

**THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of the Offers, this Composite Document and/or the accompanying Form(s) of Acceptance or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Modern Dairy Holdings Ltd., you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This Composite Document should be read in conjunction with the accompanying Form(s) of Acceptance, the contents of which form part of the terms and conditions of the Offers contained in this Composite Document.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form(s) of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form(s) of Acceptance.



**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)**



**China Modern Dairy Holdings Ltd.**

中國現代牧業控股有限公司\*

*(Incorporated in the Cayman Islands*

*with limited liability)*

**(Stock Code: 1117)**

**COMPOSITE DOCUMENT RELATING TO THE CONDITIONAL  
MANDATORY CASH OFFERS BY UBS AG AND DBS ASIA CAPITAL  
LIMITED FOR AND ON BEHALF OF CHINA MENGNIU DAIRY COMPANY  
LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA MODERN  
DAIRY HOLDINGS LTD. (OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY CHINA MENGNIU DAIRY COMPANY  
LIMITED AND PARTIES ACTING IN CONCERT WITH IT)  
AND  
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS IN  
CHINA MODERN DAIRY HOLDINGS LTD.**

**Financial Adviser to China Mengniu Dairy Company Limited**



**Joint Financial Adviser to China Mengniu Dairy Company Limited**



**Independent Financial Adviser to the Independent Board Committee**



Capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from UBS and DBS containing, amongst other things, details of the terms and conditions of the Offers is set out on pages 9 to 26 of this Composite Document. A letter from the CMD Board is set out on pages 27 to 35 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the CMD Shareholders and the Optionholders in respect of the Offers is set out on pages 36 to 37 of this Composite Document. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee in respect of the Offers is set out on pages 38 to 64 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out on pages I-1 to I-13 in Appendix I to this Composite Document and in the accompanying Form(s) of Acceptance.

Acceptances of the Share Offer must be received by the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on Tuesday, 7 March 2017 or such later time and/or date as Mengniu may determine and announce with the consent of the Executive, in accordance with the Takeovers Code. Acceptance of the Option Offer must be received by the company secretary of CMD at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong by no later than 4:00 p.m. on Tuesday, 7 March 2017 or such later time and/or date as Mengniu may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form(s) of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "Important Notices" contained in this Composite Document before taking any action. It is the responsibility of each Overseas Holder wishing to accept the Offers to satisfy himself, herself or itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. Overseas Holders are advised to seek professional advice on deciding whether to accept the Offers.

# CONTENTS

	<i>Page</i>
EXPECTED TIMETABLE .....	ii
IMPORTANT NOTICES .....	iv
DEFINITIONS .....	1
LETTER FROM UBS AND DBS .....	9
LETTER FROM THE CMD BOARD .....	27
LETTER FROM THE INDEPENDENT BOARD COMMITTEE .....	36
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER .....	38
APPENDIX I — FURTHER TERMS OF THE OFFERS AND PROCEDURES OF ACCEPTANCE AND SETTLEMENT .....	I-1
APPENDIX II — FINANCIAL INFORMATION OF THE CMD GROUP .....	II-1
APPENDIX III — REPORTS ON THE PROFIT WARNING ANNOUNCEMENT .....	III-1
APPENDIX IV — GENERAL INFORMATION OF THE CMD GROUP .....	IV-1
APPENDIX V — GENERAL INFORMATION OF MENGNIU .....	V-1
APPENDIX VI — DOCUMENTS AVAILABLE FOR INSPECTION .....	VI-1
ACCOMPANYING DOCUMENTS	
— WHITE FORM OF SHARE OFFER ACCEPTANCE	
— PINK FORM OF OPTION OFFER ACCEPTANCE	

## EXPECTED TIMETABLE

*The timetable set out below is indicative and may be subject to changes. Any change to the timetable will be jointly announced by Mengniu and CMD as and when appropriate. All the time and date references contained in this Composite Document and accompanying Forms of Acceptance refer to Hong Kong times and dates.*

Despatch date of this Composite Document and  
the accompanying Form(s) of Acceptance (*Note 1*) . . . . . Tuesday, 14 February 2017

Commencement date of the Offers . . . . . Tuesday, 14 February 2017

Latest time and date for acceptance of the Offers  
on the First Closing Date (*Note 2*) . . . . . By 4:00 p.m. on Tuesday, 7 March 2017

First Closing Date (*Notes 3 and 4*) . . . . . Tuesday, 7 March 2017

Announcement of the results of the Offers as at  
the First Closing Date on the website of the  
Stock Exchange (*Note 3 and 5*) . . . . . By 7:00 p.m. on Tuesday, 7 March 2017

Latest date of posting of remittances in respect of  
valid acceptances received under the Offers  
on or before the First Closing Date  
(assuming the Offers become or are declared unconditional  
on the First Closing Date) (*Note 6*) . . . . . Thursday, 16 March 2017

*Notes:*

- (1) The Offers, which are conditional, are made on 14 February 2017, the date of this Composite Document, and are capable of acceptance on and from that date until 4:00 p.m. on the First Closing Date, unless the Offers become or are declared unconditional.
- (2) Beneficial owners of Offer Shares who hold their Offer Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures. Acceptances of the Offers are irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to the section headed "7. Right of Withdrawal" in Appendix I to this Composite Document for further information on the circumstances where acceptances may be withdrawn.
- (3) In accordance with the Takeovers Code, the Offers must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. The Offers will be closed at 4:00 p.m. on the First Closing Date unless the Offers become or are declared unconditional. An announcement will be jointly issued by CMD and Mengniu through the website of the Stock Exchange by 7:00 p.m. on the First Closing Date, stating the results of the Offers and whether the Offers have become or are declared unconditional. The Option Offer is conditional on the Share Offer becoming or being declared unconditional and will remain open for so long as the Share Offer remains open for acceptance. Unless the Offers become unconditional on or before the First Closing Date, the Offers will not be extended beyond the First Closing Date. The last possible day on which the Offers can become unconditional is the First Closing Date. If the Offers have become or been declared unconditional as to acceptances, the announcement will state the next closing date of the Offers or that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given, before the Offers are closed, to those CMD Shareholders and Optionholders who have not accepted the Offers.

## EXPECTED TIMETABLE

- (4) If there is a tropical cyclone warning signal number 8 or above or a black rainstorm warning signal in force on the Offer Closing Date and it is (i) not cancelled in time for trading on the Stock Exchange to resume in the afternoon on the Offer Closing Date, the time and date of the close of the Offers will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong or such other day as the Executive may approve; or (ii) cancelled in time for trading on the Stock Exchange to resume in the afternoon on the Offer Closing Date, the time and date of the close of the Offers will be the same day, i.e., 4:00 p.m. on the Offer Closing Date.
- (5) In accordance with the Takeovers Code, if the Offers become or are declared unconditional, the Offers should remain open for acceptance for not less than 14 days thereafter. When the Offers become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offers are closed to those CMD Shareholders and Optionholders who have not accepted the Offers. Mengniu has the right, subject to the Takeovers Code, to extend the Offers until such date as it may determine or as permitted by the Executive.
- (6) Remittances in respect of the cash consideration for the Offer Shares (after deducting the sellers' ad valorem stamp duty) or the CMD Options tendered under the Offers will be despatched to the accepting CMD Shareholder(s) (to the address specified on the relevant Shareholder's WHITE Form of Share Offer Acceptance) or the accepting Optionholder(s) (to the company secretary of CMD for collection by the relevant Optionholder(s)) by ordinary post at his/her/its own risk as soon as possible, but in any event within seven (7) Business Days following the later of the date on which the Offers become or are declared unconditional and the date on which the duly completed Forms of Acceptance and the relevant documents of title of the CMD Shares or the CMD Options (as the case may be) are received by the Registrar (in the case of the Share Offer) or the company secretary of CMD (in the case of the Option Offer) to render each of such acceptance of any of the Share Offer or the Option Offer complete and valid. Please refer to the section headed "1. Procedure for Acceptance" and "2. Settlement of the Offers" in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance for further information.

An acceptor of the Offers shall be entitled to withdraw its/his/her acceptance after 21 days from the First Closing Date if the Offers have not by then become unconditional as to acceptances. However, this entitlement to withdraw shall only be exercisable until such time as the Offers become or are declared unconditional as to acceptances. For further details, please refer to Appendix I to this Composite Document.

## IMPORTANT NOTICES

### **NOTICE TO HOLDERS OUTSIDE HONG KONG**

The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Holders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. Mengniu, Mengniu SPV, UBS, DBS and any other person involved in the Offers shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please see the section headed "Overseas Holders" in the "Letter from UBS and DBS".

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Composite Document contains forward-looking statements, which may be identified by words such as "believe", "expect", "anticipate", "intend", "plan", "seek", "estimate", "will", "would" or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. Mengniu, Mengniu SPV and CMD assume no obligation and do not intend to update these forward-looking statements, except as required pursuant to applicable laws.

## DEFINITIONS

*In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:*

“associate(s)”	has the meaning ascribed thereto under the Takeovers Code
“Business Day”	means a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“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 Shareholder(s)”	holder(s) of the CMD Shares
“CMD Shares”	ordinary share(s) of par value HK\$0.10 each in the share capital of CMD
“Composite Document”	this composite offer document and offeree board circular in respect of the Offers jointly despatched to the CMD Shareholders and Optionholders by Mengniu and CMD in accordance with the Takeovers Code
“Concert Parties”	with respect to a party, parties acting in concert with it as such term is defined under the Takeovers Code

## DEFINITIONS

“connected person”	has the meaning ascribed to it in the Listing Rules
“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 SFO, the joint financial adviser to Mengniu in relation to the Offers
“€”	the euro, the official currency of the eurozone
“EGM”	the extraordinary general meeting held at 10:00 a.m. on Friday, 3 February 2017 at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of enabling Mengniu Shareholders to consider and vote to approve the Transaction
“Exchange Rate”	US\$1:HK\$7.7565, being the closing mid-point HK\$ to US\$ “bank buy” and “bank sell” exchange rate of Banknotes 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 the Joint Announcement
“First Closing Date”	7 March 2017, being the first date on which the Offers are permitted to be closed, being 21 days after the date on which this Composite Document is posted
“Form(s) of Acceptance”	the WHITE Form of Share Offer Acceptance and the PINK Form of Option Offer Acceptance accompanying this Composite Document
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

## DEFINITIONS

“Independent Board Committee”	the independent board committee of CMD comprising all the non-executive CMD Directors who have no direct or indirect interest in the Offers other than the holding of the CMD Options to advise and give recommendation to the CMD Shareholders and the Optionholders in respect of the Offers and as to acceptance of the Offers
“Independent Financial Adviser” or “Sommerley Capital”	Sommerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the Offers
“Individuals”	ZUO Weilin (左衛林), YANG Jingchao (楊景超), GUO Hanqing (郭漢卿), SUN Yongping (孫永平) and LIU Yanbin (劉雁斌), with whom CMD on 16 June 2016 entered into the June 16 SPA, as disclosed in CMD’s circular to CMD Shareholders dated 15 July 2016
“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 amount 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 in relation to the Transaction
“June 16 SPA”	a sale and purchase agreement dated 16 June 2016 entered into by CMD and the Individuals pursuant to which a total of 338,602,205 CMD Shares were issued to the wholly-owned entities of the Individuals by CMD as consideration shares at the completion date of such sale and purchase agreement
“Last Trading Day”	3 January 2017, being the last full trading day immediately prior to the date of the Joint Announcement

## DEFINITIONS

“Latest Practicable Date”	10 February 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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)
“Mengniu SPV”	Future Discovery Limited, a wholly-owned subsidiary of Mengniu, and Mengniu’s nominee to receive the Offer Shares from accepting CMD Shareholders
“New CMD Shares”	488,036,618 CMD Shares issued by CMD to Success Dairy II on 6 February 2017 pursuant to the supplemental deed to the share and purchase agreement dated 6 July 2015, entered into by, amongst others, Success Dairy II and CMD as mentioned in the announcement of CMD dated 6 February 2017
“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

## DEFINITIONS

“Offer Closing Date”	the date on which the Offers close, being the First Closing Date or, if the Share Offer becomes or is declared unconditional, the subsequent closing date as Mengniu may determine and announce in compliance with the Takeovers Code and approved by the Executive
“Offer Period”	the period commencing from 4 January 2017, being the date of the Joint Announcement, and ending on the Offer Closing Date
“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 those 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 made by Mengniu in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding CMD Options in accordance with the terms and conditions set out in the Joint Announcement and in the Composite Document
“Option Schemes”	collectively, Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III
“Overseas Holders”	CMD Shareholder(s) and/or Optionholder(s) whose addresses, as shown on the register of members and/or register of Optionholders of CMD, are outside of Hong Kong
“PINK Form of Option Offer Acceptance”	the pink form of acceptance and cancellation of all outstanding CMD Options in respect of the Option Offer
“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 the Composite Document)

## DEFINITIONS

“Profit Warning Announcement”	the profit warning announcement published by CMD dated 6 February 2017
“Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of CMD, situated at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“Relevant Period”	the period commencing 4 July 2016, being the date falling six months before 4 January 2017, being the date of the Joint Announcement, up to and including the Latest Practicable Date
“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
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Offer”	the conditional mandatory cash offer 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
“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

## DEFINITIONS

“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, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
“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, this 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 SFO, 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
“WHITE Form of Share Offer Acceptance”	the white form of acceptance and transfer of Shares in respect of the Share Offer

## DEFINITIONS

1. Certain amounts and percentage figures in this Composite Document have been subject to rounding adjustments.
2. Certain English translations of Chinese names or words or Chinese translations of English names or words in this Composite Document are included for information and identification purposes only and should not be regarded as the official English translation of such Chinese names or words or Chinese translation of such English names or words, respectively.
3. The singular includes the plural and vice versa, unless the context otherwise requires.
4. References to any Appendix, paragraph and any sub-paragraphs of them are references to the Appendices to, and paragraphs of, this Composite Document and any sub-paragraphs of them respectively.
5. References to any statute or statutory provision include a statute or statutory provision which amends, consolidates or replaces the same whether before or after the date of this Composite Document.
6. Reference to one gender is a reference to all or any genders.



14 February 2017

*To the CMD Shareholders and the Optionholders*

Dear Sir/Madam,

**COMPOSITE DOCUMENT RELATING TO THE CONDITIONAL  
MANDATORY CASH OFFERS BY UBS AG AND DBS ASIA CAPITAL  
LIMITED FOR AND ON BEHALF OF CHINA MENGNIU DAIRY COMPANY  
LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA MODERN  
DAIRY HOLDINGS LTD. (OTHER THAN THOSE ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY CHINA MENGNIU DAIRY COMPANY  
LIMITED AND PARTIES ACTING IN CONCERT WITH IT)  
AND  
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS  
IN CHINA MODERN DAIRY HOLDINGS LTD.**

**1. INTRODUCTION**

Reference is made to the Joint Announcement issued by Mengniu and CMD on 4 January 2017 that Mengniu had entered into a sale and purchase agreement with Success Dairy II on the same day, pursuant to which Mengniu has conditionally agreed to acquire and Success Dairy II has conditionally agreed to sell 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 under the SPA represents HK\$1.94 or US\$0.25 per CMD Share at SPA Completion.

As at the date of the Joint Announcement, Success Dairy II held the Existing CMD Shares and the Investor Option. An irrevocable notice to exercise the Investor Option was served on CMD by Success Dairy II on 28 December 2016, which is conditional upon, among other things, Mengniu Shareholders having approved the Transaction at the EGM. Upon the exercise of the Investor Option, CMD shall issue 488,036,618 CMD Shares to Success Dairy II.

On 25 January 2017, 338,602,205 new CMD Shares were issued to the wholly-owned entities of the Individuals by CMD pursuant to the terms of the June 16 SPA. Mengniu Shareholders approved the Transaction by way of ordinary resolution at the EGM held on 3 February 2017. On 6 February 2017, CMD issued 488,036,618 CMD Shares (being the New CMD Shares) to Success Dairy II pursuant to the terms of the Investor Option. In addition, the listing approval of the New CMD Shares was granted by the Stock Exchange on 23 December 2016, and had not been withdrawn as at the Latest Practicable Date.

## LETTER FROM UBS AND DBS

SPA Completion took place on 7 February 2017 whereby the Subject Shares, being an aggregate of 965,465,750 CMD Shares, were transferred by Success Dairy II to Mengniu SPV, as directed by Mengniu.

Immediately following issuance of the New CMD Shares to Success Dairy II and prior to SPA Completion, Success Dairy II beneficially owned an aggregate of 965,465,750 CMD Shares, representing approximately 15.7% of the issued share capital of CMD on a fully diluted basis, while Mengniu and its Concert Parties were interested in 1,347,903,000 CMD Shares, representing approximately 22.0% of the issued share capital of CMD on a fully diluted basis, other than the interest in the Subject Shares under the SPA.

Immediately following the SPA Completion but before the commencement of the Offers, Success Dairy II was not interested in any CMD Shares, while Mengniu and its Concert Parties beneficially owned an aggregate of 2,313,368,750 CMD Shares, representing approximately 37.7% of the issued share capital of CMD as at the Latest Practicable Date. Accordingly, upon the SPA Completion, Mengniu is 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.

This letter forms part of this Composite Document and sets out, among other things, the details of the Offers, certain information of Mengniu and the intention of Mengniu regarding the CMD Group. Further details of the terms and procedures of acceptance of the Offers are set out in Appendix I to this Composite Document, and the accompanying Form(s) of Acceptance. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context otherwise requires.

The CMD Shareholders and the Optionholders are strongly advised to consider carefully the information contained in the "Letter from the CMD Board", "Letter from the Independent Board Committee" and "Letter from the Independent Financial Adviser" as set out in this Composite Document.

## **2. CONDITIONAL MANDATORY CASH OFFERS**

UBS as the financial adviser and DBS as the joint financial adviser are making the Offers for and on behalf of Mengniu to all the CMD Shareholders for all the issued CMD Shares (other than those already owned or agreed to be acquired by Mengniu and its Concert Parties) and to the Optionholders for the cancellation of all outstanding Options

**LETTER FROM UBS AND DBS**

in compliance with Rules 26.1 and 13 of the Takeovers Code respectively, on the following basis:

**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 equivalent to the consideration per CMD Share of HK\$1.94 or US\$0.25 pursuant to the SPA assuming the Investor Option is exercised and as determined using the Exchange Rate.

The CMD Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all Third Party Rights and together with all rights of any nature attaching to them as at the date of despatch of the Composite Document or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of despatch of the Composite Document.

*The Option Offer*

As at the Latest Practicable Date, CMD has adopted the Management Option Scheme, the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III. A CMD Option granted under any and each of the Option Schemes may be exercised in accordance with their respective terms. In addition, under the terms of the Option Schemes, the CMD Options are not assignable, and Optionholders may not in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any CMD Option or purport to do any of the foregoing.

In accordance with the terms of the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III, if a general offer is made to all the CMD Shareholders and the offer becomes or is declared unconditional, the Optionholders are entitled to exercise the CMD Options (to the extent vested but not already exercised) before the expiry of the period of 10 Business Days following the day when the general offer becomes or is declared unconditional. Under the rules of the Management Option Scheme, the relevant CMD Options that remain exercisable but are unexercised may continue to be exercised.

For each CMD Option with exercise  
price below 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

<b>LETTER FROM UBS AND DBS</b>
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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\$0.0001/ US\$0.000013
		HK\$2.83	HK\$0.0001/ US\$0.000013
		HK\$1.52	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 Option Offer will be extended to all eligible Optionholders in accordance with the Takeovers Code.

As at the Latest Practicable Date, there are 6,131,406,706 CMD Shares in issue (of which 2,313,368,750 are held by Mengniu and its Concert Parties) and 315,401,705 CMD Options outstanding conferring rights on the Optionholders to subscribe for CMD Shares. Out of the 315,401,705 CMD Options, there are 215,757,083 CMD Options with exercise prices lower than the Offer Price and 99,644,622 CMD Options with exercise prices higher than the Offer Price. Save for the aforesaid CMD Options, CMD does not have any other outstanding securities, options, warrants or derivatives or convertible rights affecting the CMD Shares, and had not entered into any agreement for the issue of such warrants, options, derivatives or securities as at the Latest Practicable Date.

#### **Conditions to the Offers**

The Share Offer is conditional only upon Mengniu through its nominee, Mengniu SPV, having received acceptances in respect of the CMD Shares which, together with the CMD Shares held by Mengniu and its Concert Parties as at the Latest Practicable Date, will result in Mengniu and its Concert Parties holding more than 50% of the total issued share capital of CMD.

## LETTER FROM UBS AND DBS

The Option Offer is conditional only upon the Share Offer becoming or being declared unconditional.

The last day on which the Offers can become unconditional is the First Closing Date.

### **No Increase and No Extension Statement**

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.

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 they are permitted to be closed.

CMD Shareholders, Optionholders and investors should be aware that, following the making of such statement, Mengniu will not be allowed to increase the Offer Price save in wholly exceptional circumstances, as provided in Rule 18.3 of the Takeovers Code.

