.8% from 28,669 tons for the year ended 31 December 2013 to 87,096 tons for the year ended 31 December 2014.

Revenue from CMD Group's liquid milk products business increased by 80.4% 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 16.6% and 31.1% of its consolidated revenue for the years ended 31 December 2014 and 2015, respectively. CMD Group's losses caused by declining milk price were effectively set off by further improvement of the percentage of CMD's branded milk, which also enhanced CMD Group's profitability. The strong growth of its liquid milk products business was a result of strong market demand for its liquid milk products. The total volume of liquid milk sold increased by 88.9% from 87,096 tons for the year ended 31 December 2014 to 164,559 tons for the year ended 31 December 2015.

Revenue from CMD Group's liquid milk products business decreased by 17.0% from RMB789.5 million for the six months ended 30 June 2015 to RMB655.4 million for the six months ended 30 June 2016, which accounted for 29.4% and 32.4% of its consolidated turnover for the six months ended 30 June 2016 and 2015, respectively. Because of the impact and effect of imported bulk milk powder and reconstituted milk, the total volume of liquid milk sold decreased by 8.0% from 82,818 tons for the six months ended 30 June 2015 to 76,229 tons for the six months

ended 30 June 2016. The following table sets out the breakdown of sales amount, sales volume and average selling price per ton of its liquid milk products for the periods indicated:

	For the six months ended 30 June 2015			For the six months ended 30 June 2016		
	Sales Amount	Sales Volume	ASP	Sales Amount	Sales Volume	ASP
			RMB'000/ KG			RMB'000/ KG
	RMB'000	Tonne		RMB'000	Tonne	
Liquid Milk Products	789,493	82,818	9.53	655,395	76,229	8.60

Cost of Sales before Biological Fair Value Adjustment

	For the six months ended 31 December 2013		For the year ended 31 December 2014		For the year ended 31 December 2015		For the six months ended 30 June 2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	Costs of sales before biological fair value adjustment of dairy farming business:							
Feeds cost	967,705	79.2%	2,298,893	78.2%	2,133,566	77.1%	980,486	76.0%
Labor cost	58,542	4.8%	151,007	5.1%	151,709	5.5%	76,485	5.9%
Utilities	31,176	2.5%	70,095	2.4%	63,862	2.3%	28,116	2.2%
Depreciation	64,126	5.2%	169,806	5.8%	177,839	6.4%	94,765	7.3%
Other costs of farms	101,112	8.3%	249,075	8.5%	241,801	8.7%	110,470	8.6%
Subtotal of costs of sales before biological fair value adjustment of dairy farming business	1,222,661	100.0%	2,938,876	100.0%	2,768,777	100.0%	1,290,322	100.0%
Inter-segment cost	(89,888)		(312,594)		(516,681)		(232,388)	
Costs of external sales before biological fair value adjustment of dairy farming business	1,132,773		2,626,282		2,252,096		1,057,934	

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

(a) *Cost of sales before biological fair value adjustment of dairy farming business*

For the year ended 31 December 2014, with the expansion of herd size and the increase in sales of raw milk, total feed costs (before eliminating the internal relative costs of sales of the supply of raw milk) increased to RMB2,298.9 million from RMB1,733.5 million for the year ended 31 December 2013, representing an increase of 32.6%. Sales of raw milk (before eliminating the internal relative sales income from the supply of raw milk) increased by 50.5% to RMB4,672.2 million for the year ended 31 December 2014 from RMB3,105.2 million for the year ended 31 December 2013. Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before eliminating the internal relative costs of sales of the supply of raw milk) decreased by 3.3% from RMB3,074 for the year ended 31 December 2013 to RMB2,973 for the year ended 31 December 2014, mainly due to the increase in the annual milk yield per cow by 6.0% from 8.4 tons for the year ended 31 December 2013 to 8.9 tons for the year ended 31 December 2014.

For the year ended 31 December 2015, with the decrease in prices of feeds, total feeds cost (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 7.2% to RMB2,133.6 million from RMB2,298.9 million for the year ended 31 December 2014. 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 5.7% from RMB2,973 for the year ended 31 December 2014 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.

For the six months ended 30 June 2016, with decrease in the number of milkable cows and in the price of feeds, total feed costs (before eliminating the internal relative costs of sales of the supply of raw milk) decreased to RMB980.5 million from RMB1,070.7 million for the six months ended 30 June 2015, representing a decrease of 8.4%. Meanwhile, cost (excluding depreciation) per ton of raw milk sold (before offsetting the internal relative costs of sales of the supply of raw milk) decreased by 11.3% from RMB2,830 for the six months ended 30 June 2015 to RMB2,509 for the six months ended 30 June 2016, mainly due to the increase in the annual milk yield per cow and the decrease in the price of feeds.

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

	For the		For the		For the		For the	
	six months ended		year ended 31		year ended 31		six months ended	
	31 December 2013		December 2014		December 2015		30 June 2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials	122,142	82.8%	617,050	88.7%	985,966	87.5%	457,756	85.6%
Labor cost	7,026	4.8%	20,252	2.9%	33,375	3.0%	15,944	3.0%
Depreciation	9,984	6.8%	24,772	3.6%	45,797	4.1%	22,919	4.3%
Utilities	3,716	2.5%	13,127	1.9%	23,796	2.1%	12,855	2.4%
Other processing cost	4,701	3.1%	20,798	3.0%	37,510	3.3%	25,382	4.7%
Subtotal of cost of sales before biological fair value adjustment of liquid milk products business	147,569	100.0%	695,999	100.0%	1,126,444	100.0%	534,856	100.0%
Inter-segment cost	-		(160,936)		(211,242)		(89,049)	
Cost of external sales before biological fair value adjustment of liquid milk products business	147,569		535,063		915,202		445,807	

Raw material cost for the year ended 31 December 2014 increased from RMB188.8 million for the year ended 31 December 2013 to RMB617.1 million, representing an increase of 226.8%, with the increase in sales volume of liquid milk and the price hike of raw milk. Sales of liquid milk increased by 159.2% to RMB832.7 million for the year ended 31 December 2014 from RMB321.3 million for the year ended 31 December 2013. Due to the price hike of raw milk, cash cost (excluding depreciation) per ton of liquid milk sold increased by 2.8% from RMB7,499 for the year ended 31 December 2013 to RMB7,707 for the year ended 31 December 2014.

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 59.8% from RMB617.1 million for the year ended 31 December 2014 to RMB986.0 million, with the increase in sales volume of liquid milk. Sales of liquid milk increased by 80.4% to RMB1,501.9 million for the year ended 31 December 2015 from RMB832.7 million for the year ended 31 December 2014. 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 14.8% from RMB7,707 for the year ended 31 December 2014 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 7.5% decrease of other cash costs (including labor cost, utilities and other processing cost).

Raw material cost for the six months ended 30 June 2016 decreased from RMB497.3 million for the six months ended 30 June 2015 to RMB457.8 million, representing a decrease of 7.9%. Sales of liquid milk decreased by 17.0% to RMB655.4 million for the six months ended 30 June 2016 from RMB789.5 million for the six months ended 30 June 2015. Cost (excluding depreciation) per ton of liquid milk sold increased from RMB6,550 for the six months ended 30 June 2015 to RMB6,716 for the six months ended 30 June 2016, representing an increase of 2.5%. It was due to a change in the product mix of CMD Group.

Gross Profit and Gross Profit Margin

The following table sets forth the breakdown of CMD Group's gross profit and gross profit margin by its two operating segments for the periods indicated:

	For the six months ended 31 December 2013		For the year ended 31 December 2014		For the year ended 31 December 2015		For the six months ended 30 June 2016	
	Gross Profit Margin		Gross Profit Margin		Gross Profit Margin		Gross Profit Margin	
	RMB'000		RMB'000		RMB'000		RMB'000	
Dairy farming business								
Before elimination	564,153	31.6%	1,733,275	37.1%	1,287,136	31.7%	624,665	32.6%
After elimination	564,153	33.2%	1,567,738	37.4%	1,072,370	32.3%	515,781	32.8%
Liquid milk products business								
Before elimination	56,753	27.8%	136,687	16.4%	375,431	25.0%	120,539	18.4%
After elimination			297,623	35.7%	586,673	39.1%	209,588	32.0%

(a) Dairy farming business

For the year ended 31 December 2014, gross profit of CMD Group's dairy farming business before biological fair value adjustment (before eliminating the internal relative costs of sales of the supply of raw milk) increased by 92.9% from RMB898.5 million for the year ended 31 December 2013 to RMB1,733.3 million. The increase was primarily due to the substantial increase in the sales volume and the average selling price of its raw milk. Gross profit margin of CMD Group's dairy farming business before biological fair value adjustment (before eliminating the internal relative costs of sales of the supply of raw milk) remained at a high level at 37.1% for the year ended 31 December 2014 compared to 28.9% for the year ended 31 December 2013, primarily due to increase of average selling price of raw milk and milk yield per cow.

For the year ended 31 December 2015, gross profit of CMD Group's dairy farming business before biological fair value adjustment (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 25.7% from RMB1,733.3 million for the year ended 31 December 2014 to RMB1,287.1 million. The decrease above was primarily due to the decrease in selling price of raw milk. Gross profit margin of CMD Group's dairy farming business before biological fair value adjustment (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 5.4% from 37.1% for the year ended 31 December 2014 to 31.7% for the year ended 31 December 2015, primarily due to the decrease in average selling price of raw milk.