### **3. 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 Share Offer. Details of the Non-Accepting Shareholders as at the Latest Practicable Date and such unconditional and irrevocable confirmations and undertakings are set out below:

<b>Non-Accepting Shareholders</b>	<b>Number of CMD Shares held</b>	<b>% of issued CMD Shares</b> <i>(Note)</i>	<b>Details of Non-Acceptance</b>
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 Share Offer and will not tender her CMD Shares for acceptance.

<b>LETTER FROM UBS AND DBS</b>
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<b>Non-Accepting Shareholders</b>	<b>Number of CMD Shares held</b>	<b>% of issued CMD Shares</b> <i>(Note)</i>	<b>Details of Non-Acceptance</b>
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 Share Offer and will not tender its CMD Shares for acceptance. Jinmu's controlling shareholder and sole director is Ms. Lina Gao.
ZUO Weilin (左衛林)	121,638,225	1.98%	As disclosed in CMD's circular to CMD Shareholders dated 15 July 2016, CMD had entered into the June 16 SPA with 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 the June 16 SPA. On 25 January 2017, 338,602,205 new CMD Shares were issued to the wholly-owned entities of the Individuals by CMD in accordance with the terms of the June 16 SPA. Accordingly, the Share Offer will also be extended to these Individuals.
YANG Jingchao (楊景超)	12,163,823	0.20%	
GUO Hanqing (郭漢卿)	119,347,119	1.95%	
SUN Yongping (孫永平)	63,606,424	1.04%	
LIU Yanbin (劉雁斌)	21,846,614	0.36%	

<b>LETTER FROM UBS AND DBS</b>
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<b>Non-Accepting Shareholders</b>	<b>Number of CMD Shares held</b>	<b>% of issued CMD Shares (Note)</b>	<b>Details of Non-Acceptance</b>
			<p>Pursuant to the terms of the June 16 SPA, the Individuals have undertaken to CMD that they will not dispose of the CMD Shares to be issued to them (“<b>Lock-up</b>”) 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 Share Offer.</p>
<b>Total</b>	<b>564,983,938</b>	<b>9.21%</b>	

*Note:* Assuming none of the outstanding CMD Options is exercised.

<b>LETTER FROM UBS AND DBS</b>
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#### 4. VALUE OF THE OFFERS

##### Comparisons of value

The Offer Price of HK\$1.94 per Offer Share represents:

	<b>Market price of CMD Shares <i>HK\$ per CMD Share</i></b>	<b>Premium/ (discount) of the Offer Price to the market price <i>Approximate %</i></b>
Closing price as quoted on the Stock Exchange on 3 January 2017, being the Last Trading Day	1.88	3.2
Average closing price for the five consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Day	1.8760	3.4
Average closing price for the ten consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Day	1.8370	5.6
Average closing price for the 30 consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Day	1.9427	(0.1)
Average closing price for the 60 consecutive trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Day	1.8425	5.3
Closing price as quoted on the Stock Exchange on 10 February 2017, being the Latest Practicable Date	1.95	(0.5)
Audited consolidated net asset value per CMD Share based on 5,304,767,883 CMD Shares in issue as at 31 December 2015	1.67	16.2
Unaudited consolidated net asset value per CMD Share based on 5,304,767,883 CMD Shares in issue as at 30 June 2016	1.54	26.0

## LETTER FROM UBS AND DBS

### Highest and lowest trading prices

During the Relevant Period, being the period commencing six months preceding the commencement of the Offer Period and ending on the Latest Practicable Date, the highest closing price of the CMD Shares as quoted on the Stock Exchange was HK\$2.13 per CMD Share on 29 November 2016 and the lowest closing price of the CMD Shares as quoted on the Stock Exchange was HK\$0.99 per Share on 15 July 2016.

### Value of the Offers

- (i) As at the Latest Practicable Date, there were 6,131,406,706 CMD Shares in issue, and the entire issued share capital of CMD was valued at approximately HK\$11,894,929,010 on the basis of the Offer Price of HK\$1.94 per CMD Share.
- (ii) Assuming that (a) all CMD Shareholders and Optionholders will accept the Offers (excluding the Non-Accepting Shareholders who will not accept or are not in a position to accept the Share Offer); (b) there is no change in the issued share capital of CMD since the Latest Practicable Date, and (c) 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.
- (iii) Assuming that (a) all CMD Shareholders will accept the Share Offer (excluding the Non-Accepting Shareholders who will not accept or are not in a position to accept the Share Offer); (b) all CMD Options are exercised before they lapse prior to the close of the Offers, and (c) 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.

## 5. CONFIRMATION OF FINANCIAL RESOURCES

Mengniu will finance the Offers by internal resources and external debt facilities.

On 4 January 2017, Mengniu as borrower, entered into a facility agreement with DBS Bank Ltd., Hong Kong Branch as lender, where an unsecured term loan facility of US\$650,000,000 was provided to Mengniu to finance the consideration payable under the SPA and the Offers. On 16 January 2017, Mengniu as borrower, entered into another facility agreement with China Merchants Bank Co., Ltd., Hong Kong Branch, where an unsecured term loan facility of HK\$2,000,000,000 was provided to Mengniu for the same purpose. Neither the payment of interest on, nor repayment of any liability (contingent or otherwise) in respect of these two term loan facilities will depend to any significant extent on the business of CMD.

On the basis that (a) all of the outstanding CMD Options are exercised before they lapse prior to the close of the Offers, and (b) all CMD Shares (including CMD Shares issued on the exercise of the CMD Options) are tendered for acceptance by CMD Shareholders under the Share Offer (other than the Non-Accepting Shareholders), the total maximum of cash consideration payable is HK\$6,922,804,103 in respect of 3,568,455,723 CMD Shares.

## LETTER FROM UBS AND DBS

UBS has been appointed as the financial adviser and DBS has been appointed as the joint financial adviser to Mengniu in respect of the Offers. UBS and DBS are satisfied that sufficient resources are available to Mengniu to satisfy the consideration for the full acceptance of the Offers (excluding the CMD Shares owned by the Non-Accepting Shareholders).

### 6. GENERAL MATTERS RELATING TO THE OFFERS

#### **Mengniu SPV to hold the accepted CMD Shares**

Mengniu is making the Offers. Mengniu has nominated Mengniu SPV to be its nominee to be the transferee of and to receive the CMD Shares to be transferred to Mengniu pursuant to the Offers. Mengniu SPV is a wholly-owned subsidiary of Mengniu.

#### **Effect of accepting the Offers**

By validly accepting the Share Offer, the CMD Shareholders will sell to Mengniu their CMD Shares free from all Third Party Rights and together with all rights attaching or accruing to the CMD Shares as at the date of despatch of the Composite Document, including the rights to receive all dividends and distribution declared, made or paid on or after the date of despatch of the Composite Document.

By validly accepting the Option Offer, the outstanding CMD Options tendered by the Optionholders will be cancelled, together with all rights attaching thereto with effect from the date of despatch of the Composite Document. Optionholders should note that under the respective rules of the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III, all CMD Options that remain unexercised (to the extent vested) prior to the earlier of (i) the date of expiry of the option period, or (ii) the last day of the period of 10 Business Days after the date on which the Share Offer becomes or is declared unconditional (i.e., Tuesday, 21 March 2017, if the Share Offer become or is declared unconditional on the First Closing Date), shall lapse. Under the rules of the Management Option Scheme, the relevant CMD Options that remain are exercisable but are unexercised may continue to be exercised.

Acceptance of the Offers shall be irrevocable and shall not be capable of being withdrawn, subject to the Takeovers Code. Please refer to the section headed "7. Right of Withdrawal" in Appendix I to this Composite Document for further information on the circumstances where acceptances may be withdrawn.

## LETTER FROM UBS AND DBS

### **Stamp Duty**

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by the relevant CMD Shareholder at a rate of 0.1% of (i) the market value of the CMD Shares; or (ii) consideration payable by Mengniu in respect of the relevant acceptances of the Share Offer, whichever is higher, and will be deducted from the cash amount payable by Mengniu to the relevant CMD Shareholders accepting the Share Offer. Mengniu will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant CMD Shareholders accepting the Share Offer and will pay its respective portion of the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the CMD Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

No stamp duty is payable in connection with the acceptance of the Option Offer.

### **Payment**

Payment (after deducting the accepting CMD Shareholders' share of ad valorem stamp duty in connection with the Share Offer) in cash in respect of acceptances of the Offers will be made as soon as possible but in any event within seven (7) Business Days following the later of the date on which the Offers become or are declared unconditional and the date on which duly completed Form(s) of Acceptance and the relevant documents of title of the CMD Shares or the CMD Options (as the case may be) are received by Mengniu to render each such acceptance complete and valid.

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. Accepting CMD Shareholders and Optionholders are reminded to exercise caution when electing payment in U.S. dollars, in particular, with respect to their ability to receive U.S. dollars in payment or to deposit U.S. dollar cheques into their bank accounts. Accepting CMD Shareholders and Optionholders are encouraged to consult their stockbrokers and/or banks if in doubt.

No fraction of a cent will be payable and the amount of the consideration payable to a person who accepts the Offers will be rounded up to the nearest cent.

## LETTER FROM UBS AND DBS

### **Return of documents**

If the Offers do not become or are not declared unconditional, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar (in the case of Offer Shares) and/or the company secretary of CMD (in the case of CMD Options) will be returned to the accepting CMD Shareholder(s) (to the address specified on such CMD Shareholder's WHITE Form of Share Offer Acceptance) and the accepting Optionholder(s) (to the company secretary of CMD for collection of such Optionholder(s)) respectively by ordinary post at its/his/her own risk as soon as possible but in any event within ten (10) days after the Offers have lapsed.

### **Taxation advice**

CMD Shareholders and Optionholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offers. None of Mengniu, CMD and their respective directors, officers or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

### **Overseas Holders**

The making of the Offers to persons who are citizens, residents or nationals of jurisdictions outside Hong Kong may be affected by or subject to the laws and regulations of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal, tax and regulatory requirements in their own jurisdictions. It is the responsibility of any Overseas Holders wishing to accept the Offers to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection with the Offers, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities and the payment of any issue, fares, transfer or other taxes due in such jurisdiction.

**Any acceptance by any Overseas Holder will be deemed to constitute a representation and warranty from such Overseas Holder that the local laws and requirements in respect of such Overseas Holder have been complied with. The Overseas Holders should consult their professional advisers if in doubt.**

## **7. ACCEPTANCE AND SETTLEMENT**

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to this Composite Document and the accompanying Form(s) of Acceptance.

<b>LETTER FROM UBS AND DBS</b>
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## 8. INFORMATION OF THE CMD GROUP

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 (Stock Code: 1117). 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 at 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:

	<b>FY2014</b> (Audited) (RMB'000)	<b>FY2015</b> (Audited) (RMB'000)	<b>1HFY2016</b> (Unaudited) (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

The shareholding structure of CMD:

- (i) immediately following issuance of the New CMD Shares to Success Dairy II and prior to SPA Completion;
- (ii) immediately following SPA Completion but before the commencement of the Offers, assuming no CMD Options are exercised; and

## LETTER FROM UBS AND DBS

- (iii) immediately following completion of the Offers, assuming 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)

are as follows:

	Immediately following issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option and prior to SPA Completion <i>(Note 2)</i>		Immediately following SPA Completion but before commencement of the Offers, assuming no CMD Options are exercised		Immediately following the completion of the Offers, assuming 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>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
<b>Substantial Shareholders</b>						
Mengniu and its Concert Parties (excluding Success Dairy II)	1,347,903,000	22.0%	2,313,368,750	37.7%	5,566,422,768	90.8%
Success Dairy II	965,465,750	15.7%	0	0.0%	0	0.0%
Xinmu Holdings Co. Ltd	671,021,025	10.9%	671,021,025	10.9%	0	0.0%
Yinmu Holdings Co. Ltd	446,465,419	7.3%	446,465,419	7.3%	0	0.0%
Jinmu Holdings Co. Ltd	221,581,733	3.6%	221,581,733	3.6%	221,581,733	3.6%
	<i>(Notes 1 &amp; 3)</i>					
<b>Directors and Chief Executive</b>						
Gao, Lina	4,800,000	0.1%	4,800,000	0.1%	4,800,000	0.1%
	<i>(Notes 1 &amp; 3)</i>					
<b>Other Public Shareholders</b>	2,474,169,779	40.4%	2,474,169,779	40.4%	338,602,205	5.5%
	<i>(Notes 2 &amp; 3)</i>					
<b>Total</b>	6,131,406,706	100.0%	6,131,406,706	100.0%	6,131,406,706	100.0%
	<i>(Note 2)</i>					

*Notes:*

- Ms. Lina Gao is the legal and beneficial owner of 4,800,000 CMD Shares. In addition, Ms. Lina Gao holds approximately 49.12% of the interests in Jinmu.
- On 25 January 2017 (which is a date prior to the issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option), 338,602,205 new CMD Shares were issued to the wholly-owned entities of the Individuals by CMD pursuant to the terms of the June 16 SPA, 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 "3. Non-Accepting Shareholders" above.
- Ms. Lina Gao, Jinmu and the Individuals referred to in Note 2 above are the Non-Accepting Shareholders. The number of CMD Shares held by each of the Non-Accepting Shareholders and the details of non-acceptance are set out in the section headed "3. Non-Accepting Shareholders" above.

**9. INFORMATION OF MENGNIU AND MENGNIU SPV**

**(a) 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 (stock code: 2319). The Mengniu Group is one of the leading dairy product 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.

**(b) Mengniu SPV**

Future Discovery Limited is a BVI Business Company incorporated in the British Virgin Islands on 3 January 2017, which is a directly wholly-owned subsidiary of Mengniu. Its main business is to hold the Subject Shares to be transferred from Success Dairy II upon SPA Completion, and to receive the Offer Shares from accepting CMD Shareholders.

**10. REASONS FOR THE TRANSACTION**

**(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

## LETTER FROM UBS AND DBS

Mengniu Group's low-temperature dairy production, strengthening Mengniu Group's leading position in the low-temperature dairy market.

**(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 Latest Practicable Date, Mengniu is CMD's single largest shareholder with a 37.7% 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.

### **11. MENGNIU'S INTENTION ON THE CMD GROUP**

#### **Operational matters, employees and senior management**

After the close of the Offers, Mengniu intends to continue the existing principal business of the CMD Group. Mengniu will conduct a review of the business operations and financial position of the CMD Group with a view to formulating a long term strategy and business plan suited to the CMD Group. No major changes are expected to be introduced in the existing principal business of the CMD Group, including any redeployment of the fixed assets of the 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 the CMD Group or to terminate the employment of any employee or other personnel of the 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. WOLHARDT Julian Juul and Mr. HUI Chi Kin Max will resign as CMD Directors with effect from the First Closing Date or such date as permitted by the Executive. In addition, Success Dairy II has agreed to use reasonable endeavors 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

## LETTER FROM UBS AND DBS

accordance with CMD's 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 CMD shall continue to be compliant with Rule 3.11 of the Listing Rules.

### **Maintenance of the listing status of CMD**

As the Non-Accepting Shareholders have indicated that they will not accept the Share Offer, 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.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to CMD, being 25% of the issued CMD Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the CMD Shares; or (ii) there are insufficient CMD Shares in public hands to maintain an orderly market; it will consider exercising its discretion to suspend dealings in the CMD Shares.

Assuming the Offers become or are declared unconditional in all respects, Mengniu Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares, and the new directors to be appointed to the CMD Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares. 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.

### **12. GENERAL**

This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as which would have been disclosed if this Composite Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

## LETTER FROM UBS AND DBS

To ensure equality of treatment of all CMD Shareholders, those registered CMD Shareholders who hold the Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Share Offer.

The attention of the Overseas Holders is drawn to the section headed "Important Notices" in this Composite Document.

All documents and remittances sent to the CMD Shareholders and the Optionholders by ordinary post will be sent to them at their own risk. Such documents and remittances will be sent to the CMD Shareholders at their respective addresses as they appear in the register of members of CMD or in the case of joint CMD Shareholders, to the CMD Shareholder whose name appears first in the register of members of CMD or, in the case of the Optionholders, to the company secretary of CMD for collection of such Optionholders. None of CMD, Mengniu, UBS, DBS, or any of their respective directors or professional advisers or any other parties involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

### 13. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Composite Document and the accompanying Forms of Acceptance, which form part of this Composite Document. You are reminded to carefully read the "Letter from the CMD Board", the "Letter from the Independent Board Committee", the "Letter from the Independent Financial Adviser" and other information about the CMD Group, which are set out in this Composite Document before reaching a decision as to whether or not to accept the Offers.

Yours faithfully,  
For and on behalf of  
**UBS AG**  
**Samson Lo**  
*Managing Director*

**Jun Luo**  
*Executive Director*

Yours faithfully,  
For and on behalf of  
**DBS Asia Capital Limited**  
**Yip Wei Mun**  
*Executive Director*

**Harry Yu**  
*Senior Vice President*

LETTER FROM THE CMD BOARD



现代牧业

**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

*Executive Directors:*

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

*Registered office:*

Maples Corporate Services Limited  
PO Box 309, Uglan House  
Grand Cayman, KY1-1104  
Cayman Islands

*Non-Executive Directors:*

Mr. YU Xubo (*Chairman*)  
Mr. WOLHARDT Julian Juul  
Mr. HUI Chi Kin, Max  
Mr. ZHANG Ping  
Mr. SUN Yugang

*Principal place of business in Hong Kong:*  
Unit 2402, 24th Floor, Alliance Building  
130-136 Connaught Road Central  
Sheung Wan  
Hong Kong

*Independent Non-Executive Directors:*

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

14 February 2017

*To the CMD Shareholders and the Optionholders*

Dear Sir/Madam,

**CONDITIONAL MANDATORY CASH OFFERS BY UBS AG AND  
DBS ASIA CAPITAL LIMITED FOR AND ON BEHALF OF  
CHINA MENGNIU DAIRY COMPANY LIMITED TO ACQUIRE ALL  
THE ISSUED SHARES IN CHINA MODERN DAIRY HOLDINGS LTD.  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY CHINA MENGNIU DAIRY COMPANY LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)  
AND  
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS IN  
CHINA MODERN DAIRY HOLDINGS LTD.**

**INTRODUCTION**

Reference is made to the Joint Announcement. On 4 January 2017, Mengniu entered into the SPA with Success Dairy II, pursuant to which Mengniu has conditionally agreed

\* For identification purpose only

## LETTER FROM THE CMD BOARD

to acquire and Success Dairy II has conditionally agreed to sell 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 the Joint Announcement, Success Dairy II held the Existing CMD Shares and the Investor Option. An irrevocable notice to exercise the Investor Option was served on CMD by Success Dairy II on 28 December 2016, which is conditional upon, among other things, Mengniu Shareholders having approved the Transaction. 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.

Mengniu Shareholders approved the Transaction by way of ordinary resolution at the EGM. On 6 February 2017, CMD issued the 488,036,618 New CMD Shares to Success Dairy II pursuant to the terms of the Investor Option. Upon such issuance, Success Dairy II owned 965,465,750 CMD Shares, representing 15.7% of the total issued share capital of CMD on a fully diluted basis. In addition, the listing approval of the New CMD Shares has been granted by the Stock Exchange on 23 December 2016, and has not been withdrawn as at the Latest Practicable Date.

SPA Completion took place on 7 February 2017 whereby the Subject Shares were transferred from Success Dairy II to Mengniu SPV, a nominee of Mengniu.

Immediately following the SPA Completion but before the commencement of the Offers, Mengniu and its Concert Parties beneficially owned an aggregate of 2,313,368,750 CMD Shares, representing approximately 37.7% of the issued share capital of CMD as at the Latest Practicable Date. Accordingly, upon the SPA Completion, Mengniu is 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.

The purpose of the Composite Document of which this letter forms part is to provide you with, among other matters, the terms of the Offers, information relating to the CMD Group and Mengniu, as well as to set out (i) the letter from the Independent Board Committee containing its recommendations to the CMD Shareholders and the Optionholders in respect of the Offers; and (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offers.

Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

## LETTER FROM THE CMD BOARD

### THE OFFERS

The “Letter from UBS and DBS” as set out on pages 9 to 26 of the Composite Document contains the information in respect of the Offers and the principal terms of the Offers are extracted below. You are recommended to refer to the “Letter from UBS and DBS”, Appendix I to the Composite Document and the accompanying White Form of Share Offer Acceptance and Pink Form of Option Offer Acceptance for further details.

UBS as the financial adviser and DBS as the joint financial adviser are making the Offers for and on behalf of Mengniu to all the CMD Shareholders for all the issued CMD Shares (other than those already owned or agreed to be acquired by Mengniu and its Concert Parties) and to the Optionholders for the cancellation of all outstanding CMD Options in compliance with Rules 26.1 and 13 of the Takeovers Code respectively, on the following basis:

#### 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 per each Offer Share under the Share Offer is equivalent to the consideration per CMD Share of HK\$1.94 or US\$0.25 pursuant to the SPA, assuming the Investor Option is exercised and as determined using the Exchange Rate.

#### The Option Offer

For each CMD Option with exercise  
price below 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\$0.00013 in cash

The Option Offer will be extended to all eligible Optionholders in accordance with the Takeovers Code.

### INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Mr. SUN Yugang, a non-executive CMD Director, and all the independent non-executive CMD Directors, namely, Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei, was formed to advise the CMD Shareholders and the Optionholders in relation to the terms and conditions of the Offers.

## LETTER FROM THE CMD BOARD

Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. ZHANG, Ping, all of which are non-executive CMD Directors, do not form part of the Independent Board Committee due to their respective interest in the Offers as follows:

- (i) Mr. YU Xubo is currently the president of COFCO Corporation, the controlling shareholder of Mengniu;
- (ii) Mr. WOLHARDT Julian Juul is currently a director of Success Dairy II and he has been a member of KKR Asia Limited, an affiliate of KKR China Growth Fund L.P., a subsidiary of which is New Dairy Investment Ltd, one of the ultimate shareholders of Success Dairy II, until December 31, 2016, and that since January 1, 2017 he has been an advisor of KKR Asia Limited;
- (iii) Mr. HUI Chi Kin Max is currently a managing director of CDH China Management Company Limited, the manager of CDH Fund IV, L.P., which wholly-owns Crown Dairy Holdings Limited, one of the ultimate shareholders of Success Dairy II; and
- (iv) Mr. ZHANG Ping is a member of the senior management of Mengniu.

Somerley Capital has, with the approval of the Independent Board Committee, been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers and in particular as to whether the terms of the Offers are fair and reasonable and as to acceptance pursuant to Rule 2.1 of the Code.

The full texts of the letter from the Independent Board Committee addressed to the CMD Shareholders and the Optionholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee are set out on pages 36 to 37 and pages 38 to 64 respectively in the Composite Document. You are advised to read both letters and the additional information contained in the appendices to the Composite Document carefully before taking any action in respect of the Offers.

### **FURTHER DETAILS OF THE OFFERS**

You are advised to refer to the “Letter from the Independent Financial Adviser” as set out on pages 38 to 64 of the Composite Document, Appendix I of the Composite Document, White Form of Share Offer Acceptance and Pink Form of Option Offer Acceptance for further terms and conditions of the Offers and the procedures for acceptance and settlement of the Offers.

### **INFORMATION OF 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 (Stock Code: 1117). 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 at 30 June 2016,

<b>LETTER FROM THE CMD BOARD</b>
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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 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:

	<b>FY2014</b> (Audited) (RMB'000)	<b>FY2015</b> (Audited) (RMB'000)	<b>1HFY2016</b> (Unaudited) (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

Your attention is drawn to the financial information of CMD Group and the general information of CMD Group as set out in Appendices II and IV to the Composite Document, respectively.

#### **PROFIT WARNING ANNOUNCEMENT AND PROFIT FORECAST**

Reference is made to the Profit Warning Announcement whereby, among others, it was announced that based on the assessment of the unaudited consolidated management accounts of the CMD Group for the year ended 31 December 2016, it is expected that the CMD Group will record a consolidated net loss attributable to the equity holders of CMD of not less than RMB600 million (unaudited consolidated net loss attributable to the equity holders of CMD for the six months ended 30 June 2016: approximately RMB566 million) for the year ended 31 December 2016 (the "**Profit Warning**"), which is mainly attributable to:

- (i) due to the impact of and effect from the import of milk powder in large packs and concentrated milk, the raw milk market condition became harsh and there were difficulties in the sale of raw milk in the first half of 2016, as a result of which part of the raw milk production of the CMD Group was sprayed into dried milk powder, and the selling of all milk powder in stock at market price resulted in losses;
- (ii) the increased expenditure on marketing and sales to respond to the fierce competition in the branded product market and to increase the market share in the branded product market; and

## LETTER FROM THE CMD BOARD

- (iii) a non-cash loss on changes in the fair value less costs to sell of dairy cows of the CMD Group in the year ended 31 December 2016, which is expected to be significantly greater as compared to 2015. This is mainly due to the decline in the raw milk selling price in China in 2016 and the control of the CMD Group on the number of dairy cows in response to the difficulties in the sale of raw milk.

As disclosed in the Profit Warning Announcement, following the publication of the Joint Announcement, pursuant to Rule 10 of the Takeovers Code, the Profit Warning constitutes a profit forecast and must be reported on by CMD's financial advisers and its auditors or accountants. The Profit Warning has been reported on by Deloitte Touche Tohmatsu, the auditors of CMD, and Somerley Capital, the Independent Financial Adviser. Deloitte Touche Tohmatsu has reported that, so far as the accounting policies and calculations are concerned, the Profit Warning has been properly compiled in accordance with the bases adopted by the CMD Board as set out in the Profit Warning Announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the CMD Group and used in the preparation of the audited consolidated financial statements of the CMD Group for the year ended 31 December 2015. Somerley Capital is satisfied that the Profit Warning has been made by the CMD Board with due care and consideration. Your attention is drawn to the reports issued by Deloitte Touche Tohmatsu and Somerley Capital on the statement in the Profit Warning Announcement set out in Appendix III to this Composite Document respectively.

### SHAREHOLDING STRUCTURE OF CMD

The shareholding structure of CMD:

- (i) as at the date of the Joint Announcement;
- (ii) immediately following SPA Completion but before the commencement of the Offers, assuming no CMD Options are exercised; and
- (iii) immediately following completion of the Offers, assuming 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)

## LETTER FROM THE CMD BOARD

are as follows:

	As at the date of the Joint Announcement		Immediately following SPA Completion but before commencement of the Offers, assuming no CMD Options are exercised		Immediately following the completion of the Offers, assuming 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) (Note 2)	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
<b>Substantial Shareholders</b>						
Mengniu and its Concert Parties	1,347,903,000	25.4%	2,313,368,750	37.7%	5,566,422,768	90.8%
Success Dairy II	477,429,132	9.0%	0	0.0%	0	0.0%
Xinmu Holdings Co. Ltd	671,021,025	12.6%	671,021,025	10.9%	0	0.0%
Yinmu Holdings Co. Ltd	446,465,419	8.4%	446,465,419	7.3%	0	0.0%
Jinmu Holdings Co. Ltd	221,581,733	4.2%	221,581,733	3.6%	221,581,733	3.6%
	<i>(Notes 1 &amp; 3)</i>					
<b>Directors and Chief Executive</b>						
GAO, Lina	4,800,000	0.1%	4,800,000	0.1%	4,800,000	0.1%
	<i>(Notes 1 &amp; 3)</i>					
<b>Other Public Shareholders</b>	2,135,567,574	40.3%	2,474,169,779	40.4%	338,602,205	5.5%
<b>Total</b>	5,304,767,883	100.0%	6,131,406,706	100.0%	6,131,406,706	100.0%
			<i>(Note 2)</i>		<i>(Notes 2 &amp; 3)</i>	

*Notes:*

1. Ms. GAO Lina is the legal and beneficial owner of 4,800,000 CMD Shares. In addition, Ms. GAO Lina holds approximately 49.12% of the interests in Jinmu.
2. On 25 January 2017 (which is a date prior to the issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option), 338,602,205 new CMD Shares were issued to the wholly-owned entities of the Individuals by CMD pursuant to the terms of the June 16 SPA, 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" as set out in the "Letter from UBS and DBS".
3. Ms. Lina Gao, Jinmu and the Individuals referred to in Note 2 above are the Non-Accepting Shareholders. The number of CMD Shares held by each of the Non-Accepting Shareholders and the details of non-acceptance are set out in the section headed "Non-Accepting Shareholders" as set out in the "Letter from UBS and DBS".

## LETTER FROM THE CMD BOARD

### INFORMATION ON MENGNIU AND MENGNIU'S INTENTION FOR CMD GROUP

Your attention is drawn to the "Letter from UBS and DBS" and the general information of Mengniu as set out in Appendix V to the Composite Document, respectively for information relating to Mengniu.

The CMD Board is pleased that Mengniu intends that CMD Shares will remain listed on the Stock Exchange immediately after the completion of the Offers and to continue with the existing principal business of CMD Group following the close of the Offers. The CMD Board is also pleased that, other than the proposed changes to the CMD Board as mentioned below, Mengniu has no intention to make material changes to the management of the CMD Group or to terminate the employment of any employee or other personnel of the CMD Group.

### PROPOSED CHANGE OF BOARD COMPOSITION

Your attention is drawn to the section headed "Proposed change of board composition of CMD" in the "Letter from UBS and DBS" as set out on pages 24 to 25 of the Composite Document.

### MAINTAINING THE LISTING STATUS OF CMD

Your attention is drawn to the section headed "Mengniu's Intention on the CMD Group" in the "Letter from UBS and DBS" as set out on pages 24 to 25 of the Composite Document which sets out the intentions of Mengniu regarding CMD Group. According to the "Letter from UBS and DBS", Mengniu intends to maintain the listing of the CMD Shares on the Main Board of the Stock Exchange after completion of the Offers, and assuming the Offers become or are declared unconditional, Mengniu Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares, and the new directors to be appointed to the CMD Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares.

**The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to CMD, being 25% of the issued CMD Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the CMD Shares; or (ii) there are insufficient CMD Shares in public hands to maintain an orderly market; it will consider exercising its discretion to suspend dealings in the CMD Shares.**

### RECOMMENDATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" as set out on pages 36 to 37 of the Composite Document, which sets out its recommendations to the CMD Shareholders and the Optionholders in relation to the Offers; and (ii) the "Letter from the Independent Financial Adviser" as set out on pages 38 to 64 of the Composite Document, which sets out its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its advice.

**LETTER FROM THE CMD BOARD**

**ADDITIONAL INFORMATION**

Your attention is drawn to the “Letter from UBS and DBS”, the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” as set out in the Composite Document, the accompanying White Form of Share Offer Acceptance and Pink Form of Option Offer Acceptance and the additional information as set out in the appendices to, which form part of, the Composite Document.

Yours faithfully,

By order of the board of

**China Modern Dairy Holdings Ltd.**

**Ms. GAO Lina**

*Deputy Chairman, Chief Executive Officer and Executive Director*



现代牧业

**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

14 February 2017

*To the CMD Shareholders and the Optionholders*

Dear Sir/ Madam,

**CONDITIONAL MANDATORY CASH OFFERS BY UBS AG AND  
DBS ASIA CAPITAL LIMITED FOR AND ON BEHALF OF  
CHINA MENGNIU DAIRY COMPANY LIMITED TO ACQUIRE ALL  
THE ISSUED SHARES IN CHINA MODERN DAIRY HOLDINGS LTD.  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE  
ACQUIRED BY CHINA MENGNIU DAIRY COMPANY LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)  
AND  
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS IN  
CHINA MODERN DAIRY HOLDINGS LTD.**

We refer to the Composite Document dated 14 February 2017 jointly issued by Mengniu and CMD, of which this letter forms part. Unless specified otherwise, terms used herein shall have the same meanings as those defined in the Composite Document.

We have been appointed by the CMD Board to form the Independent Board Committee to consider the terms of the Offers and to advise you as to whether, in our opinion, the terms of the Offers are fair and reasonable so far as the CMD Shareholders and the Optionholders are concerned and to make a recommendation as to acceptance of the Offers.

Somerley Capital has been appointed as the Independent Financial Adviser to advise us in respect of the terms of the Offers and as to acceptance of the Offers. Your attention is drawn to the "Letter from the Independent Financial Adviser" as set out in the Composite Document containing its advice to us and the principal factors and reasons taken into account by it in arriving at such advice.

We also wish to draw your attention to the "Letter from UBS and DBS" and "Letter from the CMD Board" as set out in the Composite Document as well as the additional information set out in the appendices to the Composite Document.

\* For identification purpose only

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

### RECOMMENDATION

Having considered the terms of the Offers, the information contained in the Composite Document and the principal factors and reasons considered by, and the independent advice of Somerley Capital, as set out in its letter of advice, we consider that the terms of the Offers are fair and reasonable so far as the CMD Shareholders and the Optionholders are concerned. Accordingly, we recommend the CMD Shareholders and the Optionholders to accept the Offers.

Notwithstanding our recommendation, the CMD Shareholders and the Optionholders should consider carefully the terms of the Offers and then decide whether to accept or not to accept the Offers. You are strongly recommended to read the full text of the “Letter from the Independent Financial Adviser” as set out in the Composite Document.

Yours faithfully,  
For and on behalf of the  
Independent Board Committee  
**Mr. SUN Yugang**  
**Mr. LI Shengli**  
**Mr. LEE Kong Wai Conway**  
**Mr. KANG Yan**  
**Mr. ZOU Fei**

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Set out below is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this composite document.*



### **SOMERLEY CAPITAL LIMITED**

20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

14 February 2017

To: *the Independent Board Committee*

Dear Sirs,

**CONDITIONAL MANDATORY CASH OFFERS BY UBS AG AND DBS ASIA CAPITAL LIMITED FOR AND ON BEHALF OF CHINA MENGNIU DAIRY COMPANY LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA MODERN DAIRY HOLDINGS LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA MENGNIU DAIRY COMPANY LIMITED AND PARTIES ACTING IN CONCERT WITH IT) AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS IN CHINA MODERN DAIRY HOLDINGS LTD.**

### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in relation to the conditional mandatory cash offers by UBS and DBS on behalf of Mengniu to acquire all the issued CMD Shares not already owned or agreed to be acquired by Mengniu and its Concert Parties, and for cancellation of all outstanding CMD Options. Details of the Offers are set out in the Composite Document dated 14 February 2017, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

As set out in the Joint Announcement, Mengniu entered into the SPA, pursuant to which Mengniu has conditionally agreed to acquire and Success Dairy II has conditionally agreed to sell 965,465,750 CMD Shares (being the Subject Shares) for a consideration of HK\$1,873,003,555, representing HK\$1.94 or US\$0.25 per CMD Share at SPA Completion. Further details of the SPA are set out in the Joint Announcement. SPA Completion took place on 7 February 2017 where by the Subject Shares were transferred by Success Dairy II to Mengniu SPV, as directed by Mengniu. Immediately following issuance of the New CMD Shares to Success Dairy II and prior to the SPA Completion, Mengniu and its Concert Parties (other than Success Dairy II) were interested in 1,347,903,000 CMD Shares, representing approximately 22.0% of the then total issued share capital of CMD. Immediately following the SPA Completion but before commencement of the Offers, Mengniu and its Concert Parties beneficially own in aggregate of 2,313,368,750 CMD

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shares, representing approximately 37.7% of the total issued share capital of CMD as at the Latest Practicable Date. Accordingly, upon the SPA Completion, Mengniu is 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.

The Independent Board Committee comprising all non-executive CMD Directors and independent non-executive CMD Directors (who have no direct or indirect interest in the Offers other than the holding of the CMD Options), namely Mr. SUN Yugang, Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei, has been established to advise the CMD Shareholders and the Optionholders as to whether the Offers are fair and reasonable and as to their acceptance. Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. ZHANG Ping, all of whom are non-executive CMD Directors, do not form part of the Independent Board Committee due to their respective interests in the Offers as out in the section headed “Independent Board Committee and Independent Financial Adviser” in the “Letter from the CMD Board” of the Composite Document. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Offers.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and the independent shareholders of Yashili International Holdings Ltd (stock code: 1230) (“Yashili”), a subsidiary of Mengniu, in relation to (a) two major and connected transactions as detailed in Yashili’s circulars dated 29 October 2015 and 3 May 2016 respectively; and (b) continuing connected transaction as detailed in Yashili’s circular dated 23 November 2016. The aforesaid past engagements were limited to providing independent advisory services to the independent board committee and the independent shareholders of Yashili pursuant to the Listing Rules, for which Somerley Capital Limited received normal professional fees. Accordingly, we do not consider the past engagements give rise to any conflict of interest for Somerley Capital Limited in acting as the Independent Financial Adviser.

We are not associated with CMD, Mengniu or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, and except as disclosed above, no arrangement exists whereby we will receive any fees or benefits from CMD, Mengniu or any party acting, or presumed to be acting, in concert with any of them.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the annual report of CMD for the year ended 31 December 2015, and the interim report of CMD for the six months ended 30 June 2016; (iii) the announcements published by CMD on the website of the Stock Exchange since 1 January 2016; and (iv) the material change statement set out in Appendix II to the Composite Document. We have sought and received confirmation from the CMD Directors that no

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the CMD Group or Mengniu Group, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document are true as at the Latest Practicable Date, and that the CMD Shareholders will be notified of any material changes to such representations as soon as reasonably practicable during the Offer Period.

We have not considered the tax and regulatory implications on the CMD Shareholders and the Optionholders of acceptance or non-acceptance of the Offers since these depend on their individual circumstances. In particular, CMD Shareholders and Optionholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, consult their own professional advisers.

**PRINCIPAL TERMS OF THE OFFERS**

**The Share Offer**

UBS as the financial adviser and DBS as the joint financial adviser, are making the Offers, for and on behalf of Mengniu on the following basis:

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 equivalent to the consideration per CMD Share of HK\$1.94 or US\$0.25 pursuant to the SPA, assuming the Investor Option is exercised and as determined using the Exchange Rate.

**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. 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 they are permitted to be closed.**

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### The Option Offer

For each CMD Option with exercise price  
below 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

Further details regarding the Option Offer is set out in the “Letter from UBS and DBS” of the Composite Document.

As at the Latest Practicable Date, there are 6,131,406,706 CMD Shares in issue (of which 2,313,368,750 are held by Mengniu and its Concert Parties) and 315,401,705 outstanding CMD Options conferring rights on the Optionholders to subscribe for CMD Shares. Out of the 315,401,705 CMD Options, there are 215,757,083 CMD Options with exercise prices lower than the Offer Price and 99,644,622 CMD Options with exercise prices higher than the Offer Price.

### Conditions to the Offers

The Share offer is conditional only upon Mengniu through its nominee, Mengniu SPV, having received acceptances in respect of the CMD Shares which, together with the CMD Shares held by Mengniu and its Concert Parties as at the Latest Practicable Date, will result in Mengniu and its Concert Parties holding more than 50% of the total issued share capital of CMD.

The Option Offer will be conditional only upon the Share Offer becoming or being declared unconditional.

The last day on which the Offers can become unconditional is the First Closing Date.

### Non-Accepting Shareholders

As set out in section headed “Non-Accepting Shareholders” in the “Letter from UBS and DBS” of the Composite Document, Mengniu and CMD have received written unconditional and irrevocable confirmations and undertakings from certain CMD Shareholders that they will not accept the Share Offer. As at the Latest Practicable Date, the number of CMD Shares held by the Non-Accepting Shareholders was 564,983,938, representing approximately 9.21% of issued CMD Shares (assuming none of the outstanding CMD Options is exercised). Further details in relation to the Non-Accepting Shareholders are set out abovementioned section of the Composite Document.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendations with regard to the Offers, we have taken into account the following principal factors and reasons:

**1. Information and prospects of the CMD Group**

*(a) Background and information of the CMD Group*

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. As set out in CMD's 2015 annual report, the CMD Group is the largest dairy farming company and the largest producer of raw milk in China in terms of herd size, and is primarily engaged in two business segments: (i) dairy farming business, which mainly involves the production and sales of raw milk to customers for processing into dairy products; and (ii) liquid milk products business under the CMD Group's own brand, which mainly involves the production and sales of liquid milk products.

In July 2015, CMD and Success Dairy II (a joint venture entity ultimately held by New Dairy Investment Ltd and Crown Dairy Holdings Limited, which in turn held by KKR China Growth Fund L.P. and CDH Fund IV, L.P. respectively) entered into, among others, an agreement pursuant to which CMD agreed to purchase certain equity interests in companies engaged in dairy farm operations held by Success Dairy II and the consideration was paid by CMD by issuance of consideration shares (the "**Consideration Shares**"). The share purchase agreement contained a value adjustment mechanism ("**VAM**") in relation to the Consideration Shares, under which if the value of such shares calculated pursuant to the share purchase agreement is less than US\$308 million (the "**Guaranteed Value**") on 21 July 2018, CMD shall compensate Success Dairy II for the difference between the Guaranteed Value and the actual value. As set out in an announcement of CMD dated 12 December 2016, in view of the then market volatility and uncertain market conditions, CMD granted the Investor Option to Success Dairy II to terminate its obligations under VAM at a discounted price to the Guaranteed Value. On 4 January 2017, Mengniu entered into the Sale and Purchase agreement with Success Dairy II to acquire the Subject Shares (comprising the Existing CMD Shares and New CMD Shares issued under the Investor Option) and the Subject Shares were transferred to Mengniu upon SPA Completion, where Mengniu and its Concert Parties beneficially owned approximately 37.7% of the issued share capital of CMD immediately following SPA Completion but before commencement of the Offers. Further details are set out in announcements of CMD dated 6 July 2015, 20 July 2015, 12 December 2016, 21 December 2016, 4 January 2017, 6 February 2017, 7 February 2017 and the Joint Announcement.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Financial information of the CMD Group*

(i) *Financial performance*

The following is an extract of the financial results of the CMD Group (a) for the two years ended 31 December 2014 and 2015 (both of 2014 and 2015 annual results having been extracted from CMD's 2015 annual report); and (b) for the six months ended 30 June 2015 and 2016 (both of 2015 and 2016 interim results having been extracted from CMD's 2016 interim report).