For the six months ended 30 June 2016, gross profit of CMD Group's dairy farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased by 6.2% from RMB666.2 million for the six months ended 30 June 2015 to RMB624.7 million. The decrease above was primarily due to the decrease in selling price of raw milk. Gross profit margin of CMD Group's dairy farming business (before eliminating the internal relative costs of sales of the supply of raw milk) decreased from 32.8% for the six months ended 30 June 2015 to 32.6% for the six months ended 30 June 2016, primarily due to the decrease in selling price of raw milk.

(b) *Liquid milk products business*

For the year ended 31 December 2014, gross profit of CMD Group's liquid milk products business increased by 57.6% from RMB86.8 million for the year ended 31 December 2013 to RMB136.7 million. The increase was primarily due to the increase in sales volume of its branded milk products. Gross profit margin of CMD Group's liquid milk products business decreased from 27.0% for the year ended 31 December 2013 to 16.4% for the year ended 31 December 2014, mainly due to the increase of market price of raw milk and greater promotion efforts in order to expand market share.

For the year ended 31 December 2015, gross profit of CMD Group's liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased by 174.7% from RMB136.7 million for the year ended 31 December 2014 to RMB375.4 million. The increase above was primarily due to the increase in sales volume of its branded milk products. Gross profit margin of CMD Group's liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) increased from 16.4% for the year ended 31 December 2014 to 25.0% 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.

For the six months ended 30 June 2016, gross profit of CMD Group's liquid milk products business decreased by 46.5% from RMB225.2 million for the six months ended 30 June 2015 to RMB120.5 million. The decrease was primarily due to the decrease in sales volume of its branded milk products and a decline in the selling price of branded milk products. Gross profit margin of CMD Group's liquid milk products business decreased from 28.5% for the six months ended 30 June 2015 to 18.4% for the six months ended 30 June 2016, mainly due to the decrease in selling price of branded milk.

Losses Arising From Changes in Fair Value less Costs to Sell of Dairy Cows

As at 31 December 2013, the biological assets of CMD Group were valued at RMB5,954.0 million (30 June 2013: RMB5,465.0 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal And Advisory Limited (“JLL”). Loss arising from changes in the fair value of biological assets was RMB16.4 million for the six months ended 31 December 2013 (twelve months ended 30 June 2013: loss arising from changes in fair value less costs to sell of dairy cows RMB38.6 million). This was mainly attributable to the increase in ratio of milkable cows among CMD Group’s herd across generations, and after producing milk of milkable cows and along with increase of lactation period, impairment will be occurred as cash flow generated in the future will be reduced.

As at 31 December 2014, the biological assets of CMD Group were valued at RMB6,530.8 million by JLL. Loss arising from changes in the fair value of biological assets was RMB329.1 million for the year ended 31 December 2014 (for year ended 31 December 2013: loss arising from changes in fair value less costs to sell of dairy cows was RMB82.8 million). This was mainly attributable to the fact that after milk production by milkable cows along with an extended lactation period, impairment will occur as cash flow generated in the future will be reduced.

As at 31 December 2015, the biological assets of CMD Group were valued at RMB7,590.9 million by JLL. Losses arising from changes in the fair value of biological assets were RMB474.9 million for the year ended 31 December 2015. 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.

CMD Group’s dairy cows were fair valued by the directors of CMD at 30 June 2016 while the value of CMD Group’s dairy cows at 31 December 2015 had been arrived at on the basis of a valuation carried out by JLL. Loss arising from changes in the fair value of biological assets was RMB499.2 million for the six months ended 30 June 2016 (six months ended 30 June 2015: loss arising from changes in the fair value of biological assets was RMB199.3 million), mainly attributable to the decrease in 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

For the year ended 31 December 2015, CMD Group’s gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 27.8% from RMB1,666.2 million for the year ended 31 December 2014 to RMB1,203.0 million, mainly due to the decrease in average selling price of raw milk. International Financial Reporting Standards 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.

For the six months end 30 June 2016, CMD Group's gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest decreased by 12.5% from RMB636.9 million for the six months ended 30 June 2015 to RMB557.3 million, mainly due to the decrease in the selling price of raw milk. International Financial Reporting Standards required that raw milk gained was initially measured at fair value of market and the profit or loss was recognised on the differences between the fair value of market and the actually costs, and meanwhile the raw milk consumed will be initially recognised at the fair value of market and recognised as cost of sales in profit or loss.

Other Income

For the six months ended 31 December 2013, other income mainly consisted of government grants amounting to RMB6.0 million (six months ended 31 December 2012: RMB48.0 million). Government grants mainly consisted of subsidies for agricultural projects (for example: circulation economic subsidy, agricultural integrated development subsidy and standardizing sizable farm subsidy, etc.).

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

For the year ended 31 December 2015, other income amounted to RMB32.1 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, and government grants for the year ended 31 December 2015 amounted to RMB19.0 million. Government grants mainly consisted of subsidies for agricultural projects.

For the six months ended 30 June 2016, other income amounted to RMB40.2 million (six months ended 30 June 2015: RMB14.7 million). Other income mainly consisted of government grants and interest income, among others, interest income for the six months ended 30 June 2016 amounted to RMB5.0 million (six months ended 30 June 2015: RMB7.9 million), in which government grants for the six months ended 30 June 2016 amounted to RMB32.7 million (six months ended 30 June 2015: RMB6.8 million). Government grants mainly consisted of subsidies for agricultural projects and subsidies for the operations of CMD Group.

Farm Operating Expenses for the Six Months Ended 31 December 2013

	For the 6 months ended 31 December 2013
	<i>RMB'000</i> (Audited)
Feeds	927,649
Utilities	38,422
Other farm operating expenses	<u>166,517</u>
Total	<u><u>1,132,588</u></u>

For the six months ended 31 December 2013, with the expansion of CMD Group's herd size and general increase in the market price of feeds, total feed costs increased to RMB927.6 million from RMB661.5 million in the last corresponding period. This represented an increase of 40.2%. In the same period, CMD Group's total sales of milk produced increased by 74.0% from RMB1,092.5 million in the last corresponding period to RMB1,901.2 million for the six months ended 31 December 2013.

Meanwhile, cost (excluding employee benefit expenses and depreciation) per ton of raw milk sold increased by 4.8% from RMB2,899 in the last corresponding period to RMB3,039 for the six months ended 31 December 2013, which was driven by an increase in the price of feeds. CMD was, however, able to transfer the increase in costs effectively: (i) the price of raw milk (other than branded milk) increased by 18.3% from RMB4.05 for the six months ended 31 December 2012 to RMB4.79 for the six months ended 31 December 2013, (ii) the annual average milk yield per cow of CMD Group increased by 7.2% from 7.94 tons in the corresponding period for the six months ended 31 December 2012 to 8.51 tons for the six months ended 31 December 2013.

Employee Benefit Expenses for the Six Months Ended 31 December 2013

As of 31 December 2013, CMD Group had 5,288 employees. This represented a 6.7% increase in headcount from 30 June 2013 and a 20.8% increase from 4,378 as at 31 December 2012. CMD Group's employee benefits expenses increased by 48.8% from RMB77.7 million in the last corresponding period to RMB115.6 million for the six months ended 31 December 2013. The increase was mainly due to the increased headcount as well as a general increase in basic salary following an increase in the proportion of milkable cows to total number of dairy cows.

Depreciation Expenses for the Six Months Ended 31 December 2013

Depreciation expense increased by 57.5% from RMB58.1 million for the six months ended 31 December 2012 to RMB91.5 million for the six months ended 31 December 2013. This was mainly due to an increase in farms being in operation and the increase in the proportion of milkable cows to the total number of dairy cows.

Operating Expenses for the Two Years Ended 31 December 2014 and 2015 and Six Months Ended 30 June 2016

	For the year ended 31 December 2014 RMB'000	For the year ended 31 December 2015 RMB'000	For the six months ended 30 June 2016 RMB'000 (unaudited)
Selling and distribution costs	111,909	194,542	136,172
Administrative expenses	<u>214,561</u>	<u>243,566</u>	<u>129,891</u>
Total operating expenses	<u><u>326,470</u></u>	<u><u>438,108</u></u>	<u><u>266,063</u></u>

CMD Group's operating expenses increased from RMB208.7 million for the year ended 31 December 2013 to RMB326.5 million for the year ended 31 December 2014. Selling and distribution cost mainly consisted of transportation costs from sales of milk, salaries of sales personnel and daily expenses, among others, transportation costs was increased from RMB48.0 million for the year ended 31 December 2013 to RMB99.3 million for the year ended 31 December 2014, mainly due to increase in sales volume of raw milk and liquid milk products. Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, etc., the increase of which for the year is mainly due to the recognition of share option expenses. Equity-based share option expenses included in the administrative expenses for the year increased from RMB6.2 million for the year ended 31 December 2013 to RMB31.9 million for the year ended 31 December 2014, mainly due to the granting of 80 million options to employees pursuant to the employee share option incentive scheme on 6 June 2014.

CMD Group's 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 year ended 31 December 2014 to RMB30.5 million for the year ended 31 December 2015.