	<b>For the six months ended</b>		<b>For the year ended</b>	
	<b>30 June</b>		<b>31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
<b>Revenue</b>	2,229,110	2,437,320	4,826,341	5,026,706
Cost of sales before biological fair value adjustment	(1,503,741)	(1,548,426)	(3,167,298)	(3,161,345)
Biological fair value adjustment included in cost of sales	(557,307)	(636,944)	(1,203,011)	(1,666,242)
Loss arising from changes in fair value less costs to sell of dairy cows	(499,245)	(199,269)	(474,910)	(329,069)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	557,307	636,944	1,203,011	1,666,242
Other income	40,177	14,708	32,094	40,213
Selling and distribution costs	(136,172)	(67,688)	(194,542)	(111,909)
Administrative expenses	(129,891)	(111,485)	(243,566)	(214,561)
Share of (loss) profit of an associate	(1,583)	1,432	(1,192)	(6,791)
Share of profit of joint ventures	–	2,569	5,782	7,004
Other gains and losses, net	(388,752)	148,733	(107,077)	(209,648)
Other expenses	(3,786)	(2,063)	(5,173)	(4,635)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>(Loss) profit before finance costs and tax</b>	(393,883)	675,831	670,459	1,035,965
Finance costs	(195,790)	(153,917)	(315,078)	(265,601)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>(Loss) profit before tax</b>	(589,673)	521,914	355,381	770,364
Income tax expense	(205)	(14,600)	(11,663)	(7,476)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>(Loss) profit and total comprehensive income for the period/year</b>	<b>(589,878)</b>	<b>507,314</b>	<b>343,718</b>	<b>762,888</b>
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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

	For the six months ended 30 June		For the year ended 31 December	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)	2015 RMB'000 (audited)	2014 RMB'000 (audited)
<b>Attributable to:</b>				
Owners of CMD	(565,668)	476,952	321,296	735,317
Non-controlling interests	<u>(24,210)</u>	<u>30,362</u>	<u>22,422</u>	<u>27,571</u>
<b>(Loss) profit and total comprehensive income for the period/year</b>	<b><u>(589,878)</u></b>	<b><u>507,314</u></b>	<b><u>343,718</u></b>	<b><u>762,888</u></b>
<b>(Loss) earnings per share (RMB)</b>				
Basic	(10.66) cents	9.88 cents	6.37 cents	15.23 cents
Diluted	<u>(10.66) cents</u>	<u>9.80 cents</u>	<u>6.32 cents</u>	<u>15.08 cents</u>

(1) Revenue

The revenue of the CMD Group was generated from two operating segments, namely (a) dairy farming business; and (b) liquid milk products business. Breakdown of the revenue from external sales by the two operating segments is set out below:

	For the six months ended 30 June		For the year ended 31 December	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)	2015 RMB'000 (audited)	2014 RMB'000 (audited)
Sales from dairy farming business	1,573,715	1,647,827	3,324,466	4,194,020
Sales from liquid milk products business	<u>655,395</u>	<u>789,493</u>	<u>1,501,875</u>	<u>832,686</u>
Total revenue	<b><u>2,229,110</u></b>	<b><u>2,437,320</u></b>	<b><u>4,826,341</u></b>	<b><u>5,026,706</u></b>

As set out above, the total revenue of the CMD Group decreased by approximately 4.0% from RMB5,026.7 million for the year ended 31 December 2014 to RMB4,826.3 million for the year ended 31 December 2015. Revenue generated from dairy farming business amounted to approximately RMB4,194.0 million and RMB3,324.5 million for the year ended 31 December 2014 and 2015, accounting for approximately 83.4% and 68.9% of the CMD Group's total revenue respectively. Decrease in revenue from

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

dairy farming business for the year ended 31 December 2015 by approximately 20.7% comparing to that in 2014 was primarily due to decrease in average selling price of CMD's quality raw milk affected by the decrease in raw milk price in the PRC during 2015. Revenue from liquid milk products business increased by approximately 80.4% from approximately RMB832.7 million for the year ended 31 December 2014 to approximately RMB1,501.9 million for the year ended 31 December 2015, which accounted for approximately 16.6% and 31.1% of the CMD Group's total revenue for the years ended 31 December 2014 and 2015 respectively. The strong growth of liquid milk products business was a result of strong market demand for the CMD Group's liquid milk products, attributable to rising demand for high-end dairy products in the relatively safe Chinese market as stated in CMD's 2015 annual report.

For the six months ended 30 June 2016, total revenue of the CMD Group amounted to approximately RMB2,229.1 million, representing a decrease by approximately 8.5% from approximately RMB2,437.3 million for the six months ended 30 June 2015. Dairy farming business remained the major contributor of the CMD Group's revenue for the six months ended 30 June 2016, with its revenue representing approximately 70.6% of the CMD Group's total revenue. Revenue from dairy farming business decreased by approximately 4.5% during the first half of 2016 from the first half of 2015 mainly due to decrease in average selling price of the CMD Group's quality raw milk as a result of the decrease in selling price of raw milk in the PRC. Revenue from liquid milk products business decreased by approximately 17.0% for the six months ended 30 June 2016 compared to the same period in 2015 because of the decrease in volume of liquid milk sold as a result of the impact and effect of imported bulk milk powder and reconstituted milk.

- (2) (Loss) profit and total comprehensive income attributable to owners of CMD

The CMD Group recorded profit and total comprehensive income attributable to owners of CMD of approximately RMB321.3 million for the year ended 31 December 2015, representing a decrease of approximately 56.3% from 2014. The significant decrease was mainly due to (a) the decrease in revenue by approximately RMB200.4 million; (b) the increase in the loss arising from changes in fair value less costs to sell of dairy cows by approximately RMB145.8 million; and (c) the increase in operating expenses (including selling and distribution costs and administrative expenses) in a total of approximately RMB111.6 million, and the effect was partly offset by the gain arising on

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

remeasurement of joint ventures of approximately RMB121.3 million. The loss arising from changes in fair value less costs to sell of dairy cows was mainly attributable to (i) 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 (ii) a decrease in the market selling price of raw milk. The increase in operating expenses was mainly due to the increase in transportation costs as a result of increased sales volume of liquid milk products and increase of management personnels with the enlargement of brand milk scale during the year ended 31 December 2015.

For the six months ended 30 June 2015 and 2016, the CMD Group recorded a profit and total comprehensive income attributable to owners of CMD of approximately RMB477.0 million and a loss and total comprehensive income attributable to owners of CMD of approximately RMB565.7 million respectively. The main reasons for the loss incurred for the six months ended 30 June 2016 include (a) the fair value losses from value adjustment undertakings (i.e. VAM as discussed in the paragraph headed “Background and information of the CMD Group” of this sub-section above) recorded as other net gains and losses amounted to approximately RMB387.8 million incurred during the first half of 2016, and (b) the increase in loss arising from changes in fair value less costs to sell of dairy cows by approximately RMB300.0 million compared to the same period in 2015 mainly attributable to the decrease in selling price of raw milk. Under the VAM, the value of the Consideration Shares will be calculated upon the expiry of the three-year lock-up period according to the agreement and the fair value adjustment (by comparing the value of the Consideration Shares at spot price and US\$308 million (i.e. guaranteed value), in case the value of the Consideration Shares based on the spot price is less than US\$308 million, as stated in CMD’s 2016 interim report) has been recorded as a financial liability with the fair value changes recorded in the profit and loss account. Further details are set out in CMD’s 2016 interim report.

CMD published the Profit Warning Announcement on 6 February 2017 and it was expected that the CMD Group will record a consolidated net loss attributable to equity holders of CMD of not less than RMB600 million for the year ended 31 December 2016 (the “**Profit Warning**”). Further details of the Profit Warning are set out in the Profit Warning Announcement.

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
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(3) (Loss) earnings per share

Basic earnings per share for the year ended 31 December 2014 and 2015 were approximately RMB15.23 cents and RMB6.37 cents respectively and basic loss per share for the six months ended 30 June 2016 was approximately RMB10.66 cents. The Consideration Shares issued by CMD to Success Dairy II as mentioned above increased the number of ordinary shares of CMD at the end of 2015 by approximately 9.9% compared to that at the end of 2014. Other than the increase in number of ordinary shares, the movements in the (loss) earnings per share generally followed the movements of the CMD Group's financial results. Diluted earnings per share for the year ended 31 December 2014 and 2015 were approximately RMB15.08 cents, RMB6.32 cents and diluted loss per share for the six months ended 30 June 2016 was approximately RMB10.66 cents. The calculation of diluted earnings per share has taken into account the effect of share options issued by CMD.

(ii) *Financial position*

Set out below is an extract of the financial position of the CMD Group (a) as at 31 December 2014 and 2015 (both the 2014 and 2015 financial position having been extracted from CMD's 2015 annual report); and (b) as at 30 June 2016 (as extracted from CMD's 2016 interim report).

	<b>As at 30 June 2016 RMB'000 (unaudited)</b>	<b>As at 31 December 2015 RMB'000 (audited)</b>	<b>2014 RMB'000 (audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5,310,139	5,376,897	4,457,970
Land use rights	125,345	120,622	64,868
Goodwill	1,441,494	1,441,494	310,426
Interest in an associate	–	25,076	18,931
Interest in joint ventures	–	–	95,208
Available-for-sale investment	24,955	–	–
Biological assets	7,576,003	7,590,878	6,530,814
	14,477,936	14,554,967	11,478,217

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

	<b>As at 30 June 2016 RMB'000 (unaudited)</b>	<b>As at 31 December 2015 RMB'000 (audited)</b>	<b>2014 RMB'000 (audited)</b>
<b>CURRENT ASSETS</b>			
Inventories	793,211	834,099	640,581
Trade and other receivables	1,204,430	1,097,794	826,772
Land use rights	3,913	3,743	1,667
Pledged bank balances	178,765	183,664	612,909
Cash and bank balances	<u>1,139,694</u>	<u>833,569</u>	<u>556,964</u>
	<u>3,320,013</u>	<u>2,952,869</u>	<u>2,638,893</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	1,986,910	2,012,976	1,403,003
Tax payable	149	281	2,787
Bank borrowings – due within one year	3,079,631	4,825,521	1,858,398
Short-term debenture	997,950	400,000	1,100,000
Other borrowing – due within one year	<u>39,066</u>	<u>–</u>	<u>–</u>
	<u>6,103,706</u>	<u>7,238,778</u>	<u>4,364,188</u>
<b>NET CURRENT LIABILITIES</b>	<u><b>(2,783,693)</b></u>	<u><b>(4,285,909)</b></u>	<u><b>(1,725,295)</b></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u><b>11,694,243</b></u>	<u><b>10,269,058</b></u>	<u><b>9,752,922</b></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	452,959	452,959	415,261
Share premium and reserves	<u>6,775,739</u>	<u>7,328,938</u>	<u>6,094,978</u>
Equity attributable to owners of CMD	7,228,698	7,781,897	6,510,239
Non-controlling interests	<u>119,325</u>	<u>168,135</u>	<u>145,713</u>
	<u>7,348,023</u>	<u>7,950,032</u>	<u>6,655,952</u>

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

	<b>As at</b>	<b>As at 31 December</b>	
	<b>30 June</b>	<b>2015</b>	<b>2014</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings – due after			
one year	815,430	821,730	2,829,450
Medium-term notes	1,795,446	200,000	–
Deferred income	134,895	141,824	120,421
Other financial liabilities	1,543,265	1,155,472	147,099
Other borrowing – due after			
one year	57,184	–	–
	<u>4,346,220</u>	<u>2,319,026</u>	<u>3,096,970</u>
	<b><u>11,694,243</u></b>	<b><u>10,269,058</u></b>	<b><u>9,752,922</u></b>

As at 30 June 2016, the CMD Group's total assets were approximately RMB17,797.9 million. Assets of the CMD Group mainly include (a) biological assets, representing dairy cows held to produce raw milk; and (b) property, plant and equipment. As at 30 June 2016, the CMD Group recorded total liabilities of approximately RMB10,450.0 million, which mainly consisted of (a) bank borrowings; (b) trade and other payables; (c) medium-term notes; and (d) other financial liabilities, i.e. the fair value adjustment of the Consideration Shares as described above. As set out in the section headed "Indebtedness" in Appendix II to the Composite Document, the CMD Group has outstanding borrowings (including bank loans, other loans, corporate bond, medium term notes and short term bills) of approximately RMB6.8 billion as at 31 December 2016.

Net assets value attributable to owners of CMD amounted to approximately RMB7,228.7 million as at 30 June 2016, with a value per ordinary share of approximately RMB1.36 (equivalent to approximately HK\$1.52 per ordinary share, being converted in the exchange rate of RMB1:HK\$1.1142) and calculated based on 5,304,767,883 ordinary shares as at 30 June 2016. The Offer Price of HK\$1.94 per Offer share represents premium of approximately 27.6% over the net assets value attributable to owners of CMD per ordinary share.

*(c) Prospects of the CMD Group*

The executive CMD Directors believe, and as set out in CMD's 2016 interim report, that there will be growth in total domestic consumption of dairy products in the PRC in the long run as a result of urbanisation, increase in per capita income of consumers and implementation of the Two Children Policy in the PRC. It is expected that the implementation of the Two Children Policy will increase the size of the consumer group for dairy products. We note from the website of National Bureau of Statistics of the PRC that there has been growth in per capita disposable income in the PRC from 2013 to 2015. Together with the implementation of the Two Children Policy, it is expected that the spending of consumers on dairy products will increase. On the other hand, the current operating environment of the CMD Group is challenging as a result of the slowdown in the macroeconomic growth of the PRC and intensive competition in the market due to the increased consumption of imported whole milk powder which can be used as a substitute for raw milk for certain dairy products. The CMD Group will continue to maintain the standard and requirement of quality in raw milk and expand the distribution network of its downstream milk products. Following the SPA Completion, Mengniu (together with its Concert Parties)'s shareholdings in CMD increased from approximately 22.0% to 37.7%, remaining as the single largest CMD Shareholder. The Mengniu Group is also a primary customer of the CMD Group and the revenue from sales of raw milk to the Mengniu Group accounted for approximately 48% and 50% of the CMD Group's revenue for the year ended 31 December 2015 and six months ended 30 June 2016 respectively. As set out in the section headed "Financial and trading prospect of the enlarged group" in Appendix I to Mengniu's circular dated 16 January 2017, the Mengniu Group (after completion of the Offers) plans to conduct more efficient distribution of the CMD Group's products as well as drive further integration such as sharing e-commerce resources, joint negotiation for key account channels and cross-selling opportunities. The executive CMD Directors are of the view that the strategic cooperation between the CMD Group and Mengniu Group will be further enhanced through the increase in shareholdings in CMD. Taking into account the above, the executive CMD Directors consider the long term prospect of the CMD Group remains positive and we concur that long-term prospects seem encouraging despite current challenges. Further details on Mengniu's intention on the CMD Group are set out in the sub-section headed "Information on Mengniu Group and Mengniu's intention for the CMD Group" of this letter below.

**2. Information on Mengniu Group and Mengniu's intention for the CMD Group**

The Mengniu Group is one of the leading dairy product 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. Mengniu Shares have been listed on the Main Board of the Stock Exchange since

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2004. Mengniu SPV is a directly wholly-owned subsidiary of Mengniu. Its main business is to hold the Subject Shares to be transferred from Success Dairy II upon SPA Completion, and to receive the Offer Shares from accepting CMD Shareholders.

As set out in the section headed “Mengniu’s intention on the CMD Group” in the “Letter from UBS and DBS” of the Composite Document, after the close of the Offers, Mengniu intends to continue the existing principal business of the CMD Group. Mengniu will conduct a review of the business operations and financial position of the CMD Group with a view to formulating a long term strategy and business plan suited to the CMD Group. No major changes are expected to be introduced in the existing principal business of the CMD Group. Other than proposed changes to the CMD Board as mentioned in the same section of the Composite Document, Mengniu has no intention to make material changes to the management of the CMD Group or to terminate the employment of any employee or other personnel of the CMD Group.

As further stated in the same section of the Composite Document, the CMD Board is currently made up of 11 directors. It is expected that Mr. WOLHARDT Julian Juul and Mr. HUI Chi Kin Max will resign as CMD Directors with effect from the First Closing Date or such date as permitted by the Executive. Success Dairy II has agreed to use reasonable endeavors 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 constitutional documents, the Takeovers Code and the Listing Rules.

### **3. Maintenance of the listing status of CMD**

As set out in the “Letter from UBS and DBS” of the Composite Document, as the Non-Accepting Shareholders have indicated that they will not accept the Share Offer, 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. The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to CMD, being 25% of the issued CMD Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the CMD Shares; or (ii) there are insufficient CMD Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the CMD Shares. Assuming the Offers become or are declared unconditional in all respects, Mengniu Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares, and the new directors to be appointed to the CMD Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The shareholding structure of CMD (i) immediately following issuance of the New CMD Shares to Success Dairy II and prior to SPA Completion; (ii) immediately following SPA Completion but before the commencement of the Offers, assuming no CMD Options are exercised; and (iii) immediately following completion of the Offers, assuming 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) are as follows. Further details regarding the shareholding structure and accompanying notes to the table are set out in section headed “Information of the CMD Group” in the “Letter from UBS and DBS” of the Composite Document.

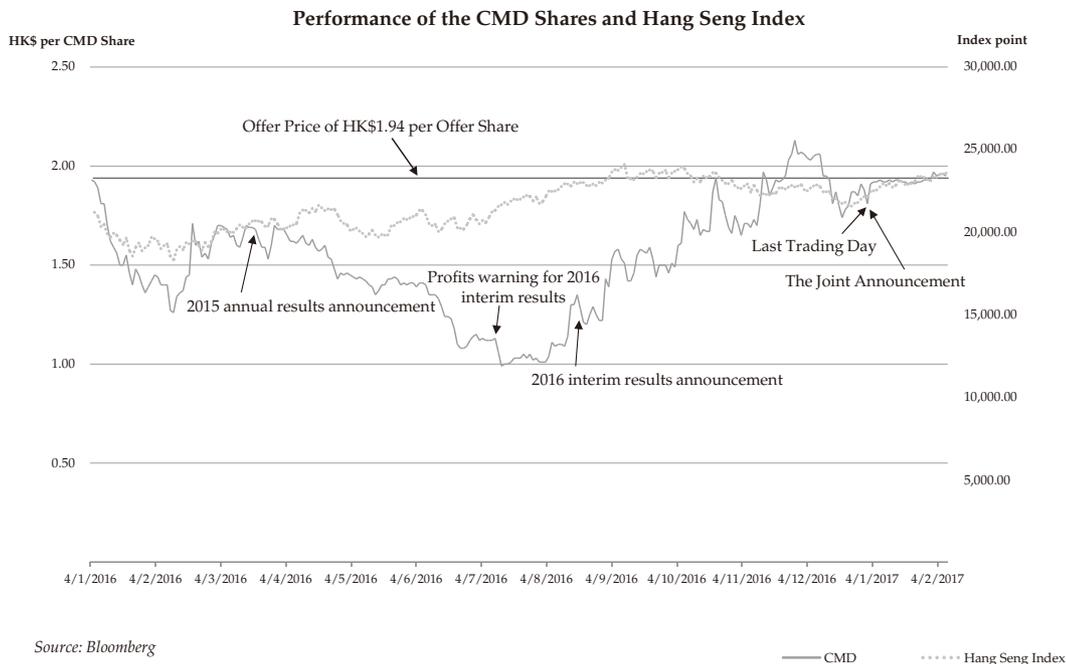
	Immediately following issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option and prior to SPA Completion		Immediately following SPA Completion but before commencement of the Offers, assuming no CMD Options are exercised		Immediately following the completion of the Offers, assuming 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>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
<b>Substantial Shareholders</b>						
Mengniu and its Concert Parties (excluding Success Dairy II)	1,347,903,000	22.0%	2,313,368,750	37.7%	5,566,422,768	90.8%
Success Dairy II	965,465,750	15.7%	0	0.0%	0	0.0%
Xinmu Holdings Co. Ltd	671,021,025	10.9%	671,021,025	10.9%	0	0.0%
Yinmu Holdings Co. Ltd	446,465,419	7.3%	446,465,419	7.3%	0	0.0%
Jinmu Holdings Co. Ltd	221,581,733	3.6%	221,581,733	3.6%	221,581,733	3.6%
<b>Directors and Chief Executive</b>						
Gao, Lina	4,800,000	0.1%	4,800,000	0.1%	4,800,000	0.1%
<b>Other Public Shareholders</b>	<u>2,474,169,779</u>	<u>40.4%</u>	<u>2,474,169,779</u>	<u>40.4%</u>	<u>338,602,205</u>	<u>5.5%</u>
<b>Total</b>	<u><b>6,131,406,706</b></u>	<u><b>100.0%</b></u>	<u><b>6,131,406,706</b></u>	<u><b>100.0%</b></u>	<u><b>6,131,406,706</b></u>	<u><b>100.0%</b></u>

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## 4. Analysis of the Offer Price

### (a) Historical price performance of the CMD Shares

The chart below illustrates the daily closing price per CMD Share and comparison of the CMD Share price performance with the Hang Seng Index on trading days from 1 January 2016, being approximately one year before the date of the Joint Announcement, up to and including the Latest Practicable Date (the “Review Period”).



The Offer Price of HK\$1.94 per Offer Share is above the closing price of the CMD Shares for most of the trading days from 1 January 2016 up to and including the Last Trading Day, except for 15 November 2016 and the period from 24 November 2016 to 13 December 2016. The performance of the CMD Shares was in general poorer than that of the Hang Seng Index before the publication of the Joint Announcement during the Review Period. The CMD Shares closed at HK\$1.88 per CMD Share and HK\$1.81 per CMD Share respectively on 3 January 2017 (being the Last Trading Day) and 4 January 2017 (being the date of the Sale and Purchase Agreement and the Joint Announcement). The Joint Announcement was published before trading hours on 5 January 2017 and the CMD Shares closed at HK\$1.91 per CMD Share on the same day, representing an increase of approximately 5.5% from the previous day. The CMD Shares closed at HK\$1.93 per CMD Share, slightly below the Offer Price, on 3 February 2017. After trading hours on 3 February 2017, Mengniu announced that Mengniu Shareholders approved the Transaction at the EGM. On 6 February 2017 (i.e. the trading day immediately following the announcement of the poll results of the EGM issued by Mengniu), the closing price of the CMD Shares was HK\$1.97 per CMD Share,

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

slightly above the Offer Price. The closing price of the CMD Shares continued to be slightly above the Offer Price starting from 6 February 2017. The CMD Shares closed at HK\$1.95 per CMD Share on the Latest Practicable Date and the Offer Price of HK\$1.94 per Offer Share represents a discount of approximately 0.5% to the closing price on the Latest Practicable Date.

*(b) Share Offer price comparisons*

The Offer Price of HK\$1.94 per Offer Share represents:

- (i) a premium of approximately 3.2% over the closing price of HK\$1.88 per CMD Share as quoted on the Stock Exchange on 3 January 2017 (i.e. the Last Trading Day);
- (ii) a premium of approximately 3.4% over the average closing price of HK\$1.876 per CMD Share for the five consecutive trading days immediately prior to and including the Last Trading Day based on the daily closing prices as quoted on the Stock Exchange;
- (iii) a premium of approximately 5.6% over the average closing price of HK\$1.837 per CMD Share for the ten consecutive trading days immediately prior to and including the Last Trading Day based on the daily closing prices as quoted on the Stock Exchange;
- (iv) a discount of approximately 0.1% to the average closing price of approximately HK\$1.9427 per CMD Share for the thirty consecutive trading days immediately prior to and including the Last Trading Day based on the daily closing prices as quoted on the Stock Exchange;
- (v) a premium of approximately 5.3% over the average closing price of approximately HK\$1.8425 per CMD Share for the sixty consecutive trading days immediately prior to and including the Last Trading Day based on the daily closing prices as quoted on the Stock Exchange; and
- (vi) a discount of approximately 0.5% to the closing price of HK\$1.95 per CMD Share as quoted on the Stock Exchange on the Latest Practicable Date.

As set out above, save as the slight discount of approximately 0.1% to the average closing price of the CMD Shares for the thirty consecutive trading days, the Offer Price of HK\$1.94 per Offer Share represents a premium ranging from approximately 3.2% to 5.6% to the closing prices of the CMD Shares before the Last Trading Day. As set out in the paragraph headed "Financial information of the CMD Group" in the sub-section headed "Information and prospects of the CMD Group" above of this letter, the Offer Price represents a premium of approximately 27.6% over the net assets value attributable to owners of CMD per ordinary share as at 30 June 2016 of approximately HK\$1.52.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### (c) *Trading liquidity*

Set out in the table below are the monthly total trading volumes of the CMD Shares and the percentages of such monthly total trading volumes to the total issued share capital and the public float of CMD during the Review Period:

	<b>Monthly total trading volume of the CMD Shares (Note 1)</b>	<b>Percentage of the monthly total trading volume of the CMD Shares to the total issued CMD Shares (Note 2)</b>	<b>Percentage of the monthly total trading volume of the CMD Shares to public float of CMD (Notes 2 &amp; 3)</b>
<b>2016</b>			
January	161,358,804	3.0%	7.6%
February	197,387,529	3.7%	9.2%
March	130,518,186	2.5%	6.1%
April	82,943,550	1.6%	3.9%
May	156,319,594	2.9%	7.3%
June	264,699,758	5.0%	12.4%
July	284,209,600	5.4%	13.3%
August	547,510,850	10.3%	25.6%
September	399,669,073	7.5%	18.7%
October	365,688,197	6.9%	17.1%
November	446,634,683	8.4%	20.9%
December	281,389,076	5.3%	13.2%
<b>2017</b>			
January	337,068,271	6.0%	13.6%
From 1 February 2017 to the Latest Practicable Date	108,159,969	1.8%	4.4%

*Notes:*

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the CMD Shares divided by the total issued share capital of CMD or the total number of the CMD Shares in public float at the end of each month (or at the Latest Practicable Date for February 2017).
3. The total number of CMD Shares in public float is calculated based on the number of total issued CMD Shares excluding the CMD Shares held by the substantial shareholders and director of CMD at the end of each month (or at the Latest Practicable Date for February 2017).

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above table, the trading volume of the CMD Shares in 2016 has not been consistent, ranging between approximately 1.6% and 10.3% of the total issued CMD Shares, and between approximately 3.9% and 25.6% of the total issued CMD Shares in public hands. As advised by the executive CMD Directors, the more active monthly trading volumes from August to November 2016 ranging between approximately 17.1% to 25.6% of the public float may be attributable to, among other things, improved ratings from investment banks covering CMD because of expected improvement in the industry generally. On 5 January 2017 (i.e. the trading day immediately following the publication of the Joint Announcement), trading volume of the CMD Shares reached approximately 120 million. Trading volume of the CMD Shares in January 2017 was approximately 337.1 million, representing an average daily trading volume of approximately 17.7 million. From 1 February 2017 to the Latest Practicable Date, trading volume of the CMD Shares was approximately 108.2 million, representing an average daily trading volume of approximately 13.5 million. In our opinion, the higher trading volume in January 2017 and February 2017 is likely to be due to the market reaction after the publication of the Joint Announcement.

Given the above, the CMD Shareholders should note that if they wish to sell a significant number of their CMD Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the CMD Shares. The higher level of trading volume subsequent to the Joint Announcement may not be sustainable if the Offers lapse. Therefore, the Offers provides an opportunity for the CMD Shareholders to dispose of their entire holdings at a fixed consideration for cash if they so wish. The CMD Shareholders, who intend to dispose of their CMD Shares, should accept the Share Offer if they are not able to sell the CMD Shares in the market at a price higher than the Offer Price.

### *(d) Peer comparison*

As mentioned in the paragraph headed “Background and information of the CMD Group” in the sub-section headed “Information and prospects of the CMD Group” above of this letter, the CMD Group is a dairy farming company and raw milk producer, and principally engaged in dairy farming (which involves breeding dairy cows to produce and sell raw milk) and liquid milk products production (which involves producing and selling processed liquid milk). As set out in the 2015 annual report of CMD, revenue from sales of raw milk contributed to approximately 69% of the CMD Group’s revenue for the year ended 31 December 2015. Accordingly, we have conducted a search on Bloomberg for companies (the “**Comparable Companies**”) primarily listed on the Main Board of the Stock Exchange where, based on their latest published annual reports available as at the date immediately before the Latest Practicable Date, revenue from dairy farming and sales of raw milk accounted for approximately 50% or more of their total revenue. The Comparable Companies set out in the table below represent all the companies comparable to the Company based on the above criteria.

As mentioned in the paragraph headed “Financial information of the CMD Group” in the sub-section headed “Information and prospects of the CMD Group” above of this letter, the CMD Group recorded a consolidated loss attributable to owners of CMD of approximately RMB565.7 million for the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

six months ended 30 June 2016, compared to a consolidated profit attributable to owners of CMD of approximately RMB477.0 million in 2015. CMD announced the Profit Warning on 6 February 2017 and it was expected that the CMD Group will record a consolidated net loss attributable to the equity holders of CMD of not less than RMB600 million for the year ended 31 December 2016. The 2016 annual results announcement of CMD has not yet been published as at the Latest Practicable Date. We consider that analysis of the Offer Price based on the 2015 annual results of CMD is not meaningful. Alternatively, we have performed an analysis of the Offer Price based on the historical price to book (P/Bs) of the Company and the Comparable Companies. The results are as follows:

<b>Comparable Companies</b>	<b>Closing share price as at the Latest Practicable Date</b>	<b>Net assets value attributable to shareholders per share</b>	<b>Historical P/B</b>
	<i>(HK\$)</i> <i>(Note 1)</i>	<i>(HK\$)</i> <i>(Note 2)</i>	<i>(Approximate times)</i> <i>(Note 3)</i>
China Shengmu Organic Milk Limited (stock code: 1432)	2.08	0.883	2.36
China ZhongDi Dairy Holdings Company Limited (stock code: 1492)	0.90	1.013	0.89
YuanShengTai Dairy Farm Limited (stock code: 1431)	0.54	1.224	0.44
<b>Mean</b>			<b>1.23</b>
<b>The Share Offer</b> <i>(Note 4)</i>			<b>1.28</b>

*Notes:*

1. Closing share price of the Comparable Companies is sourced from Bloomberg.
2. Figures are calculated based on (i) the net assets attributable to shareholders of the Comparable Companies as set out in their respective latest interim report available as at the date immediately before the Latest Practicable Date; and (ii) the number of issued shares as at the respective period end, where figures in Renminbi were translated at an exchange rate of 1 Renminbi = HK\$1.1142.
3. The historical P/Bs of the Comparable Companies are calculated based on their respective net assets value attributable to shareholders per share as set out in note 2 above and their respective closing share price as at the Latest Practicable Date.
4. The implied P/B of the Share Offer is calculated based on the Offer Price of HK\$1.94 per Offer Share and the net assets per CMD Share of approximately HK\$1.52 (translated at an exchange rate of RMB1 = HK\$1.1142) as at 30 June 2016.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the table above, the historical P/B of the Comparable Companies range from approximately 0.44 time to approximately 2.36 times, with an average of approximately 1.23 times. The implied P/B of the Share Offer as discussed above of approximately 1.28 times is within the range and slightly above the mean of the historical P/Bs of the Comparable Companies.

Based on our analysis on the Offer Price as set out in this sub-section, we consider the Offer Price to be fair and reasonable to the CMD Shareholders.

### 5. Mandatory general offers precedents

We have compared the Offer Price to the offer prices of the Comparable Offers (as defined below) of all eleven companies which are listed on the Main Board of the Stock Exchange with their respective market capitalisations over HK\$3 billion as at the date immediately prior to the Latest Practicable Date, and announced a mandatory cash offer (the “Comparable Offers”) during the period from 1 January 2016 and up to the date immediately prior to the Latest Practicable Date.

It should be noted that all the subject companies involved in the Comparable Offers may have different principal activities, market capitalisations and financial positions as compared with those of CMD. Circumstances leading to the offeror to the subject companies to determine the offer prices may also be different from that of CMD. Accordingly, the Comparable Offers are set out for general reference only and do not form a basis for us to assess the fairness of the Offer Price. The table below illustrates the details of the Comparable Offers:

Date of announcement	Company (Stock code)	Market capitalisation as at the date immediately prior to the Latest Practicable Date HK\$'million	Offer price HK\$	Last trading day (the “LTD Price”) %	Premium/(discount) of offer price over/to closing price or average closing share price prior to the announcement of the offer		
					5 days average (the “5 Days Average Price”) %	10 days average (the “10 Days Average Price”) %	30 days average (the “30 Days Average Price”) %
12 December 2016	Yat Sing Holdings Limited (“Yat Sing”) (3708) (Note)	6,120	0.94	(77.18)	(74.83)	(71.88)	(51.42)
17 November 2016	Yida China Holdings Limited (3639)	5,116	2.2	(33.53)	(31.46)	(31.25)	(28.57)
2 November 2016	China Shengmu Organic Milk Limited (1432)	13,281	2.25	(7.41)	(5.46)	0.90	11.39
22 September 2016	Dan Form Holdings Company Limited (271)	3,094	2.75	15.06	27.55	32.08	43.83

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company (Stock code)	Market capitalisation as at the date immediately prior to the Latest Practicable Date HK\$'million	Offer price HK\$	Premium/(discount) of offer price over/to closing price or average closing share price prior to the announcement of the offer			
				Last trading day (the "LTD Price") %	5 days average (the "5 Days Average Price") %	10 days average (the "10 Days Average Price") %	30 days average (the "30 Days Average Price") %
19 August 2016	China Smarter Energy Group Holdings Limited (1004)	6,937	0.33	(35.29)	(36.29)	(38.20)	(42.00)
12 August 2016	Armada Holdings Limited (583)	3,261	1.3459	(30.98)	(29.75)	(27.52)	(21.69)
3 July 2016	China Greenland Rundong Auto Group Limited (1365)	3,332	3.5273	7.9	8.9	12.3	12.7
19 April 2016	Tysan Holdings Limited (687)	5,421	4.53	2.49	2.35	3.05	8.90
15 February 2016	Bestway International Holdings Limited (718)	7,493	0.66	(1.49)	(3.23)	(7.95)	(20.42)
11 January 2016	Mastercraft International Holdings Limited (3966)	3,066	1.5	(20.63)	(10.18)	(4.46)	1.35
4 January 2016	Chiho-Tiande Group Limited (976)	8,471	3.5	(32.3)	(31.7)	(32.1)	(32.2)
			<b>Average</b>	<b>(19.40)</b>	<b>(16.74)</b>	<b>(15.00)</b>	<b>(10.74)</b>
			<b>Maximum</b>	<b>15.06</b>	<b>27.55</b>	<b>32.08</b>	<b>43.83</b>
			<b>Minimum</b>	<b>(77.18)</b>	<b>(74.83)</b>	<b>(71.88)</b>	<b>(51.42)</b>
	<b>CMD</b>		<b>1.94</b>	<b>3.2</b>	<b>3.4</b>	<b>5.6</b>	<b>(0.1)</b>

*Source: Bloomberg and relevant published announcements of the companies for the Comparable Offers*

*Note:* As stated in Yat Sing's announcement dated 12 December 2016, as Mr. Bao Xibin, a party acting in concert with the offeror, has dealt in the Yat Sing's shares within the six-month prior to the commencement of the offer period, the offer price of HK\$0.563 per offer share announced on 27 October 2016 was required to be increased to HK\$0.94 per offer share under Rule 26.3 of the Takeovers Code.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the premia and discounts of offer price over/to the LTD Price, the 5 Days Average Price, the 10 Days Average Price and the 30 Days Average Price of the Comparable Offers show a wide range from the maximum premium of approximately 43.83% to the deepest discount of approximately 77.18%, with the average at a discount ranging from approximately 10.7% to 19.4%. The Offer Price represents a premium ranging from approximately 3.2% to 5.6% over the LTD Price, the 5 Days Average Price and the 10 Days Average Price of the CMD Shares, and a discount of approximately 0.1% to the 30 Days Average Price of the CMD Shares. Such premium and discount are within the range of the Comparable Offers.

### THE OPTION OFFER

A cash offer is being made to the Optionholders under the Option Offer to cancel the outstanding CMD Options, conditional upon the Share Offer becoming or being declared unconditional. As at the Latest Practicable Date, there were 315,401,705 outstanding CMD Options conferring rights on the Optionholders to subscribe for CMD Shares. Details of the offer price per CMD Option under the Option Offer as extracted from the Composite Document are set out below:

CMD Option	Vested	Exercise price per CMD Share	Offer price per CMD Option <i>(HK\$/US\$)<sup>Note</sup></i>
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\$0.0001/ US\$0.000013
		HK\$2.83	HK\$0.0001/ US\$0.000013
		HK\$1.52	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*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Under the Option Offer, for in-the-money CMD Options (i.e. exercise prices of these CMD Options are lower than the Offer Price), the Option Offer price is calculated on a “see-through” basis, being the amount of the Offer Price of HK\$1.94 or US\$0.25, less the exercise prices of such in-the-money CMD Options. For out-of-the-money CMD Options (i.e. exercise prices of these CMD Options are higher than the Offer Price), the “see-through” price of such CMD Options is zero while the offer price for such out-of-the-money CMD Options are at a nominal price of HK\$0.0001/US\$0.000013. The “see-through” principle is normally adopted in Hong Kong for general offers of a similar nature.

Valid acceptance of the Option Offer by the Optionholders will result in the cancellation of those outstanding CMD Options, together with all rights attaching thereto with effect from the date of despatch of the Composite Document. Optionholders should note that under the respective rules of the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III, all CMD Options that remain unexercised (to the extent vested) prior to the earlier of (i) the date of expiry of the option period, or (ii) the last day of the period of 10 Business Days after the date on which the Share Offer becomes or is declared unconditional, shall lapse. Under the rules of the Management Option Scheme, the relevant CMD Options that remain exercisable but are unexercised may continue to be exercised.

### DISCUSSION

The obligation of Mengniu to make the Offers arises from the increase in Mengniu’s stake in CMD from approximately 22.0% to 37.7%, crossing the 30% ‘trigger point’ requiring an offer under the Takeovers Code, to be made at the same price of HK\$1.94 per Share. Mengniu was already the largest shareholder of CMD prior to the transactions, with an over 25% interest, and had influence on CMD’s management through Board representatives.

The CMD Group is the largest dairy farming company and the largest producer of raw milk in China in terms of herd size. However, competition in the dairy industry has increased and growth in revenue has stalled. Profits declined sharply for the year ended 31 December 2015 compared to 2014. For the six months ended 30 June 2016, the CMD Group suffered losses mainly due to declines in the selling price of raw milk and fair value adjustments. On 6 February 2017, CMD issued the Profit Warning as regards its results for the full year 2016. The net assets of the CMD Group as at 30 June 2016 were approximately RMB7.3 billion, and borrowings, debenture and notes (net of cash) were approximately RMB5.5 billion. On this basis, the gearing ratio was approximately 75%, which in our view is relatively high.

The intentions of Mengniu for the CMD Group are summarised in the letter from UBS and DBS. No major changes are expected to the principal activities of the CMD Group but a review of its business operations and financial position will be conducted. Mengniu will maintain the listed status of CMD after the close of the Offers and shareholders holding approximately 9.21% of the share capital have undertaken that they will not accept the Share Offer.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Offer Price of HK\$1.94 per Offer Share generally represents premia of between approximately 3% to 5% over market prices prevailing before the Last Trading Day (3 January 2017). These premia are relatively low and there was a recent period, in November to December 2016, when the closing prices of the CMD Shares were above HK\$1.94 (see chart in sub-section headed "Analysis of the Offer Price" under the section headed "Principal factors and reasons considered" of this letter). As a general reference, we note from the precedents set out in sub-section headed "Mandatory general offers precedents" of this letter that recent mandatory cash offers precedents showed a wide range of premia and discounts to the relative offer prices. The closing market price of the CMD Shares after the Joint Announcement were in general slightly below the Offer Price and were slightly above the Offer Price starting from 6 February 2017. The closing market price of the CMD Shares on the Latest Practicable Date was HK\$1.95 per CMD Share, slightly above the Offer Price. This is to be expected during the currency of a mandatory cash offer and may not remain the case after the close of the Share Offer. The volume of trading in the CMD Shares in 2016 has not been consistent with a minimum of approximately 3.9% to the public float of CMD before issue of the Joint Announcement during the Review Period so the fixed price cash exit (subject to the 50% acceptance condition) under the Share Offer is of value to CMD Shareholders.

As CMD has issued a warning of loss for the year ended 31 December 2016 and its 2016 annual results have not yet been published, it is not possible to calculate a price earnings ratio for CMD at the Offer Price. The price to book (P/B) ratio for CMD at the Offer Price is approximately 1.28 times, slightly above the average for the three Comparable Companies we have identified. The Offer Price represents a premium over the net assets value attributable to owners of CMD per CMD Share as at 30 June 2016 of approximately 27.6%.

CMD Shareholders should bear in mind that the Offer Price is based on negotiations which took place between Mengniu and shareholders independent of Mengniu and is therefore at arm's length. Mengniu is obliged to extend the Share Offer at the same price, so there is no necessary implication that Mengniu does, or does not, wish to acquire further CMD Shares. The premia of the Offer Price to recent market prices is low. However, the Offers come at a time where CMD has just issued a warning that 2016 will see losses and when competition in the dairy market is fierce. Consequently, CMD Shareholders, particularly those who are risk averse, should consider the opportunity to realise their investment at a fixed cash price. CMD Shareholders who are attracted by the long term prospects of the dairy industry in the PRC despite present difficulties may consider keeping some or all of their CMD Shares.