CMD Group's operating expenses increased from RMB179.2 million for the six months ended 30 June 2015 to RMB266.1 million for the six months ended 30 June 2016. Selling and distribution costs, which mainly consisted of labour costs, marketing costs, channel costs and transportation costs relating to raw milk and liquid milk, increased by 101.2% from RMB67.7 million for the six months ended 30 June 2015 to RMB136.2 million for the six months ended 30 June 2016, mainly due to increase in marketing costs, channel costs and transportation costs. Administrative expenses mainly consisted of salaries of management (including equity-based share option expenses) and depreciation of office building, staff quarters and equipments, etc., among others, salaries (excluding equity-based share option expenses) of management was increased from RMB42.5 million for the six months ended 30 June 2015 to RMB50.2 million for the six months ended 30 June 2016. During the six months ended 30 June 2016, equity-based share option expenses included in the administrative expenses amounted to RMB12.5 million as compared to RMB17.1 million for the six months ended 30 June 2015.

Other Gains and Losses

For the six months ended 31 December 2013, other gains and losses increased by 3,433.3% from RMB1.2 million for the six months ended 31 December 2012 to RMB42.4 million. This was mainly due to a loss of RMB41.6 million arising from an one-off measurement at fair value accounted in the current loss in respect of the transaction cost payable to investing shareholders anticipated upon the exercise of a put option and a call option in future period as assessed during the period. Those two options were the put option granted to Success Dairy II by CMD and the call option granted to CMD by Success Dairy II pursuant to the agreement entered into between CMD and Success Dairy II for the establishment of a joint venture company on 23 September 2013.

For the year ended 31 December 2014, losses arising from other gains and losses amounted to RMB209.6 million (for the year ended 31 December 2013: losses arising from other gains and losses amounted to RMB33.9 million). This was mainly due to a loss of RMB105.5 million arising from net effect of fair value measurement of the put options and call options at year end. Those two types options were the put options granted to Success Dairy II by CMD and the call options granted to CMD by the Success Dairy II pursuant to the agreement entered into between CMD and Success Dairy II for the establishment of two joint venture companies on 23 September 2013. In addition, as CMD expected to relocate all cows from Hubei Provincial Tongshan County Farm during that year, a one-off impairment of RMB42.6 million on property, plant and equipment had been included for the current financial year in order to fully reflect the principle of prudence.

For the year ended 31 December 2015, losses arising from other gains and losses amounted to RMB107.1 million. It mainly comprised of the net losses of the fair value of the financial liabilities at fair value through profit or loss (“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 year ended 31 December 2014 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 by CMD and the call options granted to CMD by Success Dairy II pursuant to the agreement entered into by CMD and Success Dairy II for the establishment of two joint ventures on 23 September 2013, and after the acquisition by CMD on 20 July 2015 of the two joint ventures established by CMD and Success Dairy II Limited on 23 September 2013 (the “JV Acquisition”), the two options was de-recognized and instead another financial instrument was set up between CMD and Success Dairy II.

The net amount of foreign exchange losses increased from RMB29.0 million for the year ended 31 December 2014 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 U.S. dollars increases.

In addition, as a result of the JV Acquisition, CMD 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.

For the six months ended 30 June 2016, losses arising from other gains and losses amounted to RMB388.8 million (six months ended 30 June 2015: gains arising from other gains and losses amounted to RMB148.7 million). This mainly included the losses of the fair value of the financial liabilities at FVTPL amounting to RMB387.8 million.

Other Expenses for the Six Months Ended 31 December 2013

For the six months ended 31 December 2013, other expenses mainly consisted of professional fees, milk transportation cost, travelling expenses and other office administrative expenses. The increase of 29.2% from RMB46.2 million in the last corresponding period to RMB59.7 million for the six months ended 31 December 2013 was mainly due to increases in transportation costs following the increase in sales volume of milk. Transportation costs increased from RMB16.4 million in the last corresponding period by 73.2% to RMB28.4 million for the six months ended 31 December 2013, mainly due to an increase in the sales volume of milk.

Finance Costs

For the six months ended 31 December 2013, finance costs increased from RMB58.8 million for the six months ended 31 December 2012 to RMB113.5 million.

This was mainly attributable to the increase in bank loans and interest expense no longer being capitalized following the transfer of construction in progress to property, plant and equipment.

For the year ended 31 December 2014, finance costs increased from RMB208.4 million for the year ended 31 December 2013 to RMB265.6 million. This was mainly attributable to the increase in bank loans and interest expense no longer being capitalised following the transfer of construction in progress to property, plant and equipment.

For the year ended 31 December 2015, finance costs increased from RMB265.6 million for the year ended 31 December 2014 to RMB315.1 million. This was mainly attributable to the increase in bank loans.

For the six months ended 30 June 2016, finance costs increased from RMB153.9 million for the last corresponding period to RMB195.8 million. This was mainly attributable to the increase in the total loan amount and the early repayment of the offshore borrowings in the total amount of US\$390.0 million, which resulted in the one-off write-off of the relevant unamortised cost in the amount of RMB35.7 million. The early repayment has, on the other hand, decreased the amount of exchange loss in the amount of RMB62.1 million for the six months ended 30 June 2016.

Profit/Loss attributable to the owners of CMD

For the six months ended 31 December 2013, CMD Group's profit attributable to the owners of CMD was RMB327.5 million. This represented an increase of 92.3% from RMB170.3 million for the six months ended 31 December 2012. Basic earnings per share were approximately RMB6.79 cents (six months ended 31 December 2012: RMB3.55 cents).

For the year ended 31 December 2014, CMD Group's profit attributable to the owners of CMD was RMB735.3 million. This represented an increase of 52.9% from RMB481.1 million for the year ended 31 December 2013. Basic earnings per share were approximately RMB15.23 cents (for year ended 31 December 2013: RMB9.99 cents).

For the year ended 31 December 2015, CMD Group's profit attributable to the owners of CMD was RMB321.3 million. This represented a decrease of 56.30% from RMB735.3 million for the year ended 31 December 2014. Basic earnings per share were approximately RMB6.37 cents.

For the six months ended 30 June 2016, CMD Group's loss attributable to the owners of CMD was RMB565.7 million. The profit attributable to the owners of CMD was RMB477.0 million for the six months ended 30 June 2015. Basic loss per share were approximately RMB10.66 cents (six months ended 30 June 2015: basic earnings per share of RMB9.88 cents).

Liquidity and Financial Resources

For the six months ended 31 December 2013, CMD Group's cash flow from operations before the movements in working capital amounted to RMB604.3 million, as compared to RMB256.8 million for the six months ended 31 December 2012. As at 31 December 2013, CMD Group's available and unutilised banking facilities amounted to approximately RMB3,668.1 million (30 June 2013: RMB2,216.9 million). As at 31 December 2013, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 39.6% (30 June 2013: 38.3%). The annual interest rate of the banks and other borrowings for the financial year ended 31 December 2013 varied from 2.0% to 7.05% (30 June 2013: 2.0%-7.05%). As at 31 December 2013, all borrowings were denominated in Renminbi and U.S. dollars.

For the year ended 31 December 2014, CMD Group's net cash generated from operating activities amounted to RMB1,580.0 million. As at 31 December 2014, CMD Group's available and unutilised banking facilities amounted to approximately RMB8,089.6 million (including credit facilities that will expire after 31 December 2015 of RMB2,271.6 million). As at 31 December 2014, the gearing ratio, being the ratio of total borrowings (including short-term debenture) to total assets was 40.7%. The annual interest rate of the banks and other borrowings for the year ended 31 December 2014 varied from 1.73% to 7.05%. As at 31 December 2014, all borrowings were denominated in Renminbi and U.S. dollars.

For the year ended 31 December 2015, CMD Group's net cash generated from operating activities amounted to RMB1,441.8 million. As at 31 December 2015, CMD Group's available and unutilised banking facilities amounted to approximately RMB6,753.4 million. 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%. The annual effective interest rate of banks and other borrowings for the year ended 31 December 2015 varied from 0.86% to 7.05%. As at 31 December 2015, all borrowings were denominated in Renminbi and U.S. dollars.

For the six months ended 30 June 2016, CMD Group's cash flow from operating activities amounted to RMB404.4 million, as compared to RMB769.6 million for the six months ended 30 June 2015. As at 30 June 2016, CMD Group's available and unutilised banking facilities amounted to approximately RMB5,953.8 million. As at 30 June 2016, the interest-bearing debt ratio, being the ratio of total interest-bearing borrowings to total assets, was 38.12%. The annual interest rate of the bank borrowings for the six months ended 30 June 2016 varied from 1.81% to 6.40% (six months ended 30 June 2015: 0.86% to 7.05%). As at 30 June 2016, all borrowings were denominated in Renminbi.