### OPINION AND RECOMMENDATIONS

#### (i) The Share Offer

Based on the above overall principal factors and reasons and as summarised in the section headed "Discussion" above, we consider the terms of the Share Offer, which include a price agreed upon arm's length negotiations with fund investors, are fair and reasonable so far as the CMD Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the CMD Shareholders to accept the Share Offer.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CMD Shareholders should note that the Offer Price of HK\$1.94 per Offer Share represents a slight discount of approximately 0.5% compared to the closing price of the CMD Shares of HK\$1.95 per CMD Share as at the Latest Practicable Date. Starting from 6 February 2017, the closing prices of the CMD Shares have been above the Offer Price. This in our opinion may be influenced by the approval of the Transaction by Mengniu Shareholders at the EGM and by the Offer Price. If the market price of the CMD Shares continues to exceed HK\$1.94 per CMD Share, CMD Shareholders who are inclined to accept the Share Offer should instead sell their CMD Shares in the market if the sales proceeds, net of transaction costs, exceed HK\$1.94 per CMD Share. Those CMD Shareholders who are attracted to the prospects of CMD may consider retaining some or all of their CMD Shares. Such CMD Shareholders may note that the Non-Accepting Shareholders have undertaken that they will not accept the Share Offer. Although Mengniu intends to maintain the listing of CMD, such CMD Shareholders should bear in mind possibility of a temporary suspension in trading of CMD Shares following the close of the Offers if the public float requirement of 25% is not met. As set out in the section headed “Mengniu’s intention on the CMD Group” in the “Letter from UBS and DBS” of the Composite Document, Mengniu Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares, and the new directors to be appointed to the CMD Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares.

CMD Shareholders are reminded to monitor carefully and closely the market price and the liquidity of the CMD Shares during and before the end of the Offer Period.

CMD Shareholders are reminded that the Share Offer is conditional on the 50% control condition and should be alert for an announcement as to whether this condition has been fulfilled.

### **(ii) The Option Offer**

We consider the terms of the Option Offer, which are based on the “see through” principle, to be fair and reasonable so far as the Optionholders are concerned.

For in-the-money CMD Options (i.e. where exercise prices are lower than the Offer Price), Optionholders are recommended to accept the Option Offer. However, as the CMD Share price as at the Latest Practicable Date is slightly above the Offer Price, such Optionholders should monitor closely the CMD Share prices and consider exercising their CMD Options and disposing of the resulting CMD Shares in the open market during the Offer Period, rather than accepting the Option Offer, if the sales proceeds, net of transaction costs, exceed the net amount receivable under the Option Offer.

For out-of-the-money CMD Options (i.e. where exercise prices of these CMD Options are higher than the Offer Price), as the CMD Share price as at the Latest Practicable Date is lower than the exercise prices so that their “see-through” value is zero, we recommend such Optionholders to accept the Option Offer.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Optionholders should consider and are reminded that under the terms and conditions of the Option Schemes (save for the Management Option Scheme), all CMD Options that remain unexercised (to the extent vested) prior to the earlier of (i) the date of expiry of the option period, or (ii) the last day of the period of 10 Business Days after the date on which the Share Offer becomes or is declared unconditional, shall lapse.

### (iii) General

The procedures for acceptance of the Offers are set out in Appendix I to the Composite Document. The latest time and date for acceptance of the Offers on the First Closing Date is 4:00 p.m. on Tuesday, 7 March 2017. CMD Shareholders and Optionholders are urged to read carefully the Composite Document and appendices and act according to the timetable if they wish to accept the Offers. As stated above, they should also monitor the market prices and the liquidity of the CMD Shares and watch for an announcement as to whether the Offers have become unconditional.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**M. N. Sabine**  
*Chairman*

*Mr. M. N. Sabine is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years' experience in the corporate finance industry.*

**1. PROCEDURES FOR ACCEPTANCE****1.1 The Share Offer**

- (a) To accept the Share Offer, you should complete and sign the accompanying WHITE Form of Share Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Share Offer.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your CMD Shares is/are in your name, and you wish to accept the Share Offer in respect of your CMD Shares, you must send the duly completed and signed WHITE Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of CMD Shares in respect of which you intend to accept the Share Offer, by post or by hand, to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in an envelope marked "China Modern Dairy Holdings Ltd. – Share Offer", as soon as possible and in any event no later than 4:00 p.m. on the Offer Closing Date, being the First Closing Date or such later time(s) and/or date(s) as Mengniu may determine and announce in accordance with the Takeovers Code.
- (c) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your CMD Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your holding of CMD Shares (whether in full or in part), you must either:
  - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorizing it to accept the Share Offer on your behalf and requesting it to deliver in an envelope marked "China Modern Dairy Holdings Ltd. – Share Offer" the duly completed and signed WHITE Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (ii) arrange for the CMD Shares to be registered in your name by CMD through the Registrar, and deliver in an envelope marked “China Modern Dairy Holdings Ltd. – Share Offer” the duly completed and signed WHITE Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (iii) if your CMD Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorize HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
  - (iv) if your CMD Shares have been lodged with your investor participant’s account maintained with CCASS, authorize your instruction via the CCASS phone system or CCASS internet system on or before the deadline set out by HKSCC Nominees Limited.
- (d) If the share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your CMD Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your CMD Shares, the WHITE Form of Share Offer Acceptance should nevertheless be completed and delivered in an envelope marked “China Modern Dairy Holdings Ltd. – Share Offer” to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your CMD Shares or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (e) If you have lodged transfer(s) of any of your CMD Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your CMD Shares, you should nevertheless complete and sign the WHITE Form of Share Offer Acceptance and deliver it in an envelope marked "China Modern Dairy Holdings Ltd. – Share Offer" to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Mengniu and/or UBS and/or DBS or their respective agent(s) to collect from CMD or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorize and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the WHITE Form of Share Offer Acceptance.
- (f) Acceptance of the Share Offer will be treated as valid only if the completed and signed WHITE Form of Share Offer Acceptance is received by the Registrar by no later than 4:00 p.m. on the Offer Closing Date, and the Registrar has recorded the WHITE Form of Share Offer Acceptance and any relevant documents required under paragraph (g) below have been so received.
- (g) Acceptance of the Share Offer will not be counted as valid unless the WHITE Form of Share Offer Acceptance is duly completed and signed, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant CMD Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant CMD Shares; or
  - (ii) from a registered CMD Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the CMD Shares which are not taken into account under another sub-paragraph of this paragraph (g)); or
  - (iii) certified by the Registrar or the Stock Exchange.

If the WHITE Form of Share Offer Acceptance is executed by a person other than the registered CMD Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

- (h) No acknowledgement of receipt of any Form(s) of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/ or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (i) If the Share Offer does not become, or is not declared, unconditional as to acceptances on the First Closing Date, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the CMD Shareholders who have accepted the Share Offer by ordinary post at the CMD Shareholders' own risk as soon as possible but in any event within 10 days after the Share Offer has lapsed.

## 1.2 The Option Offer

- (a) To accept the Option Offer, you should complete the PINK Form of Option Offer Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Option Offer.
- (b) Without prejudice to the paragraph headed "Effect of accepting the Offers" in the "Letter from UBS and DBS" contained in this Composite Document and the section headed "5. Lapse of Options" of this Appendix, the completed PINK Form of Option Offer Acceptance should be forwarded, together with the relevant certificate(s) of the CMD Options (if applicable) and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) you intend to tender, stating the number of CMD Options in respect of which you intend to accept the Option Offer, by post or by hand, to the company secretary of CMD at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong, as soon as possible and in any event no later than 4:00 p.m. on the Offer Closing Date, being First Closing Date or such later time(s) and/or date(s) as Mengniu may determine and announce in compliance with the requirements of the Takeovers Code, provided however, no CMD Option shall be capable of acceptance if at the time of acceptance, such CMD Option has lapsed. Please refer to the section headed "5. Lapse of Options" of this Appendix for further information. Optionholders should note that according to the respective rules of the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III, all CMD Options that remain unexercised (to the extent vested) prior to the earlier of (i) the date of expiry of the option period, or (ii) the last day of

the period of 10 Business Days following the date on which the Share Offer, when made in accordance with the terms of this Composite Document, becomes or is declared unconditional, shall lapse. The relevant CMD Options under the Management Option Scheme that remain exercisable but unexercised may continue to be exercised. Optionholders are reminded that acceptance of the Option Offer made in relation to any CMD Option that has lapsed will not render acceptance to be valid. Optionholders are therefore recommended to consult their own professional advisers as to the exercise of the CMD Options pursuant to the rules of the Share Option Schemes, and the implications as to accepting or rejecting the Option Offer.

- (c) If the certificate(s) in respect of your CMD Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Option Offer, the PINK Form of Option Offer Acceptance should nevertheless be completed and signed and delivered to the company secretary of CMD together with a letter stating that you have lost one or more of your option certificate(s) (if applicable) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the company secretary of CMD as soon as possible thereafter. If you have lost your option certificate(s) (if applicable), you should also write to the company secretary of CMD requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of CMD.
- (d) If the certificate(s) in respect of your CMD Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, you must exercise the CMD Options to the extent exercisable as indicated in the section headed "4. Exercise of Options" of this Appendix below, but (i) the relevant exercise notice and cheque for the subscription monies must reach CMD before the Offers close; and (ii) the relevant WHITE Form of Share Offer Acceptance must reach the Registrar on or before 4:00 p.m. on the Offer Closing Date. You should also write to the company secretary of CMD requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the company secretary of CMD.
- (e) No stamp duty will be deducted from the amount paid or payable to Optionholder(s) who accept(s) the Option Offer.
- (f) No acknowledgement of receipt of any PINK Form(s) of Option Offer Acceptance, certificate(s) of the CMD Options (if applicable) and/or any other documents of title (and/or any satisfactory indemnity/indemnities required in respect thereof) will be given.

- (g) If the Share Offer is withdrawn or lapses, the Option Offer will be withdrawn or lapse too. In such case, Mengniu shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the relevant certificate(s) of the CMD Options (if applicable) and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) lodged with the PINK Form of Option Offer Acceptance to the company secretary of CMD for collection of the relevant Optionholders.

## 2. SETTLEMENT OF THE OFFERS

### 2.1 The Share Offer

Subject to the Share Offer becoming or being declared unconditional and provided that a valid WHITE Form of Share Offer Acceptance and the relevant certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar no later than the latest time for acceptance on the Offer Closing Date, a cheque for the amount due to each of the CMD Shareholders who accepts the Share Offer less seller's ad valorem stamp duty in respect of the CMD Shares tendered by it/him/her under the Share Offer will be despatched to such CMD Shareholder by ordinary post at its/ his/her own risk as soon as possible but in any event within seven (7) Business Days following the later of the date of on which the Share Offer becomes or is declared unconditional and the receipt of all the relevant documents by the Registrar to render such acceptance complete and valid.

Settlement of the consideration to which any accepting CMD Shareholder is entitled under the Share Offer will be implemented in full in accordance with the terms of the Share Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which Mengniu may otherwise be, or claim to be, entitled against such accepting CMD Shareholder.

**Accepting CMD Shareholders 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 is deemed to have accepted payment in Hong Kong dollars. Accepting CMD Shareholders are reminded to exercise caution when electing payment in U.S. dollars, in particular, with respect to their ability to receive U.S. dollars in payment or to deposit U.S. dollar cheques into their bank accounts. Accepting CMD Shareholders are encouraged to consult their stockbrokers and/or banks if in doubt.**

No fractions of a cent will be payable and the amount of consideration payable to a CMD Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

## 2.2 The Option Offer

Subject to the Share Offer becoming or being declared unconditional and provided that a valid PINK Form of Option Offer Acceptance and the relevant certificate(s) and/or other document(s) of title in respect of the CMD Options (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the company secretary of CMD no later than the latest time for acceptance on the Offer Closing Date, a cheque for the amount due to each of the Optionholders who accepts the Option Offer in respect of the CMD Options tendered by it/him/her under the Option Offer will be despatched to the company secretary of CMD for such Optionholders' collection at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong by ordinary post at its/his/her own risk as soon as possible but in any event within seven (7) Business Days following the later of the date on which the Share Offer becomes or is declared unconditional and the receipt of all the relevant documents by the company secretary of CMD to render such acceptance complete and valid.

Settlement of the consideration to which any accepting Optionholder is entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which Mengniu may otherwise be, or claim to be, entitled against such accepting Optionholder.

**Accepting 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 Optionholder is deemed to have accepted payment in Hong Kong dollars. Accepting Optionholders are reminded to exercise caution when electing payment in the U.S. dollars, in particular, with respect to their ability to receive U.S. dollars in payment or to deposit U.S. dollar cheques into their bank accounts. Accepting Optionholders are encouraged to consult their stockbrokers and/or banks if in doubt.**

No fractions of a cent will be payable and the amount of consideration payable to an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.

## 3. ACCEPTANCE PERIOD AND REVISIONS

- (a) In order to be valid for the Offers, the WHITE Form of Share Offer Acceptance and PINK Form of Option Offer Acceptance must be received by the Registrar (in respect of the Share Offer) or the company secretary of CMD (in respect of the Option Offer) by 4:00 p.m. on the First Closing Date in accordance with the instructions printed thereon, unless the Offers become or are declared unconditional or have been extended or revised with the consent of the Executive and in accordance with the Takeovers Code. The Offers are

conditional upon Mengniu having received acceptances in respect of the CMD Shares which, together with the CMD Shares Mengniu held as at the Latest Practicable Date, will result in Mengniu and its Concert Parties holding more than 50% of the total issued share capital of CMD.

- (b) Mengniu reserves the right to revise the terms of the Offers after the despatch of this Composite Document until such day as it may determine and in accordance with the Takeovers Code. If Mengniu revises the terms of the Offers, all the CMD Shareholders and the Optionholders, whether or not they have already accepted the Offers, will be entitled to accept the revised Offers under the revised terms.
- (c) If the Offers are extended or revised, an announcement of such extension or revision will state the next closing date or, if the Offers have become unconditional, the announcement may contain a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offers are closed to the CMD Shareholders and the Optionholders who have not accepted the Offers, and an announcement will be released. The revised Offers will be kept open for at least 14 days thereafter.
- (d) Any acceptance of the relevant revised Offers shall be irrevocable unless and until the CMD Shareholders and the Optionholders who accept the Offers become entitled to withdraw their acceptance under the section headed "7. Right of Withdrawal" of this Appendix below and duly do so.

#### 4. EXERCISE OF OPTIONS

Optionholders who wish to accept the Share Offer may (i) exercise his/her/its CMD Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the CMD Options together with a cheque for payment of the subscription monies and the related certificates (if applicable) for the CMD Options to the company secretary of CMD before the Offers close; and (ii) at the same time, or in any event no later than 4:00 p.m. on the Offer Closing Date, complete and sign the WHITE Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to CMD for exercising the CMD Options. Exercise of the CMD Options is subject to the respective terms and conditions of the Option Schemes and the terms attaching to the grant of the relevant CMD Options. Delivery of the completed and signed WHITE Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the CMD Options but will only be deemed to be an irrevocable authority to Mengniu and/or UBS and/or DBS and/or any of their respective agent(s) or such other person(s) as they may direct to collect from CMD or the Registrar on his/her/its behalf the relevant share certificate(s) when issued on exercise of the CMD Options as if it/they were delivered to the Registrar with the WHITE Form of Share Offer Acceptance. If the Optionholder fails to exercise his/her/its CMD Options as aforesaid and in accordance with the respective terms and conditions of the Option Schemes, there is no guarantee that CMD may issue the relevant share certificate in respect of the CMD Shares allotted

pursuant to his/her/its exercise of the CMD Option(s) to such Optionholder in time for it to accept the Share Offer as a CMD Shareholder of such CMD Shares under the terms of the Share Offer.

## 5. LAPSE OF OPTIONS

As referred to in the paragraph headed “Effect of accepting the Offers” in the “Letter from UBS and DBS” contained in this Composite Document, Optionholders should note that under the respective rules of the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III, all CMD Options that remain unexercised (to the extent vested) prior to the earlier of (i) the date of expiry of the option period, or (ii) the last day of the period of 10 Business Days after the date on which the Share Offer becomes or is declared unconditional (i.e., Tuesday, 21 March 2017, if the Share Offer becomes or is declared unconditional on the First Closing Date), shall lapse. Under the rules of the Management Option Scheme, the relevant CMD Options that remain are exercisable but are unexercised may continue to be exercised.

Nothing in this Composite Document or the Option Offer will serve to extend the life of any CMD Option which lapses under the Option Schemes. No exercise of CMD Options or acceptance of the Option Offer may be made in relation to any CMD Option that has lapsed.

## 6. ANNOUNCEMENTS

- (a) By 6:00 p.m. on the Offer Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), Mengniu must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension, expiry or unconditionality of the Offers. Mengniu must post an announcement on the Stock Exchange’s website by 7:00 p.m. on the Offer Closing Date stating, amongst other information required under Rule 19.1 of the Takeovers Code, whether the Offers have been revised, extended, or have expired or have become or been declared unconditional.

The announcement will state the total number of CMD Shares and CMD Options:

- (i) for which acceptances of the Offers have been received;
- (ii) held, controlled or directed by Mengniu or its Concert Parties before the Offer Period; and
- (iii) acquired or agreed to be acquired during the Offer Period by Mengniu and its Concert Parties.

The announcement must include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in CMD which Mengniu and its Concert Parties have borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

The announcement must also specify the percentages of the issued share capital of CMD and the percentages of voting rights of CMD represented by these numbers of CMD Shares.

In computing the total number or principal amount of CMD Shares and CMD Options represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in section 1 of this Appendix, and which have been received by the Registrar (in respect of the Share Offer) or the company secretary of CMD (in respect of the Option Offer) respectively no later than 4:00 p.m. on the Offer Closing Date shall be included.

- (b) As required under the Takeovers Code, all announcements in relation to the Offers which the Executive and the Stock Exchange have confirmed that they have no further comments thereon must be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

## 7. RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offers tendered by the CMD Shareholders and the Optionholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (b) below or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Offers shall be entitled to withdraw its/his/her acceptance after 21 days from the First Closing Date if the Offers have not by then become unconditional as to acceptances. An acceptor of the Offers may withdraw its/his/her acceptance by lodging a notice in writing signed by the acceptor (or its/his/her agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar or the company secretary of CMD, as the case may be.
- (b) If Mengniu is unable to comply with the requirements set out in the section headed "6. Announcements" of this Appendix above, the Executive may require that the CMD Shareholders and the Optionholders who have tendered acceptances to the Offers be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that section are met.

In such case, when any CMD Shareholder(s) and Optionholder(s) withdraw their acceptance(s), Mengniu shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post at its/his/her own risk the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title or the relevant certificate(s) in respect of the CMD Option(s) (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance to the relevant CMD Shareholder(s) and to the company secretary of CMD for collection of such Optionholder(s).

**8. STAMP DUTY**

The seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Share Offer amounting to 0.1% of the amount payable in respect of the relevant acceptance or if higher, the market value of the CMD Shares, will be deducted from the amount payable to the CMD Shareholders who accept the Share Offer. Mengniu will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant CMD Shareholders accepting the Share Offer and will pay its respective portion of the buyer's ad valorem stamp duty (being 0.1% of the amount payable in respect of the relevant acceptance or if higher, the market value of the CMD Shares) in connection with the acceptance of the Share Offer and the transfer of the CMD Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

No stamp duty is payable in connection with the acceptance of the Option Offer.

**9. OVERSEAS HOLDERS**

As the Offers to persons not residing in Hong Kong might be affected by the laws of the relevant jurisdictions in which they are resident, Overseas Holders should obtain information about and observe any applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offers. It is the responsibility of the Overseas Holders who wish to accept the Offers to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

Any acceptance by any Overseas Holders will be deemed to constitute a representation and warranty from such Overseas Holders to Mengniu that the local laws and requirements have been complied with. The Overseas Holders should consult their professional advisers if in doubt.

**10. TAXATION ADVICE**

CMD Shareholders and Optionholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offers. None of Mengniu and/or its Concert Parties, CMD, UBS, DBS and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offers accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

**11. NOMINEE REGISTRATION**

To ensure equality of treatment of all CMD Shareholders and Optionholders, those CMD Shareholders and Optionholders who hold CMD Shares and CMD Options as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. In order for beneficial owners of CMD Shares and CMD Options, whose investments are registered in the names of nominees, to accept the Offers, it is essential that they provide instructions of their intentions with regard to the Offers to their nominees.

**12. GENERAL**

- (a) All communications, notices, Forms of Acceptance, share certificate(s), transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offers to be delivered by or sent to or from the CMD Shareholders and/or the Optionholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of CMD, Mengniu, UBS, DBS and any of their respective directors nor the Registrar or other parties involved in the Offers or any of their respective agents accept any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the WHITE Form of Share Offer Acceptance and PINK Form of Option Offer Acceptance form part of the terms and conditions of the Share Offer and Option Offer, respectively.
- (c) The accidental omission to despatch this Composite Document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate either the Share Offer or the Option Offer in any way.
- (d) The Offers are, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form(s) of Acceptance will constitute an irrevocable authority to Mengniu, UBS, DBS or such person or persons as Mengniu may direct to complete, amend and execute any document on behalf of the person or persons accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in Mengniu, or such person or persons as they may direct, the CMD Shares or the CMD Options in respect of which such person or persons has/have accepted the Offers.
- (f) By accepting the Offers, the CMD Shareholders or the Optionholders will sell their CMD Shares or CMD Options (as the case may be) to Mengniu free from all liens, claims, encumbrances and all third party rights and with all rights attached or accrued thereto as at the date of this Composite Document,

including in the case of the CMD Shares, the right to receive in full all dividends and other distributions, if any, declared, paid or made on or after the date of this Composite Document. The making of the Offers to a person with a registered address in a jurisdiction outside Hong Kong or who is a citizen, resident or national of a jurisdiction outside Hong Kong may be affected by the applicable laws of the relevant jurisdiction. Overseas Holders with registered addresses in jurisdictions outside Hong Kong or who are citizens, residents or nationals of a jurisdiction outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions.

- (g) Acceptance of the Offers by any nominee will be deemed to constitute a warranty by such nominee to Mengniu that the number of CMD Shares or CMD Options in respect of which as indicated in the Form(s) of Acceptance is the aggregate number of CMD Shares or CMD Options held by such nominee for such beneficial owner who is accepting the Offers.
- (h) Any CMD Shareholders or Optionholders accepting the Share Offer or the Option Offer respectively will be responsible for payment of any other transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdictions due by such persons.
- (i) Reference to the Offers in this Composite Document and in the Forms of Acceptance shall include any extension or revision thereof.
- (j) All acceptances, instructions, authorities and undertakings given by the CMD Shareholders and the Optionholders in the Forms of Acceptance shall be irrevocable except as permitted under the Takeovers Code.
- (k) The English text of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese text for the purpose of interpretation.
- (l) In making their decision, CMD Shareholders and Optionholders must rely on their own examination of the CMD Group and the terms of the Share Offer and the Option Offer, respectively, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form(s) of Acceptance, shall not be construed as any legal or business advice on the part of Mengniu, CMD, UBS, DBS, or their respective professional advisers. CMD Shareholders and Optionholders should consult their own professional advisers for professional advice.
- (m) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Share Offer and the Option Offer in Hong Kong and the operating rules of the Stock Exchange.

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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## 1. FINANCIAL SUMMARY

The following is a summary of the consolidated results and financial information of the CMD Group for the year ended 30 June 2013, as extracted from the published financial statements of CMD for the relevant periods.

	<b>Year ended</b> <b>30 June 2013</b> <i>RMB'000</i>
Sales of milk produced	2,480,561
(Loss)/gain arising from changes in fair value less costs to sell of dairy cows	(38,599)
Other income	106,343
Farm operating expenses	(1,655,803)
Employee benefits expense	(170,847)
Depreciation	(135,472)
Share of profit of an associate	3,371
Net foreign exchange gain/(loss)	9,127
Other gains and losses	(2,400)
Other expenses	(92,555)
	503,726
Profit before finance costs and tax	503,726
Finance costs	(153,679)
	350,047
Profit before tax	350,047
Income tax expense	(8,051)
	341,996
Profit and total comprehensive income for the year	341,996
Profit and total comprehensive income for the year attributable to:	
Owners of the Company	323,832
Non-controlling interests	18,164
	341,996
	341,996
Earnings per share (RMB)	
Basic	6.74 cents
Diluted	6.67 cents
	6.67 cents

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

Pursuant to CMD's announcement dated 20 November 2013, the CMD Board decided to change the financial year end date of CMD and the CMD Group from 30 June to 31 December. As the operating subsidiaries of CMD which are incorporated in the PRC 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 those subsidiaries. Accordingly, the consolidated financial information for that period covers a six-month period from 1 July 2013 to 31 December 2013.

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

The following is a summary of the consolidated results and financial information of the CMD Group for the six months ended 31 December 2013 and the two years ended 31 December 2014 and 2015, as extracted from the published financial statements of CMD for the relevant periods, and a summary of the unaudited consolidated results and financial information of the CMD Group for the six months ended 30 June 2016, as extracted from the published financial statements of CMD for the relevant period.

	Six months ended 31 December 2013 <i>RMB'000</i>	Year ended 31 December 2014 <i>RMB'000</i>	Year ended 31 December 2015 <i>RMB'000</i>	Six months ended 30 June 2016 <i>RMB'000</i>
Revenue	1,901,248	5,026,706	4,826,341	2,229,110
Cost of sales before biological fair value adjustment	(1,280,342)	(3,161,345)	(3,167,298)	(1,503,741)
Biological fair value adjustments included in cost of sales	(542,821)	(1,666,242)	(1,203,011)	(557,307)
Loss arising from changes in fair value less costs to sell of dairy cows	(16,408)	(329,069)	(474,910)	(499,245)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	542,821	1,666,242	1,203,011	557,307
Other income	15,902	40,213	32,094	40,177
Selling and distribution costs	(33,595)	(111,909)	(194,542)	(136,172)
Administrative expenses	(84,678)	(214,561)	(243,566)	(129,891)
Share of loss of an associate	(872)	(6,791)	(1,192)	(1,583)
Share of (loss) profit of joint ventures	(287)	7,004	5,782	-
Other gains and losses, net	(37,562)	(209,648)	(107,077)	(388,752)
Other expenses	(769)	(4,635)	(5,173)	(3,786)

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

	Six months ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000	Six months ended 30 June 2016 RMB'000
Profit (loss) before finance costs and tax	462,637	1,035,965	670,459	(393,883)
Finance costs	<u>(113,505)</u>	<u>(265,601)</u>	<u>(315,078)</u>	<u>(195,790)</u>
Profit (loss) before tax	349,132	770,364	355,381	(589,673)
Income tax expense	<u>(5,875)</u>	<u>(7,476)</u>	<u>(11,663)</u>	<u>(205)</u>
Profit (loss) and total comprehensive income for the period/year	<u>343,257</u>	<u>762,888</u>	<u>343,718</u>	<u>(589,878)</u>
Profit (loss) and total comprehensive income attributable to:				
Owners of the Target Company	327,487	735,317	321,296	(565,668)
Non-controlling interests	<u>15,770</u>	<u>27,571</u>	<u>22,422</u>	<u>(24,210)</u>
	<u>343,257</u>	<u>762,888</u>	<u>343,718</u>	<u>(589,878)</u>
Earnings (loss) per share (RMB)				
Basic	6.79 cents	15.23 cents	6.37 cents	(10.66) cents
Diluted	<u>6.72 cents</u>	<u>15.08 cents</u>	<u>6.32 cents</u>	<u>(10.66) cents</u>
Dividends	<u>-</u>	<u>-</u>	<u>49,003</u>	<u>-</u>
Dividends per share (HK\$)	<u>-</u>	<u>-</u>	<u>1.2481 cents</u>	<u>-</u>

The auditor of CMD, Deloitte Touche Tohmatsu, did not issue any qualified opinion on the financial statements of the CMD Group for the year ended 30 June 2013, six months ended 31 December 2013 and two years ended 31 December 2014 and 2015.

There are no exceptional items because of size, nature or incidence that are required to be disclosed in the financial statements of the CMD Group for the year ended 30 June 2013, six months ended 31 December 2013 and two years ended 31 December 2014 and 2015.

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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## 2. LATEST PUBLISHED FINANCIAL INFORMATION

The followings are the consolidated results and financial information of the CMD Group for the two years ended 31 December 2015 and 2014 together with the accompanying notes relating thereto as extracted from the annual reports of CMD for the two years ended 31 December 2015 and 2014, respectively.

### Consolidated Statement of Profit or Loss

*Year ended 31 December 2015*

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

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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	<i>Notes</i>	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
Profit and total comprehensive income attributable to:			
Owners of the Company		321,296	735,317
Non-controlling interests		<u>22,422</u>	<u>27,571</u>
		<u><u>343,718</u></u>	<u><u>762,888</u></u>
Earnings per share (RMB)	13		
Basic		6.37 cents	15.23 cents
Diluted		<u>6.32 cents</u>	<u>15.08 cents</u>

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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**Consolidated Statement of Financial Position**

31 December 2015

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

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

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

**Consolidated Statement of Changes in Equity**

31 December 2015

	Attributable to owners of the Company						Non-controlling interests	Total
	Share capital	Share premium	Other reserve	Share options reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000 <i>(note)</i>	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014	415,261	2,409,936	1,585,752	12,648	1,319,427	5,743,024	117,710	5,860,734
Profit and total comprehensive income for the year	-	-	-	-	735,317	735,317	27,571	762,888
Disposal of a non-wholly owned subsidiary	-	-	-	-	-	-	432	432
Recognition of equity-settled share-based payment <i>(note 30(a) and (b))</i>	-	-	-	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 <i>(note 30(a) and (b))</i>	-	-	-	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 January 2014 represented the contribution from the owners of the Company for the operation of the Group.

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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**Consolidated Statement of Cash Flows**

*Year ended 31 December 2015*

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

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
Operating cash flows before movements in working capital	1,545,293	1,782,158
(Increase) decrease in inventories	(72,055)	36,326
Increase in trade and other receivables	(225,494)	(230,326)
Increase in trade and other payables	211,922	6,584
	1,459,666	1,594,742
Cash generated from operations	1,459,666	1,594,742
Income taxes paid	(17,901)	(13,850)
	1,441,765	1,580,892
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,441,765</b>	<b>1,580,892</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	33,769	7,424
Purchases of property, plant and equipment	(665,892)	(939,237)
Addition in biological assets	(1,372,206)	(1,197,121)
Addition in pledged bank balances	(183,664)	(256,931)
Release of pledged bank balances	612,909	74,557
Proceeds from disposal of property, plant and equipment	7,097	1,414
Purchases of land use rights	(7,013)	–
Proceeds from disposal of dairy cows	416,992	462,071
Net cash inflow on disposal of a subsidiary	–	1,581
Net cash inflow on acquisition of subsidiaries	34 75,173	–
Investment in joint ventures	(66,280)	(55,375)
Government grants received	37,778	7,016
	(1,111,337)	(1,894,601)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,111,337)</b>	<b>(1,894,601)</b>

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid	(317,802)	(274,690)
New borrowings raised	5,033,648	4,623,297
Repayment of borrowings	(4,187,233)	(3,701,947)
Proceeds from issue of short-term debenture	400,000	1,100,000
Proceeds from medium-term notes	200,000	–
Payment of transaction cost for borrowings, short-term debenture and medium-term notes	(33,433)	(45,028)
Repayment of short-term debenture	(1,100,000)	(1,200,000)
Dividends paid to owners of the Company	(49,003)	–
	(53,823)	501,632
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	276,605	187,923
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	556,964	369,041
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, Represented by cash and bank balances</b>	833,569	556,964

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

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

#### **Basis of preparation of the consolidated financial statements**

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

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

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

2. Effective for annual periods beginning on or after 1 January 2019

3. Effective for annual periods beginning on or after 1 January 2016

4. Effective for annual periods beginning on or after a date to be determined

5. Effective for annual periods beginning on or after 1 January 2017

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

#### *IFRS 9 Financial Instruments*

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

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

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

*IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

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

*IFRS 16 Leases*

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The consolidated financial statements have been prepared under the historical cost basis except for: (i) biological assets, which are measured at fair value less costs to sell, and (ii) financial instruments at fair value through profit or loss (“**FVTPL**”), which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

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

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect its returns.

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

**Business combination**

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

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

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

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

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

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

**Goodwill**

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

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

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

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

**Investments in an associate and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

### **Revenue recognition**

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

Revenue from sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

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

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

### **Leasing**

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

#### *The Group as lessee*

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

### **Land use rights**

Land use rights represent the Group's prepaid lease payments for leasehold interest in land. The Group assesses the classification of the leased land as a finance lease or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of the leased land have been transferred to the Group. Based on such assessment, the Group's land use rights are accounted for as operating lease. Land use right are stated at cost and released on a straight-line basis over the lease terms. Land use rights which are to be released in the next twelve months or less are classified as current assets.

### **Intangible assets acquired in a business combination**

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

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

**Foreign currencies**

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

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

**Borrowing costs**

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation.

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

**Government grants**

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

***Grants relating to biological assets***

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

***Other grants***

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

**Retirement benefit costs**

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

**Short-term employee benefits**

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

**Share-based payment transactions***Equity-settled share-based payment transactions**Share options granted to employees*

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

### **Property, plant and equipment**

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

Properties in the course of construction for production, supply or administrative purposes (classified as construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

### **Impairment on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

### **Inventories**

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

**Biological assets**

The Group's biological assets comprise dairy cows. Dairy cows, including milkable cows, heifers and calves, are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resulting gain or loss recognised in profit or loss for the year in which it arises.

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

**Agricultural produce**

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

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

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

***Effective interest method***

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

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

***Loans and receivables***

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

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

***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.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

For trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 120 days, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

### *Financial liabilities and equity*

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

### *Equity instruments*

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

### *Financial liabilities at FVTPL*

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

A financial liability is classified as held for trading if:

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

### *Other Financial liabilities*

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

### *Effective interest method*

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

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

### *Derivative financial instruments*

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

### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. If the Group retains substantially all the risks and rewards of a transferred financial asset, the Group continues to 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, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

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

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated, which is the higher of its value in use and its fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or when there is a downward revision to the estimated future cash flows due to changes in facts and circumstances, further impairment loss may arise.

As at 31 December 2015, the carrying amount of goodwill were RMB1,510,915,000 (31 December 2014: RMB310,426,000), net of accumulated impairment loss of RMB94,392,000 (31 December 2014: nil). Details of the recoverable amount calculation are disclosed in note 16.

**Fair value measurements and valuation processes**

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 5. SEGMENT INFORMATION

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

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

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

#### Segment revenue, results, assets and liabilities

For the year ended 31 December 2015

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

For the year ended 31 December 2014

	Dairy farming RMB'000	Liquid milk products RMB'000	Subtotal RMB'000	Inter-segment elimination* RMB'000	Total RMB'000
Segment revenue	<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>1,316,282</u>
Consolidated assets					<u>14,210,853</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>295,586</u>
Consolidated liabilities					<u>7,554,901</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.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### Other segment information

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

For the year ended 31 December 2015

	<b>Dairy farming</b> <i>RMB'000</i>	<b>Liquid milk products</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Additions to non-current assets ( <i>note</i> )	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	<u>284,702</u>	<u>30,376</u>	<u>315,078</u>

For the year ended 31 December 2014

	<b>Dairy farming</b> <i>RMB'000</i>	<b>Liquid milk products</b> <i>RMB'000</i>	<b>Total</b> <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	<u>263,069</u>	<u>2,532</u>	<u>265,601</u>

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### Revenue from major products

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

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

### Geographic information

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

### Information about major customers

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

## 6. OTHER INCOME

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

Notes:

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 7. PROFIT BEFORE FINANCE COSTS AND TAX

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 8. FINANCE COSTS

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

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

### 9. INCOME TAX EXPENSE

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

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

	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>
Profit before tax	355,381	770,364
Tax at applicable income tax rate at 25%	88,846	192,591
Effect of tax exemption granted to agricultural entities	(79,452)	(191,621)
Tax effect of tax losses not recognised	2,269	6,506
Income tax expense	11,663	7,476

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

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

**10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS**

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

	For the year ended 31 December 2015				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	-	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>

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

	For the 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 ( <i>note ii</i> )	-	-	-	-	-
Mr. Wu Jingshui ( <i>note iii</i> )	-	-	-	-	-
Independent non-executive directors					
Professor Li Shengli	200	-	-	-	200
Mr. Lee Kong Wai Conway	200	-	-	-	200
Mr. Zou Fei ( <i>note iv</i> )	67	-	-	-	67
Mr. Kang Yan	200	-	-	-	200
Mr. Liu Fuchun ( <i>note v</i> )	133	-	-	-	133
	<u>800</u>	<u>4,378</u>	<u>7,277</u>	<u>75</u>	<u>12,530</u>

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

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

*Notes:*

- i. No directors waived or agreed to waive any remuneration during the year ended 31 December 2015 (2014: nil).
- ii. Mr. Ding Sheng, a non-executive director, resigned from his office with effect from 26 June 2014.
- iii. Mr. Wu Jingshui has been appointed as non-executive director with effect from 26 June 2014.
- iv. Mr. Zou Fei has been appointed as independent non-executive director with effect from 25 August 2014.
- v. Mr. Liu Fuchun, an independent non-executive director, resigned from his office with effect from 25 August 2014.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 11. FIVE HIGHEST PAID EMPLOYEES

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

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

No remuneration was paid by the Group to the Directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office (2014: nil).

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

	For the year ended 31 December 2015	For the year ended 31 December 2014
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,500,001 to HK\$3,000,000	1	–
	2	2
	2	2

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

### 12. DIVIDENDS

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

*Note:*

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 13. EARNINGS PER SHARE

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

	For the year ended 31 December 2015 RMB'000	For the year ended 31 December 2014 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	321,296	735,317
	<u>321,296</u>	<u>735,317</u>
	For the year ended 31 December 2015 Shares	For the year ended 31 December 2014 Shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,041,854,854	4,827,338,751
Effect of share options issued by the Company	39,783,628	49,890,418
	<u>5,081,638,482</u>	<u>4,877,229,169</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,081,638,482</u>	<u>4,877,229,169</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
<b>Cost</b>					
Balance at 1 January 2014	3,656,364	32,981	1,037,043	101,365	4,827,753
Additions	–	3,114	151,373	725,876	880,363
Transfer	459,219	–	244,761	(703,980)	–
Disposals	(37,752)	(3,577)	(16,706)	–	(58,035)
Derecognised on disposal of a subsidiary	(56)	(135)	(95)	–	(286)
	<u>4,077,775</u>	<u>32,383</u>	<u>1,416,376</u>	<u>123,261</u>	<u>5,649,795</u>
Balance at 31 December 2014	4,077,775	32,383	1,416,376	123,261	5,649,795
Additions	–	1,171	103,851	819,131	924,153
Acquired in a business combination (note 34)	390,088	823	71,539	23,018	485,468
Transfer	585,122	–	216,311	(801,433)	–
Disposals	(4,176)	(7,110)	(50,269)	–	(61,555)
	<u>5,048,809</u>	<u>27,267</u>	<u>1,757,808</u>	<u>163,977</u>	<u>6,997,861</u>
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>

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

	Buildings <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Plant and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Accumulated depreciation and impairment</b>					
Balance at 1 January 2014	(522,992)	(11,216)	(260,903)	–	(795,111)
Charge for the year	(243,746)	(3,855)	(134,502)	–	(382,103)
Eliminated on disposals of assets	11,211	3,158	13,494	–	27,863
Eliminated on disposal of a subsidiary	28	67	59	–	154
Impairment losses recognised in profit or loss	(41,528)	(15)	(1,085)	–	(42,628)
Balance at 31 December 2014	(797,027)	(11,861)	(382,937)	–	(1,191,825)
Charge for the year	(263,158)	(902)	(209,282)	–	(473,342)
Eliminated on disposals of assets	979	3,278	39,946	–	44,203
Balance at 31 December 2015	<u>(1,059,206)</u>	<u>(9,485)</u>	<u>(552,273)</u>	<u>–</u>	<u>(1,620,964)</u>
<b>Carrying amounts</b>					
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>
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>

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

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

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

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

**15. LAND USE RIGHTS**

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

### 16. GOODWILL

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

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

The recoverable amount of the Modern Farm CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 11.7% (31 December 2014: 13.07%). Cash flows beyond the budgeted period are extrapolated using a 2.50% (31 December 2014: 4.00%) growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the Modern Farm CGU to exceed the aggregate recoverable amount of the Modern Farm CGU. No impairment loss was recognised for the year ended 31 December 2015 (2014: nil).

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

The recoverable amount of the ADH CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets of five years approved by management and discount rate of 11.7%. Cash flows beyond the budgeted period are extrapolated using a 2.50% growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include budgeted sales and operating expenses. Such assumptions are based on the unit's past performance and management's expectations for the market development. An impairment loss of RMB94,392,000 was recognised as at 31 December 2015, being the excess of the carrying amount of the ADH CGU over the recoverable amount of RMB2,211,593,000 determined based on above value in use calculation.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 17. INTEREST IN AN ASSOCIATE

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

Name of company	Place of establishment	Registered and paid-up capital		Proportion of ownership interest		Principal activities
		As at 31 December 2015	As at 31 December 2014	31/12/2015 %	31/12/2014 %	
Qiushi	PRC	RMB147,500,000	RMB118,000,000	14.4	18.0	Planting and sale of forage grass

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

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

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

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

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

	31/12/2015 RMB'000	31/12/2014 RMB'000
Current assets	501,065	373,632
Non-current assets	177,625	115,327
Current liabilities	(442,866)	(326,682)
Non-current liabilities	(60,079)	(57,103)
	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2014 RMB'000</b>
Revenue	331,173	377,217
Loss and total comprehensive loss for the year	(8,209)	(37,723)
Dividend	—	—

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

### 18. INTERESTS IN JOINT VENTURES

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

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

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

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

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

On 23 September 2013, the Company also entered into an agreement (the "JV Agreement II") (the JV Agreement I and the JV Agreement II are collectively referred to as the "JV Agreements") with Success Dairy. Pursuant to the JV Agreement II, the Company and Success Dairy established the ADH II (the ADH I and the ADH II are collectively referred to as the "ADH Companies"), an investment holding company

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

incorporated in the Cayman Islands which indirectly owns Modern Farm (Jinan) Co., Ltd. (現代牧業(濟南)有限公司), a subsidiary established in the PRC. The principal activities of the JV Company II and its subsidiaries are dairy farming operation in Shandong province, the PRC. According to the JV Agreement II, the Group owned 18% equity interests and Success Dairy owned the remaining 82% equity interests of the JV Company II.