The table below sets forth CMD Group's short-term and long-term bank borrowings as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016:

	As at			30 June 2016
	31 December 2013	31 December 2014	31 December 2015	
	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Unaudited)
Bank borrowings	<u>3,748,666</u>	<u>4,687,848</u>	<u>5,647,251</u>	<u>3,895,061</u>
Unsecured borrowings	1,533,139	885,818	1,796,381	2,167,893
Secured borrowings	1,964,527	3,335,030	3,165,870	496,330
Guaranteed borrowings	<u>251,000</u>	<u>467,000</u>	<u>685,000</u>	<u>1,230,838</u>
	<u>3,748,666</u>	<u>4,687,848</u>	<u>5,647,251</u>	<u>3,895,061</u>
Carrying amount repayable:				
Within one year	1,788,799	1,858,398	4,825,521	3,079,631
Between one to two years	1,042,337	792,538	749,230	410,430
Between two to five years	<u>917,530</u>	<u>2,036,912</u>	<u>72,500</u>	<u>405,000</u>
	3,748,666	4,687,848	5,647,251	<u>3,895,061</u>
Less: Amounts due within one year shown under current liabilities	<u>(1,788,799)</u>	<u>(1,858,398)</u>	<u>(4,825,521)</u>	
	<u>1,959,867</u>	<u>2,829,450</u>	<u>821,730</u>	

As at 30 June 2016, CMD Group had interest-bearing borrowings other than bank borrowings. The table below sets for CMD Group's total interest-bearing borrowings as at 30 June 2016:

	As at	31 December
	30 June 2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Bank borrowings	3,895,061	5,647,251
Short-term debenture	997,950	400,000
Medium-term notes	1,795,446	200,000
Other borrowings	96,250	–
	<u>6,784,707</u>	<u>6,247,251</u>
Carrying amount repayable:		
Within one year	4,116,648	5,225,521
Between one to two years	1,648,180	749,230
Between two to five years	1,019,879	272,500
	<u>6,784,707</u>	<u>6,247,251</u>

As for the other borrowings, CMD Group entered into a financing arrangement with Far Eastern Leasing Co., Ltd in June 2016, pursuant to which CMD Group transferred the legal title of certain equipment of CMD Group to Far Eastern Leasing Co., Ltd at net consideration of RMB96,250,000. CMD Group is obligated to pay quarterly instalment of RMB11,325,000 from July 2016 to July 2018 and the remaining balance of RMB6,913,000 will be paid in October 2018. Upon the maturity of the lease, CMD Group is entitled to purchase back the equipment at cash consideration of RMB100. Despite the arrangement involves a legal form of a lease, CMD Group accounted for the arrangement as a collateralised borrowing at amortised cost using effective interest method in accordance with the substance of the arrangement.

The table below sets the breakdown of other borrowings as at 30 June 2016:

	As at 30 June 2016 RMB'000 (Unaudited)
Carrying amount repayable:	
Within one year	39,066
Between one to two years	40,667
Between two to five years	16,517
	<hr/>
	96,250
	<hr/> <hr/>

Pledge of Assets

As at 31 December 2013, land use rights, buildings and equipment, and biological assets with carrying value of RMB10.2 million (30 June 2013: RMB10.3 million), RMB59.2 million (30 June 2013: RMB61.5 million) and RMB4,087.5 million (30 June 2013: RMB4,014.2 million), respectively, were pledged as security for bank borrowings.

As at 31 December 2014, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.9 million, RMB54.6 million and RMB3,316.2 million, respectively, were pledged as security for bank borrowings.

As at 31 December 2015, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.7 million, RMB50.0 million and RMB2,769.7 million and all of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the "Lux 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 Lux 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 CMD Group's borrowings.

As at 30 June 2016, land use rights, buildings and equipment, and biological assets with carrying value of RMB9.6 million, RMB179.0 million and RMB2,827.6 million and all of the Lux Shares and all dividends, interest and other monies payable in respect of the Lux Shares and all other rights, benefits and proceeds in respect of or derived from the Lux Shares^(note) (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) respectively, were pledged as security for CMD Group's borrowings.

Note: The relevant pledge was released subsequent to the period end on 12 July 2016 as a result of the repayment of the relevant bank loans during the six months period ended 30 June 2016.

Capital Commitments and Contingencies

As at 31 December 2013, CMD Group had capital commitments of RMB199.2 million relating to the acquisition of property, plant and equipment and capital contribution to a joint venture. CMD Group did not have any significant contingent liabilities as at 31 December 2013.

As at 31 December 2014, CMD Group had capital commitments of RMB205.4 million relating to the acquisition of property, plant and equipment and capital contribution to joint ventures. CMD Group did not have any significant contingent liabilities as at 31 December 2014.

As at 31 December 2015, CMD Group had capital commitments of RMB151.5 million related to the acquisition of property, plant and equipment. CMD Group did not have any significant contingent liabilities as at 31 December 2015.

As at 30 June 2016, CMD Group had capital commitment of RMB135.5 million related to acquisition of property, plant and equipment. CMD Group did not have any significant contingent liabilities as at 30 June 2016.

Financial Management Policies

For the six months ended 31 December 2013, two years ended 31 December 2014 and 2015 and six months ended 30 June 2016, CMD Group had continued to closely manage financial risks to safeguard the interests of CMD Shareholders. CMD Group applied its cash flows generated from operation and bank loans to its operational and investment needs. CMD Group's management considered that CMD Group had limited foreign currency exposure in respect of its operations since its operations are mainly conducted in the PRC. Sales and purchases were mainly denominated in Renminbi and the foreign currency risks associated with concentrated feeds and farm facilities were not material. In view of the minimal foreign currency exchange risk related to its operations, CMD Group did not use any derivative contracts to hedge against its exposure to foreign currency risks.

Human Resources and Remuneration of Employees

CMD Group had approximately 5,288 employees (30 June 2013: 4,955; 31 December 2012: 4,378) in the PRC and Hong Kong as at 31 December 2013. Total staff costs for the six months ended 31 December 2013 (excluding directors' fees) were approximately RMB113.1 million (six months ended 31 December 2012: RMB76.0 million).

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

CMD Group had approximately 5,277 employees 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.

CMD Group had 5,938 employees in mainland China and Hong Kong as at 30 June 2016. Total staff costs (including staff compensation capitalised to unmatured dairy cows) for the six months ended 30 June 2016 were approximately RMB213.9 million (for the six months ended 30 June 2015: RMB198.1 million).

During the above periods, CMD Group had recruited employees from local universities, vocational schools and other technical schools, and it provided these employees with various pre-employment and on-the-job training. CMD Group also offered remuneration at competitive rates with the aim of retaining quality personnel.

Dividend

CMD Board did not recommend the payment of a final dividend for the six months ended 31 December 2013 (30 June: 2013: Nil).

CMD Board recommended the payment of a final dividend of RMB0.01 per ordinary share for the year ended 31 December 2014.

CMD Board did not recommend the payment of a final dividend in respect of the year ended 31 December 2015.

CMD Board did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Group Structure and Capital Structure

On 7 May 2013 Advanced Dairy Company Limited (“**Advanced Dairy**”) and Crystal Dairy Holdings (CDH) Limited (“**CDH**”) entered into a sale and purchase agreement with Mengniu pursuant to which Mengniu agreed to purchase, and each of Advanced Dairy and CDH agreed to sell, 984,000,000 and 312,000,000 ordinary shares of CMD, representing approximately 20.40% and 6.50% of the total issued shares of CMD at the time. The consideration for each of CMD Shares was HK\$2.45. Completion took place on 22 May 2013. Upon completion, Mengniu held 1,347,903,000 ordinary shares, representing approximately 27.99% of the ordinary shares in issue of CMD on 22 May 2013. As at 30 June 2013, the number of issued shares of CMD was at 4,818,536,000. CMD issued and allotted a total of 8,803,018 CMD Shares pursuant to the exercise of Management Options under the Management Option Scheme during the six months ended 31 December 2013.

During the year ended 31 December 2014, there had been no material change in the structure of CMD Group. As at 31 December 2014, there were 4,827,338,751 CMD Shares in issue.

During the year ended 31 December 2015, apart from the JV Acquisition, there had been no material change in the structure of CMD Group. CMD issued and allotted a total of 477,429,132 CMD Shares on 20 July 2015 as the consideration for the JV Acquisition. After the issuance and allotment, the number of issued CMD Shares was increased from 4,827,338,751 to 5,304,767,883.

During the period ended 30 June 2016, there had been no material change in CMD Group's structure and the capital structure of CMD. As at 30 June 2016, the number of issued shares of CMD remained at 5,304,767,883. On June 16 2016, CMD entered into a sale and purchase agreement, pursuant to which CMD had conditionally agreed to acquire 45% equity interest (the "**MFDPS Acquisition**") in Modern Farm (Anhui) Dairy Product Sales Co. Ltd., a company in which CMD indirectly owned 55% equity interest, after the completion of the reorganization for the issue of the consideration shares of CMD at the issue price of HK\$1.46 per consideration share. Reference is made to the announcement of CMD dated 16 June 2016, the supplemental announcement of CMD dated 22 June 2016 and the circular of CMD dated 15 July 2016 with regards to the MFDPS Acquisition. Up to the date of this circular, the MFDPS Acquisition has not been completed.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) Basis of preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group

The accompanying unaudited pro forma statement of assets and liabilities (the “**Unaudited Pro Forma Financial Information**”) of the Enlarged Group (being Mengniu Group together with CMD Group) has been prepared based on:

- (a) the unaudited consolidated statement of financial position of Mengniu Group as at 30 June 2016 which has been extracted from the interim report of Mengniu for the six months ended 30 June 2016;
- (b) the unaudited consolidated statement of financial position of CMD Group as at 30 June 2016 which has been extracted from the interim report of CMD for the six months ended 30 June 2016; and
- (c) after taking into account the unaudited pro forma adjustments as described in the notes thereto, to demonstrate how the SPA Completion and the completion of the Offers might have affected the historical financial information in respect of Mengniu Group as if the transactions had taken place on 30 June 2016.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the SPA and the Offers been completed on the dates indicated herein. Furthermore, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group’s future results of financial position.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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The key assumptions made by the Mengniu Directors for preparing the Unaudited Pro Forma Financial Information for Scenario I, II and III are as follows:

Scenario I Assuming that (a) none of CMD Shareholders and Optionholders accept the Offers following SPA Completion, (b) the Investor Option is exercised and (c) none of the outstanding CMD Options are exercised or cancelled prior to the close of the Offers. Under this assumption, Mengniu will hold 39.9% equity interests in CMD and CMD will remain an associate of Mengniu. The Mengniu Directors assume that Mengniu could not obtain any control over CMD in this scenario.

Scenario II Assuming that (a) all CMD Shareholders and Optionholders accept the Offers (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), (b) the Investor Option is exercised, (c) there is no change in the issued share capital of CMD other than the issuance of New CMD Shares upon the exercise of the Investor Option, and (d) none of the outstanding CMD Options are exercised prior to the close of the Offers and all the outstanding CMD Options are cancelled in accordance with the Option Offer. Under this assumption, upon the completion of the Offers, Mengniu will hold 96.1% equity interests in CMD and CMD will become a subsidiary of Mengniu. The Mengniu Directors assume that Mengniu will obtain control over CMD in this scenario.

Scenario III Assuming that (a) all CMD Shareholders accept the Share Offer (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), (b) the Investor Option is exercised, (c) all CMD Options are exercised before they lapse prior to the close of the Offers, and (d) all CMD Shares issued on the exercise of the CMD Options are tendered for acceptance under the Share Offer. Under this assumption, upon the completion of the Offers, Mengniu will hold 96.3% equity interest in CMD and CMD will become a subsidiary of Mengniu. The Mengniu Directors assume that Mengniu will obtain control over CMD in this scenario.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the unaudited financial statements of Mengniu Group for the six months ended 30 June 2016 as set out in the interim report of Mengniu for the six months ended 30 June 2016, and the financial information of CMD Group as set out in Appendix II to this circular, and other financial information included elsewhere in this circular.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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(ii) Unaudited Pro Forma Financial Information of the Enlarged Group as at 30 June 2016 – Scenario I

	Mengniu Group as at 30 June 2016 RMB'000	Unaudited Pro Forma Adjustments			The Enlarged Group as at 30 June 2016 RMB'000
		Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	
NON-CURRENT ASSETS					
Property, plant and equipment	11,477,297	–	–	–	11,477,297
Construction in progress	1,592,229	–	–	–	1,592,229
Investment properties	30,372	–	–	–	30,372
Land use rights	967,522	–	–	–	967,522
Goodwill	6,569,075	–	–	–	6,569,075
Other intangible assets	1,998,479	–	–	–	1,998,479
Investments in associates	4,077,528	–	1,600,800	39,782	5,718,110
Deferred tax assets	394,969	–	–	–	394,969
Biological assets	345,381	–	–	–	345,381
Non-current financial assets	2,110,355	–	–	–	2,110,355
Long term prepayments	48,521	–	–	–	48,521
	29,611,728	–	1,600,800	39,782	31,252,310
CURRENT ASSETS					
Other current financial assets	6,902,914	–	–	–	6,902,914
Inventories	3,468,515	–	–	–	3,468,515
Trade and bills receivables	2,929,605	–	–	–	2,929,605
Prepayments, deposits and other receivables	2,201,662	–	–	–	2,201,662
Pledged deposits	747,809	–	–	–	747,809
Cash and bank balances	5,206,881	4,310,280	(1,600,800)	(39,782)	7,876,579
	21,457,386	4,310,280	(1,600,800)	(39,782)	24,127,084
Assets of disposal groups classified as held for sale	253,799	–	–	–	253,799
	21,711,185	4,310,280	(1,600,800)	(39,782)	24,380,883

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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	Mengniu Group	Unaudited Pro Forma Adjustments			The Enlarged Group
	as at 30 June 2016 <i>RMB'000</i>	Note 1 <i>RMB'000</i>	Note 2 <i>RMB'000</i>	Note 3 <i>RMB'000</i>	as at 30 June 2016 <i>RMB'000</i>
CURRENT LIABILITIES					
Trade and bills payables	5,779,867	-	-	-	5,779,867
Other payables and accruals	4,789,448	-	-	-	4,789,448
Interest-bearing bank and other borrowings	6,403,893	-	-	-	6,403,893
Other loans	25,915	-	-	-	25,915
Derivative financial instruments	4,752	-	-	-	4,752
Deferred income	53,999	-	-	-	53,999
Income tax payable	196,932	-	-	-	196,932
	17,254,806	-	-	-	17,254,806
Liabilities directly associated with the assets classified as held for sale	13,234	-	-	-	13,234
	17,268,040	-	-	-	17,268,040
NET CURRENT ASSETS	4,443,145	4,310,280	(1,600,800)	(39,782)	7,112,843
TOTAL ASSETS LESS CURRENT LIABILITIES	34,054,873	4,310,280	-	-	38,365,153
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	3,768,505	4,310,280	-	-	8,078,785
Long term payables	42,164	-	-	-	42,164
Deferred income	383,843	-	-	-	383,843
Deferred tax liabilities	71,077	-	-	-	71,077
Other non-current financial liabilities	3,007,943	-	-	-	3,007,943
	7,273,532	4,310,280	-	-	11,583,812
NET ASSETS	26,781,341	-	-	-	26,781,341

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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Unaudited Pro Forma Financial Information of the Enlarged Group as at 30 June 2016 – Scenario II

			Unaudited Pro Forma Adjustments							
	Mengniu Group as at 30 June 2016 RMB'000	CMD Group as at 30 June 2016 RMB'000	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 6 RMB'000	Note 7 RMB'000	The Enlarged Group as at 30 June 2016 RMB'000	
NON-CURRENT ASSETS										
Property, plant and equipment	11,477,297	5,310,139	-	-	-	-	119,395	-	16,906,831	
Construction in progress	1,592,229	-	-	-	-	-	-	-	1,592,229	
Investment properties	30,372	-	-	-	-	-	-	-	30,372	
Land use rights	967,522	125,345	-	-	-	-	28,369	-	1,121,236	
Goodwill	6,569,075	1,441,494	-	-	-	-	-	-	8,010,569	
Other intangible assets	1,998,479	-	-	-	-	-	389,717	-	2,388,196	
Investments in a subsidiary	-	-	-	8,372,341	-	-	(8,372,341)	-	-	
Investments in associates	4,077,528	-	-	(3,092,943)	-	-	-	-	984,585	
Deferred tax assets	394,969	-	-	-	-	-	-	-	394,969	
Biological assets	345,381	7,576,003	-	-	-	-	-	-	7,921,384	
Non-current financial assets	2,110,355	24,955	-	-	-	-	-	-	2,135,310	
Long term prepayments	48,521	-	-	-	-	-	-	-	48,521	
	<u>29,611,728</u>	<u>14,477,936</u>	<u>-</u>	<u>5,279,398</u>	<u>-</u>	<u>-</u>	<u>(7,834,860)</u>	<u>-</u>	<u>41,534,202</u>	
CURRENT ASSETS										
Other current financial assets	6,902,914	-	-	-	-	-	-	-	6,902,914	
Inventories	3,468,515	793,211	-	-	-	-	-	-	4,261,726	
Trade and bills receivables	2,929,605	1,033,142	-	-	-	-	-	(154,968)	3,807,779	
Prepayments, deposits and other receivables	2,201,662	175,201	-	-	-	-	-	-	2,376,863	
Pledged deposits	747,809	178,765	-	-	-	-	-	-	926,574	
Cash and bank balances	5,206,881	1,139,694	4,310,280	(7,082,087)	(61,180)	-	-	-	3,513,588	
	<u>21,457,386</u>	<u>3,320,013</u>	<u>4,310,280</u>	<u>(7,082,087)</u>	<u>(61,180)</u>	<u>-</u>	<u>-</u>	<u>(154,968)</u>	<u>21,789,444</u>	
Assets of disposal groups classified as held for sale	253,799	-	-	-	-	-	-	-	253,799	
	<u>21,711,185</u>	<u>3,320,013</u>	<u>4,310,280</u>	<u>(7,082,087)</u>	<u>(61,180)</u>	<u>-</u>	<u>-</u>	<u>(154,968)</u>	<u>22,043,243</u>	

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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	Mengniu Group as at 30 June 2016 RMB'000	CMD Group as at 30 June 2016 RMB'000	Unaudited Pro Forma Adjustments						The Enlarged Group as at 30 June 2016 RMB'000
			Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 6 RMB'000	Note 7 RMB'000	
CURRENT LIABILITIES									
Trade and bills payables	5,779,867	1,197,268	-	-	-	-	-	(154,968)	6,822,167
Other payables and accruals	4,789,448	828,708	-	-	-	89,019	-	-	5,707,175
Interest-bearing bank and other borrowings	6,403,893	4,077,581	-	-	-	-	-	-	10,481,474
Other loans	25,915	-	-	-	-	-	-	-	25,915
Derivative financial instruments	4,752	-	-	-	-	-	-	-	4,752
Deferred income	53,999	-	-	-	-	-	-	-	53,999
Income tax payable	196,932	149	-	-	-	-	-	-	197,081
	<u>17,254,806</u>	<u>6,103,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,019</u>	<u>-</u>	<u>(154,968)</u>	<u>23,292,563</u>
Liabilities directly associated with the assets classified as held for sale	<u>13,234</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,234</u>
	<u>17,268,040</u>	<u>6,103,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,019</u>	<u>-</u>	<u>(154,968)</u>	<u>23,305,797</u>
NET CURRENT ASSETS/(LIABILITIES)									
	<u>4,443,145</u>	<u>(2,783,693)</u>	<u>4,310,280</u>	<u>(7,082,087)</u>	<u>(61,180)</u>	<u>(89,019)</u>	<u>-</u>	<u>-</u>	<u>(1,262,554)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES									
	<u>34,054,873</u>	<u>11,694,243</u>	<u>4,310,280</u>	<u>(1,802,689)</u>	<u>(61,180)</u>	<u>(89,019)</u>	<u>(7,834,860)</u>	<u>-</u>	<u>40,271,648</u>
NON-CURRENT LIABILITIES									
Interest-bearing bank and other borrowings	3,768,505	2,610,876	4,310,280	-	-	-	-	-	10,689,661
Long term payables	42,164	57,184	-	-	-	-	-	-	99,348
Deferred income	383,843	134,895	-	-	-	-	-	-	518,738
Deferred tax liabilities	71,077	-	-	-	-	-	36,941	-	108,018
Other non-current financial liabilities	<u>3,007,943</u>	<u>1,543,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,543,265)</u>	<u>-</u>	<u>-</u>	<u>3,007,943</u>
	<u>7,273,532</u>	<u>4,346,220</u>	<u>4,310,280</u>	<u>-</u>	<u>-</u>	<u>(1,543,265)</u>	<u>36,941</u>	<u>-</u>	<u>14,423,708</u>
NET ASSETS									
	<u>26,781,341</u>	<u>7,348,023</u>	<u>-</u>	<u>(1,802,689)</u>	<u>(61,180)</u>	<u>1,454,246</u>	<u>(7,871,801)</u>	<u>-</u>	<u>25,847,940</u>

APPENDIX III	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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Unaudited Pro Forma Financial Information of the Enlarged Group as at 30 June 2016 – Scenario III

	Mengniu	CMD	Unaudited Pro Forma Adjustments							The
	Group	Group								Enlarged
	as at 30 June 2016 RMB'000	as at 30 June 2016 RMB'000	Note 1 RMB'000	Note 2 RMB'000	Note 3 RMB'000	Note 4 RMB'000	Note 5 RMB'000	Note 6 RMB'000	Note 7 RMB'000	Group as at 30 June 2016 RMB'000
NON-CURRENT ASSETS										
Property, plant and equipment	11,477,297	5,310,139	-	-	-	-	-	119,395	-	16,906,831
Construction in progress	1,592,229	-	-	-	-	-	-	-	-	1,592,229
Investment properties	30,372	-	-	-	-	-	-	-	-	30,372
Land use rights	967,522	125,345	-	-	-	-	-	28,369	-	1,121,236
Goodwill	6,569,075	1,441,494	-	-	-	-	-	-	-	8,010,569
Other intangible assets	1,998,479	-	-	-	-	-	-	389,717	-	2,388,196
Investments in a subsidiary	-	-	-	8,807,767	-	-	-	(8,807,767)	-	-
Investments in associates	4,077,528	-	-	(3,092,943)	-	-	-	-	-	984,585
Deferred tax assets	394,969	-	-	-	-	-	-	-	-	394,969
Biological assets	345,381	7,576,003	-	-	-	-	-	-	-	7,921,384
Non-current financial assets	2,110,355	24,955	-	-	-	-	-	-	-	2,135,310
Long term prepayments	48,521	-	-	-	-	-	-	-	-	48,521
	<u>29,611,728</u>	<u>14,477,936</u>	<u>-</u>	<u>5,714,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,270,286)</u>	<u>-</u>	<u>41,534,202</u>
CURRENT ASSETS										
Other current financial assets	6,902,914	-	-	-	-	-	-	-	-	6,902,914
Inventories	3,468,515	793,211	-	-	-	-	-	-	-	4,261,726
Trade and bills receivables	2,929,605	1,033,142	-	-	-	-	-	-	(154,968)	3,807,779
Prepayments, deposits and other receivables	2,201,662	175,201	-	-	-	-	-	-	-	2,376,863
Pledged deposits	747,809	178,765	-	-	-	-	-	-	-	926,574
Cash and bank balances	5,206,881	1,139,694	4,310,280	(7,517,513)	(62,880)	-	543,017	-	-	3,619,479
	<u>21,457,386</u>	<u>3,320,013</u>	<u>4,310,280</u>	<u>(7,517,513)</u>	<u>(62,880)</u>	<u>-</u>	<u>543,017</u>	<u>-</u>	<u>(154,968)</u>	<u>21,895,335</u>
Assets of disposal groups classified as held for sale	253,799	-	-	-	-	-	-	-	-	253,799
	<u>21,711,185</u>	<u>3,320,013</u>	<u>4,310,280</u>	<u>(7,517,513)</u>	<u>(62,880)</u>	<u>-</u>	<u>543,017</u>	<u>-</u>	<u>(154,968)</u>	<u>22,149,134</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	Mengniu	CMD	Unaudited Pro Forma Adjustments							The
	Group	Group								Enlarged
	as at 30 June 2016	as at 30 June 2016	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7	Group as at 30 June 2016
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CURRENT LIABILITIES										
Trade and bills payables	5,779,867	1,197,268	-	-	-	-	-	-	(154,968)	6,822,167
Other payables and accruals	4,789,448	828,708	-	-	-	89,019	-	-	-	5,707,175
Interest-bearing bank and other borrowings	6,403,893	4,077,581	-	-	-	-	-	-	-	10,481,474
Other loans	25,915	-	-	-	-	-	-	-	-	25,915
Derivative financial instruments	4,752	-	-	-	-	-	-	-	-	4,752
Deferred income	53,999	-	-	-	-	-	-	-	-	53,999
Income tax payable	196,932	149	-	-	-	-	-	-	-	197,081
	17,254,806	6,103,706	-	-	-	89,019	-	-	(154,968)	23,292,563
Liabilities directly associated with the assets classified as held for sale	13,234	-	-	-	-	-	-	-	-	13,234
	17,268,040	6,103,706	-	-	-	89,019	-	-	(154,968)	23,305,797
NET CURRENT ASSETS/(LIABILITIES)										
	4,443,145	(2,783,693)	4,310,280	(7,517,513)	(62,880)	(89,019)	543,017	-	-	(1,156,663)
TOTAL ASSETS LESS CURRENT LIABILITIES										
	34,054,873	11,694,243	4,310,280	(1,802,689)	(62,880)	(89,019)	543,017	(8,270,286)	-	40,377,539
NON-CURRENT LIABILITIES										
Interest-bearing bank and other borrowings	3,768,505	2,610,876	4,310,280	-	-	-	-	-	-	10,689,661
Long term payables	42,164	57,184	-	-	-	-	-	-	-	99,348
Deferred income	383,843	134,895	-	-	-	-	-	-	-	518,738
Deferred tax liabilities	71,077	-	-	-	-	-	-	36,941	-	108,018
Other non-current financial liabilities	3,007,943	1,543,265	-	-	-	(1,543,265)	-	-	-	3,007,943
	7,273,532	4,346,220	4,310,280	-	-	(1,543,265)	-	36,941	-	14,423,708
NET ASSETS	26,781,341	7,348,023	-	(1,802,689)	(62,880)	1,454,246	543,017	(8,307,227)	-	25,953,831

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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(iii) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared based on the assumption that Mengniu obtains external banking facility of US\$650,000,000 (or approximately RMB4,310,280,000) from DBS Bank Ltd., Hong Kong Branch to satisfy the cash consideration for the SPA and the Offers.
2. For Scenario I, the adjustment represents the cash consideration of RMB1,600,800,000 representing Mengniu's acquisition of the 965,465,750 Subject Shares from Success Dairy II at the Offer Price of HK\$1.94. Immediately following SPA Completion, Mengniu will hold 39.9% equity interests in CMD and CMD remains an associate of Mengniu.

For Scenario II, the adjustment represents the consideration for the SPA and the Offers of RMB8,372,341,000 as follows:

	<i>RMB'000</i>
Cancellation fee for the Option Offer (a)	87,529
Cash consideration for the Share Offer (b)	6,994,558
Acquisition-date fair value of Mengniu Group's 25.4% equity interest in CMD Group before completion of the SPA and the Offers (d)	1,290,254
Total consideration for the SPA and the Offers	8,372,341

- (a) The cancellation fee for the Option Offer of RMB87,529,000 is calculated based on the assumption that none of the outstanding CMD Options are exercised prior to the close of the Offers and that Mengniu Group cancels all the outstanding CMD Options of 315,401,705 units with cash consideration with details as shown below:

	Exercise price per CMD Share <i>HK\$</i>	Offer price per CMD Option <i>HK\$</i>	Option units	Cancellation fee <i>RMB'000</i>
CMD Options granted under the Management Option Scheme	0.86	1.08	60,073,756	55,451
CMD Options granted under the Share Option Scheme I	2.89	0.0001	27,323,315	2
	3.38	0.0001	64,644,619	5
CMD Options granted under the Share Option Scheme II	2.83	0.0001	7,676,688	1
	1.52	0.42	9,033,327	3,243
CMD Options granted under the Share Option Scheme III	1.71	0.23	146,650,000	28,827
			315,401,705	87,529

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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- (b) The cash consideration for the Share Offer is calculated based on the assumption that all CMD Shareholders (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers) with 4,218,519,768 shares in total, will accept the Share Offer at the Offer Price of HK\$1.94.

For Scenario III, the adjustment represents the consideration for the SPA and the Offers of RMB8,807,767,000 as follows:

	<i>RMB'000</i>
Cash consideration for the Share Offer (c)	7,517,513
Acquisition-date fair value of Mengniu Group's 25.4% equity interest in CMD Group before completion of the SPA and the Offers (d)	1,290,254
Total consideration for the SPA and the Offers	8,807,767

- (c) The cash consideration for the Share Offer is calculated based on the assumption that all CMD Shareholders (excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers), with 4,533,921,473 shares (including all CMD Shares issued on the exercise of the CMD Options), will accept the Share Offer at the Offer Price of HK\$1.94.

- (d) Upon the completion of the SPA and the Offers, Mengniu would increase its equity interests in CMD from 25.4% to 96.1% in Scenario II and from 25.4% to 96.3% for Scenario III. The Mengniu Directors assume that Mengniu would obtain control over CMD under both scenarios. Accordingly, CMD, which was an associate of Mengniu prior to completion of the SPA and the Offers, would become a subsidiary of Mengniu. This is considered as a business combination achieved in stages or step acquisition. Mengniu Group is required to re-measure its previously held equity interest in CMD at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. As the Mengniu Directors assume that completion of the SPA and the Offers took place on 30 June 2016, the Mengniu Directors made reference to the market share price of CMD which was quoted on the SEHK on that date to determine the equity interest in the CMD at its acquisition-date fair value. Under this assumption, Mengniu Group would recognise a loss of RMB1,802,689,000, being the difference between the existing carrying amount of RMB3,092,943,000 and the acquisition-date fair value of RMB1,290,254,000. The Mengniu Directors had made reference to the market share price of HK\$1.12 per share of CMD as at 30 June 2016 to determine the previously held equity interest in CMD at its acquisition-date fair value because the Mengniu Directors considered that the use of the quoted market share price of CMD on 30 June 2016 would best reflect the principal assumption that completion of the SPA and the Offers would have taken place on 30 June 2016. However, as this is only a hypothetical assumption, when the actual transaction takes place, a different fair value may be determined which consequently may result in a financial effect which is materially different from the above.

3. The adjustment represents the estimated transaction costs of approximately RMB39,782,000, RMB61,180,000 and RMB62,880,000 relating to the SPA and the Offers for Scenario I, Scenario II and Scenario III, respectively. The transaction costs relating to investments in associates under Scenario I are capitalised and those relating to acquisition of a subsidiary under Scenario II and Scenario III are charged to income statement directly.

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4. Scenario II and Scenario III both assume that Success Dairy II exercises the Investor Option, which results in the issue of 488,036,618 shares of CMD, resulting in share capital of RMB41,711,000 and share premium of RMB767,483,000, together with a cash top-up amount of US\$13,424,231 (or approximately RMB89,019,000) recorded in other payables and accruals of CMD Group. The exercise of the Investor Option terminates the other financial liability of RMB1,543,265,000 arising from certain valuation adjustment arrangement between CMD Group and Success Dairy II, which results a gain of RMB645,052,000.
5. Scenario III assumes that all CMD Options are exercised at cash consideration of RMB543,017,000 with the issue of 315,401,705 shares of CMD, resulting in share capital of RMB26,956,000 and share premium of RMB516,061,000.
6. The adjustment reflects the allocation of the consideration for the SPA and the Offers to the identifiable assets acquired and liabilities assumed by Mengniu Group. Upon the completion of the SPA and the Offers, the identifiable assets and liabilities of CMD Group will be accounted for in the Unaudited Pro Forma Financial Information of the Enlarged Group at fair value under the purchase method of accounting in accordance with IFRS 3 (Revised) “Business Combinations” (“IFRS 3”).

The goodwill of the Enlarged Group represents the excess of the consideration for the SPA and the Offers over the estimated fair value of the identifiable net assets of CMD Group. For the purpose of preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the computation of goodwill arising from the proposed acquisition is analyzed as follows:

	<i>RMB'000</i>
For Scenario II	
Total consideration for the SPA and the Offers	8,372,341
Add: Non-controlling interest arising from the acquisition (a)	358,889
Less: Carrying amount of the net assets acquired	(8,682,944)
Less: Fair value adjustments (b)	(537,481)
Add: Deferred tax liabilities recognised as a result of the fair value adjustments (c)	36,941
Negative goodwill arising from the proposed acquisition (d)	(452,254)
	<i>RMB'000</i>
For Scenario III	
Total consideration for the SPA and the Offers	8,807,767
Add: Non-controlling interest arising from the acquisition (a)	360,483
Less: Carrying amount of the net assets acquired	(9,225,961)
Less: Fair value adjustments (b)	(537,481)
Add: Deferred tax liabilities recognised as a result of the fair value adjustments (c)	36,941
Negative goodwill arising from the proposed acquisition (d)	(558,251)

- (a) The non-controlling interests of RMB358,889,000 and RMB360,483,000 represent non-controlling interests attributable to the 3.9% and 3.7% equity interests held by the Non-Accepting CMD Shareholders (without taking into consideration of the expected issue of 338,602,205 shares of CMD to the Individuals as consideration shares at the

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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completion date of the June 16 SPA), measuring at the proportionate fair value of identifiable assets and liabilities of CMD Group as at 30 June 2016 for Scenario II and Scenario III, respectively.

- (b) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Mengniu Directors have estimated the fair value of the identifiable assets and liabilities of CMD Group based on the assumption that the SPA and the Offers were completed on 30 June 2016. The details of the fair value adjustments are as follows:

	Fair Value <i>RMB'000</i>	Carrying Amount <i>RMB'000</i>	Fair Value Adjustment <i>RMB'000</i>
Property, plant and equipment	5,429,534	5,310,139	119,395
Land use rights	153,714	125,345	28,369
Other intangible assets			
– a trademark with indefinite lives	389,717	–	389,717
	5,972,965	5,435,484	537,481
Total	5,972,965	5,435,484	537,481

Cost Approach is used for the valuation of the buildings and structures. It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

Portions of land are valued by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market; Portions of land are also valued by benchmark land price approach making reference to the benchmark land price announced by the local land administrative bureau with consideration of the inherent characteristics of the property in the valuation; Where, due to particular location of portions of land which is situated, there are no sale/lease comparable readily available in the relevant market and benchmark land price, the Mengniu Directors consider the total cost of acquiring, developing and forming the land on clear site state in granted land status and assess the total costs incurred for expropriating the land by the government from converting collectively-owned land to state-owned granted land in the similar locality. These costs are referenced to the standard expense rules publicly specified by the local government authority.

The Mengniu Directors adopt the relief from the royalty method under the income approach for the valuation of the trademark. This valuation methodology is based on the assumption that CMD would have to pay a royalty payment if CMD did not have the legal right to utilise the trademark.

Except for the above buildings and structures included in property, plant and equipment, land use rights and a trademark included in other intangible assets, the Mengniu Directors assume that the fair values of other identifiable assets and liabilities of CMD Group approximated to their carrying amounts as at 30 June 2016.

- (c) Deferred tax liabilities of RMB36,941,000 are also recognised in the Unaudited Pro Forma Financial Information of the Enlarged Group as at 30 June 2016 as a result of the aforesaid fair value adjustments on property, plant and equipment and land use rights.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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- (d) A negative goodwill was resulted based on a set of assumptions as detailed in the above mentioned notes. As this is only a hypothetical assumption, the Mengniu Directors believe that when actual transaction will happen, a goodwill might arise based on the actual facts and circumstances which will result in a financial effect which is materially different from the above.

- 7. The adjustment represents the elimination for the balance of RMB154,968,000 arising from the transaction between Mengniu Group and CMD Group as at 30 June 2016.

- 8. For the purpose of the above Unaudited Pro Forma Financial Information, foreign currency amounts have been translated into RMB at the exchange rates of US\$1.00 to RMB6.6312, and HK\$1.00 to RMB0.85467 prevailing at the close of business on 30 June 2016.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON
THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**



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To the Directors of China Mengniu Dairy Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Mengniu Dairy Company Limited (“**Mengniu**”) and its subsidiaries (hereinafter collectively referred to as the “**Mengniu Group**”) by the directors of Mengniu (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of assets and liabilities as at 30 June 2016, and related notes as set out on section A of Appendix III of the circular dated 16 January 2017 (the “**Circular**”) issued by Mengniu (the “**Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section A of Appendix III.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of Mengniu’s proposed acquisition of China Modern Dairy Holdings Ltd. (“**CMD**”) and its subsidiaries (hereafter collectively referred to as the “**CMD Group**”) (the “**Proposed Acquisition**”) on the financial position of Mengniu Group as at 30 June 2016 as if the transaction had taken place at 30 June 2016. As part of this process, information about the financial position has been extracted by the Directors from each of the financial statements of Mengniu Group and CMD Group for the six months period ended 30 June 2016, on which an independent review report has been published respectively.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of Mengniu Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP
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A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of Mengniu Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of Mengniu Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Certified Public Accountants
Hong Kong

16 January 2017

(A) RESPONSIBILITY STATEMENT

This circular, for which the Mengniu Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Mengniu. The Mengniu Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

The Mengniu Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to Success Dairy II and the CMD Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by Success Dairy II and the CMD Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statements in this circular misleading.

(B) DISCLOSURE OF INTERESTS**Directors' interests and short positions in the Mengniu Shares, underlying shares and debentures of Mengniu or its associated corporations**

As at the Latest Practicable Date, the interests and short positions of each of the directors and the chief executive of Mengniu in the Mengniu Shares, underlying shares and debentures of Mengniu or any of its associated corporations (within the meaning of Part XV of the SFO) (the "**Associated Corporations**") which were required to be notified to Mengniu and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to Mengniu and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Long position in the Mengniu Shares

Name of Director	Mengniu/Name of Associated Corporation	Nature of interest	Total number of ordinary shares	Percentage of Mengniu's/ the Associated Corporation's issued share capital
Bai Ying (白瑛)	Mengniu	Personal Interest	4,937,277 ⁽¹⁾	0.13% ⁽²⁾
	Inner Mongolia Mengniu Dairy (Group) Company Limited	Personal Interest	336,151	0.02%

Notes:

1. It included Mengniu Shares granted to Mr. Bai Ying under the restricted share award scheme and the key management retention plan of Mengniu.
2. The calculation is based on the number of shares as a percentage of the total number of issued Mengniu Shares (i.e. 3,925,027,186 Mengniu Shares) as at the Latest Practicable Date.

Long position in the underlying Mengniu Shares

Name of Director	Number of share options	Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options	Percentage of Mengniu's issued share capital
Executive Director Bai Ying (白瑛)	963,548	10.10.2011	10.10.2015 to 9.10.2018	12.05	0.02%

Note: Save as disclosed above, as at the Latest Practicable Date, none of the directors nor the chief executives of Mengniu had any interests or short positions in any Mengniu Shares, underlying Mengniu Shares or debentures of Mengniu or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to Mengniu and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to Mengniu and the Stock Exchange pursuant to the Model Code.

Save as disclosed below, the Mengniu Directors were not aware of any other Mengniu Director who was a director or employee of a company which had an interest or short position in the Mengniu Shares or underlying Mengniu Shares which would fall to be disclosed to Mengniu under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of Director	Title	Company
Ma Jianping	Vice president	COFCO Corporation
	Deputy managing director	COFCO (Hong Kong) Limited
	Director	China Foods (Holdings) Limited
	Director	COFCO Dairy Holdings Limited
	Director	COFCO Dairy Investments Limited
	Director	Prominent Achiever Limited
	Director	Farwill Limited
Tim Ørting Jørgensen	Director	COFCO Dairy Holdings Limited
	Director	COFCO Dairy Investments Limited
	Director	Prominent Achiever Limited
	Executive vice president	Arla Foods Amba

(C) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Mengniu Directors had any existing or proposed service contract with any member of the Mengniu Group which is not determinable by Mengniu Group within one year without payment of compensation (other than statutory compensation).

(D) LITIGATION

As at the Latest Practicable Date, so far as the Mengniu Directors were aware, no member of the Enlarged Group was engaged in any litigation or arbitration or claim of material importance and the Mengniu Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Enlarged Group.

(E) COMPETING INTERESTS

As at the Latest Practicable Date, none of the Mengniu Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Mengniu Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of Mengniu).

(F) INTEREST IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Mengniu Directors had any interest, directly or indirectly, in any assets which have been, since 31 December 2015 (being the

date to which the latest published audited financial statements of the Enlarged Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

There is no contract or arrangement subsisting as at the date of this circular, in which any of the Mengniu Directors are materially interested and which is significant to the business of the Enlarged Group.

(G) QUALIFICATION AND CONSENTS OF EXPERTS

The names and qualifications of the professional advisers who have been named in this circular or given their opinion or advice which are contained in this circular are set forth below:

Name	Qualification
Ernst & Young	Certified Public Accountants
Deloitte	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

Save as disclosed herein, as at the Latest Practicable Date, the professional advisors above do not have any shareholding in any member of the Mengniu Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Mengniu Group.

(H) MATERIAL CONTRACTS

Except for the Sale and Purchase Agreement, members of the Enlarged Group had entered into the following material contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the Latest Practicable Date:

- (a) the facility agreement dated 4 January 2017 entered into between Mengniu as the borrower and DBS Bank Ltd., Hong Kong Branch as the lender in respect of a US\$650,000,000 term loan facility;
- (b) the equity transfer agreement dated 21 September 2015 entered into between Yashili International Group Limited (“**Yashili Guangdong**”) and Inner Mongolia Mengniu Dairy (Group) Company Limited (“**Mongolia Mengniu**”), a subsidiary of Mengniu, pursuant to which Yashili Guangdong agreed to purchase from Mongolia Mengniu the entire equity interests in Oushi Mengniu International Company Limited for a consideration of RMB1,050 million (equivalent to approximately HK\$1,278 million);

- (c) the equity transfer agreement dated 1 December 2015 entered into between Yashili International Group Limited and Danone Asia Pacific Holdings Pte. Ltd. to acquire the entire equity interests in Dumex China for a consideration of €150 million (equivalent to approximately HK\$1,230 million);
- (d) the share purchase agreement dated 6 July 2015 entered into among CMD, Success Dairy II Limited, Asia Dairy Holdings and Asia Dairy Holdings II, pursuant to which CMD purchased approximately 82% of the total issued share capital of Asia Dairy I and Asia Dairy II, respectively, and CMD, in consideration, issued 477,429,132 ordinary shares to Success Dairy II Limited;
- (e) the Supplemental Deed;
- (f) the June 16 SPA; and
- (g) the supplemental agreement to the June 16 SPA dated 9 December 2016 in which the parties agreed to extend the long stop date of the June 16 SPA to 13 March 2017 or such other date as the parties may agree in writing.

(I) GENERAL

- (a) The address of the registered office of Mengniu is at Maples Corporate Services Limited P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.
- (b) The company secretary of Mengniu is Mr. Kwok Wai Cheong, Chris, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.
- (c) The Hong Kong Branch Share Registrar is at Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

(J) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the principal place of business of Mengniu in Hong Kong at Suites 801-2, 8th Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong, from the date of this circular and up to and including the date of the EGM:

- (a) the memorandum and articles of association of Mengniu;
- (b) the published annual reports of Mengniu Group including the audited accounts for each of the two financial years ending 31 December 2014 and 31 December 2015;
- (c) the accountants' report of CMD Group, the text of which is set out in Appendix II to this circular;
- (d) the letter from Ernst & Young in connection with the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (e) the written consents referred to under the paragraph headed "General Information – Qualifications and Consents of Experts" in this Appendix IV;
- (f) the SPA;
- (g) copies of each of the material contracts referred to under the paragraph headed "General Information – Material Contracts" in this Appendix IV;
- (h) the circular of CMD dated 15 July 2016 in relation to the June 16 SPA which was a discloseable transaction and connected transaction of CMD; and
- (i) this circular.

**CHINA MENGNIU DAIRY COMPANY LIMITED****中國蒙牛乳業有限公司****(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 2319)****NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of China Mengniu Dairy Company Limited (the “**Company**”) will be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 3 February 2017 at 10:00 a.m. to consider and, if thought fit, to pass with or without amendments the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT** (a) the Sale and Purchase Agreement dated 4 January 2017 (the “**SPA**”), a copy of which is marked “A” and signed by the chairman of the EGM for the purpose of identification) entered into between the Company and Success Dairy II Limited with respect to the acquisition of 965,465,750 ordinary shares in China Modern Dairy Holdings Ltd. (stock code: 1117) (“**CMD**”) for a consideration of HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350 (as determined by an agreed exchange rate under the SPA) and all the transactions contemplated thereunder or in relation thereto be and are hereby approved, confirmed and/or ratified (as the case may be); (b) the acquisition of all the outstanding shares in the issued share capital of CMD (other than those already owned or agreed to be acquired by the Company and its concert parties) and the cancellation of all outstanding options of CMD by way of conditional mandatory cash offers (the “**Offers**”) by UBS AG and DBS Asia Capital Limited on behalf of the Company, the details of which are set out in the joint announcement published by the Company and CMD dated 4 January 2017, and all transactions contemplated thereunder or in relation thereto be and are hereby approved, confirmed and/or ratified (as the case may be); and (c) any one or more of the directors and/or the company secretary of the Company be and is/are hereby generally and unconditionally authorized to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and to take such steps as he/they may in his/their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the SPA, the Offers and the transactions contemplated thereunder or in relation thereto.”

By order of the Board
Jeffrey, Minfang Lu
Chief Executive Officer and Executive Director

Hong Kong, 16 January 2017

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. All proxies, together with powers of attorney or other authorities, if any, under which they are signed or notarially certified copies thereof, must be deposited with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 48 hours before the time of the EGM. Completion and delivery of the proxy form will not preclude a member from attending and voting in person at the meeting if he so wishes.
- (2) The register of members of the Company will be closed from Wednesday, 1 February 2017 to Friday, 3 February 2017 both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 27 January 2017.
- (3) Where there are joint registered holders of any issued ordinary share of the Company, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders are present at any meeting personally or by proxy, that the more senior shall alone be entitled to vote in respect of such share of the Company and, for this purpose, seniority shall be determined by the order in which the names of the joint holders stand on the register of the relevant joint holding.