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

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

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

- (i)  $((\text{Market capitalization of the Company} + \text{Company net debt}) / \text{Company last twelve months (the “LTM”)} \text{Cash EBITDA} \times 0.8 \times \text{ADH Companies LTM Cash EBITDA} - \text{ADH Companies net debt}) \times \text{Success Dairy’s shareholding interest in the ADH Companies};$
- (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, the Company and Success Dairy entered into an agreement (the “**Share Purchase Agreement**”) pursuant to which the Company agreed to purchase and Success Dairy agreed to sell the 82% equity interests in the ADH Companies held by Success Dairy (the “**Acquisition**”). The sale and purchase price of the 82% equity interest is determined by reference to 12 times of the projected average LTM Cash EBITDA of the ADH Companies in year 2017 and 2018. Upon the completion of the Acquisition on 20 July 2015, the ADH Companies became 100% subsidiaries of the Company (note 34). The 18% equity interests previously held by the Company was remeasured at fair value at the date of Acquisition and the excess of the fair value over the carrying value of RMB129,197,000 was credited to profit or loss.

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

- the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is less than US\$308 million, the Company shall pay Success Dairy by further issuance of ordinary shares of the Company and/or in immediately available funds the difference between the value of the Consideration Shares and US\$308 million (the “**Value Adjustment Undertaking I**”); or
- the value of the Consideration Shares calculated based on the volume weighted average closing price of the shares for a period of forty-five trading days immediately preceding the lock-up expiry date is more than US\$363 million, Success Dairy shall pay the Company in cash or shall return part of the Consideration Shares equivalent in value to 20.0% of the difference between the value of the Consideration Shares and US\$363 million to the Company (the “**Value Adjustment Undertaking II**”) (the Value Adjustment Undertaking I and the Value Adjustment Undertaking II are collectively referred to as the “**Value Adjustment Undertakings**”).

**(a) ADH I**

The summarised financial information in respect of the ADH I:

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

The above amounts of assets and liabilities include the following:

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

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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	<b>For the period from 1 January 2015 to 20 July 2015 <i>RMB'000</i></b>	<b>For the year ended 31 December 2014 <i>RMB'000</i></b>
Revenue	<u>63,987</u>	<u>14,098</u>
Profit and total comprehensive income for the period/year	<u>13,282</u>	<u>37,599</u>
Dividend	<u>-</u>	<u>-</u>
	<b>For the period from 1 January 2015 20 July 2015 <i>RMB'000</i></b>	<b>For the year ended 31 December 2014 <i>RMB'000</i></b>
Depreciation and amortisation charged to profit or loss	<u>3,641</u>	<u>3,661</u>
Interest income	<u>273</u>	<u>2,537</u>
Interest expense	<u>-</u>	<u>-</u>
Income tax expense	<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 consolidated financial statements:		
	<b>31/12/2015 <i>RMB'000</i></b>	<b>31/12/2014 <i>RMB'000</i></b>
Net assets of ADH I	N/A	343,037
Proportion of the Group's ownership interests in ADH I	<u>N/A</u>	<u>18%</u>
Carrying amount of the Group's interests in ADH I	<u>N/A</u>	<u>61,747</u>

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

**(b) ADH II**

The summarised financial information in respect of ADH II:

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

The above amounts of assets and liabilities include the following:

	<b>31/12/2015</b> <i>RMB'000</i>	<b>31/12/2014</b> <i>RMB'000</i>
Cash and cash equivalents	N/A	19,926
Current financial liabilities (excluding trade and other payables and provisions)	N/A	-
Non-current financial liabilities (excluding trade and other payables and provisions)	N/A	-
	<b>For the period from 1 January 2015 to 20 July 2015</b> <i>RMB'000</i>	<b>For the year ended 31 December 2014</b> <i>RMB'000</i>
Revenue	-	-
Profit and total comprehensive income for the period/year	18,842	1,310
Dividend	-	-

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

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

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

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

**19. OTHER FINANCIAL LIABILITIES**

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

*Notes:*

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

*Notes:*

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

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

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

### 20. BIOLOGICAL ASSETS

#### A. Nature of activities

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

In general, the heifers are inseminated with semen when heifers reached approximately 14 months old. After an approximately nine month pregnancy term, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 340 days before approximately 60 days dry period.

When a heifer begins to produce raw milk, it is transferred to the category of milkable cows based on the estimated fair value on the date of transfer.

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

*i. Regulatory and environmental risks*

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

*ii. Climate, disease and other natural risks*

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

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

	For the year ended 31 December 2015 KG	For the year ended 31 December 2014 KG
Volume of milk sold	924,093,000	931,334,000

**C. Value of dairy cows**

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

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

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

	<b>Heifers and calves</b>	<b>Milkable cows</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2014	2,173,500	3,780,863	5,954,363
Increase due to purchase	78,014	–	78,014
Feeding cost	1,289,577	–	1,289,577
Transfer	(1,434,483)	1,434,483	–
Decrease due to disposal	(209,913)	(252,158)	(462,071)
Gain (loss) arising from changes in fair value less costs of dairy cows	<u>287,005</u>	<u>(616,074)</u>	<u>(329,069)</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	<u>608,213</u>	<u>(1,083,123)</u>	<u>(474,910)</u>
Balance at 31 December 2015	<u><u>2,777,700</u></u>	<u><u>4,813,178</u></u>	<u><u>7,590,878</u></u>

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

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

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

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2014</b>
	<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	1,203,011	1,666,242
Loss arising from changes in fair value less costs to sell of dairy cows	<u>(474,910)</u>	<u>(329,069)</u>
	<u><u>728,101</u></u>	<u><u>1,337,173</u></u>

<b>APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP</b>
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**21. INVENTORIES**

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

**22. TRADE AND OTHER RECEIVABLES**

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

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

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### Transfers of Financial Assets

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

As at the 31 December 2015

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

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

### 23. PLEDGED BANK BALANCES AND CASH AND BANK BALANCES

#### Pledged bank balances

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

#### Cash and bank balances

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

Cash and bank balances at 31 December 2015 are denominated in United States Dollar ("US\$"), Euro ("EUR"), Hong Kong Dollar ("HK\$") and RMB. RMB is not freely convertible in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 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:

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

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

### 25. BORROWINGS

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

The bank borrowings comprise:

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

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

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

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

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

*Notes:*

- i. The loans were secured by
  - 1) certain property, land use rights and biological assets owned by the Group as set out in notes 14, 15 and 20 respectively; and
  - 2) All of shares in the share capital of Advanced Dairy Company (Luxemburg) Limited (the "Shares") and all dividends, interest and other monies payable in respect of the shares and all other rights, benefits and proceeds in respect of or derived from the Shares (whether by way of redemption, liquidation, bonus, preference, option, substitution, conversion or otherwise) of Advanced Dairy Company (Luxemburg) Limited.
- ii. The balances were guaranteed by group entities within the Group.

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 26. SHORT-TERM DEBENTURES

	31/12/2015 <i>RMB'000</i>	31/12/2014 <i>RMB'000</i>
Short-term debentures – unsecured	<u>400,000</u>	<u>1,100,000</u>

*Notes:*

- i. On 24 September 2015, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through Industrial and Commercial Bank of China Co., Ltd., the leading underwriter, with maturity of nine months. The short-term debenture bears a fixed interest rate of 3.98% per annum.
- ii. On 25 April 2014, Modern Farm issued short-term debenture with a principal amount of RMB700,000,000 through China Merchants Bank Co., Ltd., the leading underwriter, with maturity of one year. The short-term debenture bore a fixed interest rate of 6.00% per annum. It was repaid on 24 April 2015.
- iii. On 23 May 2014, Modern Farm issued short-term debenture with a principal amount of RMB400,000,000 through CITIC Securities Co., Ltd., the leading underwriter, with maturity of one year. The short-term debenture bore a fixed interest rate of 6.30% per annum. It was repaid on 22 May 2015.

### 27. MEDIUM-TERM NOTES

	31/12/2015 <i>RMB'000</i>	31/12/2014 <i>RMB'000</i>
Medium-term notes ( <i>note</i> )	<u>200,000</u>	<u>–</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

	<b>Arising from government grants</b> <i>RMB'000</i>
Balance at 1 January 2014	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>141,824</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.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 29. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised		
At 1 January 2014, at 31 December 2014 and at 31 December 2015	10,000,000	1,000,000
Issued and fully paid		
At 1 January 2014 and at 31 December 2014		
– ordinary shares of HK\$0.1 each	4,827,339	482,734
Issue of ordinary shares ( <i>note</i> )	477,429	47,743
At 31 December 2015	5,304,768	530,477
	<b>31/12/2015</b>	<b>31/12/2014</b>
	RMB'000	RMB'000
Presented as	452,959	415,261

*Note:*

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

### 30. SHARE-BASED PAYMENT TRANSACTIONS

#### (a) The Company's Share Option Scheme I

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

Other information of the Share 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 the Options become vested

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

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

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

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

### (b) The Share Option Scheme II

The Company’s share option scheme II (the “**Share Option Scheme II**”) was adopted pursuant to a resolution passed on 5 June 2014 for the purpose of providing incentives and rewards to eligible

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

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

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

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

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

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

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

Category	Outstanding as at 1 January 2015	Granted during the 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>

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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
	<u>–</u>	<u>80,000,000</u>	<u>–</u>	<u>(2,151,317)</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 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 the Company's share price over the years since being listed.

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

The Company recognised a share option expense of RMB23,646,000 in respect of the Share Option Scheme II-i during the current year (2014: RMB26,204,000). None of the Share Options II-i was exercisable as at 31 December 2014 and 2015.

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

the financial year ending 31 December 2016. Each tranche of the Share Options II-ii after meeting the respective performance target and on fulfilment of the service condition will be vested on a one-off basis after the end of the third financial period. Any of the Share Options II-ii not vested as a result of non-fulfilment of the performance target at the end of the respective specific financial period shall automatically lapse.

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

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

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

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

Category	Outstanding as at 1 January 2015	Granted during the 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
	<u>–</u>	<u>10,966,673</u>	<u>–</u>	<u>(2,663,884)</u>	<u>8,302,789</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 the Company’s share price over the years since being listed.

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### (c) Modern Farm Option Scheme

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

At 30 June 2010, the amount of paid-in capital in respect of which MF Grantees can subscribe for and remained outstanding under the Modern Farm Scheme was RMB10,821,069, representing 2.09% of the paid-in capital of Modern Farm at that date.

On 31 October 2010, the Company granted to the MF Grantees a total of 87,412,507 share options of the Company for nil consideration and each with an exercise price of HK\$0.86 (RMB0.74) per share (the “**Management Options**”) to replace the MF Options which lapsed and ceased to have effect at the same time. The Company’s management considers that the Management Options granted is a replacement of the MF Options granted and the incremental fair value caused by the replacement of the MF Options with the Management Options is insignificant. The following table discloses movements of the Management Options during the current year:

Category	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding and exercisable as at 31 December 2015
Management Options	60,073,756	-	-	-	60,073,756
<hr style="border: 1px solid black;"/>					
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
<hr style="border: 1px solid black;"/>					

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

### 31. CAPITAL RISK MANAGEMENT

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 32. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

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

#### Financial risk management objectives and policies

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

The risks associated with these financial instruments include market risk (currency risk, interest risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

##### *(i) Foreign currency risk*

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

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

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

#### *Foreign currency sensitivity analysis*

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

(ii) *Interest rate risk*

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

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

*Interest rate sensitivity analysis*

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

At the end of reporting period, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the current year would decrease/increase by RMB18,172,000 (2014: RMB14,932,000).

(iii) *Other price risk*

The 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 the end of the reporting period.

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### *Credit risk*

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

### *Liquidity risk*

The Group had net current liabilities of approximately RMB4,285,909,000 as at 31 December 2015 (31 December 2014: RMB1,725,295,000). The Directors closely monitor the cash flows of the Group and, upon maturity, would arrange the renewal and refinancing of the bank loans, when necessary, to ensure the Group has sufficient funds to enable the Group to meet its financial obligations. In addition, the available credit facilities of the Group amounted to approximately RMB6,753,413,000 which remains unutilised as at 31 December 2015. In view of the above, the Directors consider the Group's liquidity risk is significantly reduced.

The Group finances their operations by using a combination of borrowings and equity. Adequate lines of credit are maintained to ensure necessary funds are available when required. The Directors monitor the liquidity position of the Group on a periodical basis to ensure the availability of sufficient liquid funds to meet all obligations. With reference to the existing unutilised facilities, the Directors consider the liquidity and source of capital for the daily operation are sufficient.

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

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

	Interest rates	Within 180 days	181 days to 365 days	1-2 years	Over 2 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 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>

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

	Interest rates %	Within 180 days RMB'000	181 days to 365 days RMB'000	1-2 years RMB'000	Over 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2014							
Non-interest bearing	-	1,096,776	220,326	-	-	1,317,102	1,317,102
Fixed interest rate bank borrowings	1.73-6.90	566,077	611,311	-	-	1,177,388	1,128,323
Short-term debentures	6.00-6.30	1,131,329	-	-	-	1,131,329	1,100,000
Variable interest rate bank borrowings	2.15-7.05	325,298	600,114	952,867	2,267,750	4,146,029	3,559,525
Other financial liabilities	-	-	-	-	602,980	602,980	147,099
		<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>

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

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

**33. FAIR VALUE MEASUREMENTS**

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

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

**Fair value hierarchy**

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 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.
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 RMB24,500 per head at 31 December 2015 (31 December 2014: 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 RMB16,248 at 31 December 2015 (2014: RMB16,167); average estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are RMB15,983 at 31 December 2015 (2014: RMB16,222).	An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in a much smaller percentage increase/decrease in the fair value measurement of the heifers and calves older/younger than 14 months old, and vice versa.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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 RMB2.21 for the year ended 31 December 2015 (2014: RMB2.37), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation.	An increase in the estimated feed costs per kg of raw milk used would result in a smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.
		A milkable cow could have as many as six lactation cycles. Estimated average daily milk yield at each lactation cycle is ranged from 24.0 kg to 26.0 kg for the year ended 31 December 2015 (31 December 2014: 24.0 kg to 25.0 kg), depending on the number of the lactation cycles and the individual physical condition.	An increase in the estimated daily milk yield per head used would result in a smaller percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Estimated local future market price for raw milk is RMB4.39 per kg at 31 December 2015 (31 December 2014: RMB4.80 per kg).	An increase in the estimated average selling price of raw milk used would result in a much higher percentage increase in the fair value measurement of the milkable cows, and vice versa.
		Discount rate for estimated future cash flow used is 11.70% at 31 December 2015 (31 December 2014: 13.07%).	An increase in the estimated discount rate used would result in a slightly smaller percentage decrease in the fair value measurement of the milkable cows, and vice versa.

### Reconciliation of Level 3 fair value measurements

#### *Biological assets*

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

#### *The Put Option and Call Option*

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### *The Value Adjustment Undertakings*

	<b>Value Adjustment Undertakings</b> <i>RMB'000</i>
<u>31 December 2015</u>	
At 1 January 2015	–
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 the Group's other financial liabilities held at the year end are included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

### **34. BUSINESS COMBINATION**

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

#### **Consideration transferred**

	<i>RMB'000</i>
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, the Company issued 477,429,132 Consideration Shares to Success Dairy. RMB968,833,000 represents the fair value of the Consideration Shares issued, using the average price of the last trading day before the date of the Acquisition.
- ii. Under the value adjustment undertaking arrangement, the Company provided the Value Adjustment Undertaking I to Success Dairy and Success Dairy provided the Value Adjustment Undertaking II to the Company (note 19). RMB958,345,000 represents the estimated fair value of the Value Adjustment Undertakings as at the date of the Acquisition.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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 receivables 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 the 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 benefits 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 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 would have been RMB4,890 million, and profit for the year would have been RMB370 million. The pro forma information is for illustrative purposes only and is not necessarily an indication for revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 35. OPERATING LEASE COMMITMENTS

#### The Group as lessee

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

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

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

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

### 36. CAPITAL COMMITMENTS

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

### 37. RELATED PARTY TRANSACTIONS

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

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

*Amounts due from*

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

*Amounts due to*

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

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

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

	<b>For the year ended 31 December 2015 <i>RMB'000</i></b>	<b>For the year ended 31 December 2014 <i>RMB'000</i></b>
Sales of raw milk to the Mengniu Group	2,304,424	3,006,934
Purchases of forage grass from Qiushi	156,572	328,074
Disposals of property, plant and equipment to Qiushi	10,867	–
	<b>For the period from 1 January 2015 to 20 July 2015 <i>RMB'000</i></b>	<b>For the year ended 31 December 2014 <i>RMB'000</i></b>
Disposals of dairy cows to Modern Farm (Shanghe) Co., Ltd.	15,807	165,192

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

d. Compensation of key management personnel

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

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

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

**38. SUBSIDIARIES**

Particulars of the Company's subsidiaries at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at		Place of operation	Principal activities
			31 December 2015 Directly %	31 December 2014 Indirectly %		
Advanced Dairy Company (Luxemburg) Limited ("Lux")	Luxemburg	US\$138,500,000	100.00	100.00	Hong Kong	Investment holding
Aquitair Holdings Limited ("Aquitair")	Republic of Ireland	US\$472,307,046	100.00	100.00	Hong Kong	Investment holding
Modern Farm (note i)	PRC	RMB563,301,046	97.87	97.87	PRC	Production of milk
Asia Dairy Holdings Co., Ltd. (note iii)	Cayman Islands	US\$20	100.00	N/A	Hong Kong	Investment holding
Asia Dairy Holdings II Co., Ltd. (note iii)	Cayman Islands	US\$20	100.00	N/A	Hong Kong	Investment holding
Asia Dairy Trading and Holdings Co., Ltd. (note iii)	Hong Kong	HK\$5	100.00	N/A	Hong Kong	Investment holding
Asia Dairy Trading and Holdings II Co., Ltd. (note iii)	Hong Kong	HK\$4	100.00	N/A	Hong Kong	Investment holding
Modern Farm (Shanghe) Co., Ltd (note iii)	PRC	RMB425,000,000	100.00	N/A	PRC	Breeding dairy cows and production of milk
Modern Farm (Jinan) Co., Ltd. (note iii)	PRC	RMB425,000,000	100.00	N/A	PRC	Breeding dairy cows and production of milk
Helinger Modern Farming Co., Ltd. (note ii)	PRC	RMB93,670,447	97.87	97.87	PRC	Breeding dairy cows and production of milk
Zhangjiakou Saibei Modern Farm Co., Ltd. (note ii)	PRC	RMB90,000,000	97.87	97.87	PRC	Breeding dairy cows and production of milk
Wenshang Modern Farm Co., Ltd. (note ii)	PRC	RMB55,000,000	97.87	97.87	PRC	Breeding dairy cows and production of milk

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Principal activities	
			31 December 2015	31 December 2014	Directly	Indirectly		
			%	%	%	%		
Shangzhi Modern Farm Co., Ltd. <i>(note ii)</i>	PRC	RMB55,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Hongya Modern Farm Co., Ltd <i>(note ii)</i>	PRC	RMB10,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming Group (Anhui) Sijibao Organic Fertiliser Co., Ltd <i>(note ii)</i>	PRC	RMB10,000,000	-	97.87	-	97.87	PRC	Production of fertilisers
Modern Farming (Chabei) Co., Ltd <i>(note ii)</i>	PRC	RMB8,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming (Baoji) Co., Ltd <i>(note ii)</i>	PRC	RMB10,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Maanshan Modern Farming Feedstock Co., Ltd. <i>(note ii)</i>	PRC	RMB18,000,000	-	97.87	-	97.87	PRC	Sales of feeds
Modern Farm (Feidong) Co., Ltd. <i>(note ii)</i>	PRC	RMB50,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming (Tongshan) Co., Ltd <i>(note ii)</i>	PRC	RMB30,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Modern Farming (Tongliao) Co., Ltd <i>(note ii)</i>	PRC	RMB30,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Modern Farm (Chabei) Hengsheng Co., Ltd <i>(note ii)</i>	PRC	RMB5,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk
Modern Farm (Bengbu) Co., Ltd <i>(note ii)</i>	PRC	RMB30,000,000	-	97.87	-	97.87	PRC	Breeding dairy cows and production of milk

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

Name of subsidiary	Place and date of incorporation/ establishment	Fully paid capital/ registered capital	Equity interest attributable to the Company as at				Principal activities
			31 December 2015	31 December 2014	Directly	Indirectly	
			%	%	%	%	
Modern Farm (Anhui) Dairy Product Sales Co., Ltd.	PRC	RMB45,000,000	-	53.83	-	53.83	Sales of milk
Modern Farm (Shuangcheng) Co., Ltd. (note ii)	PRC	RMB20,000,000	-	97.87	-	97.87	Breeding dairy cows and production of milk
Modern Farm Shanghe Feeding Co., Ltd. (note ii)	PRC	RMB10,000,000	-	97.87	-	-	Production of fodder
China Modern Dairy I Ltd.	Cayman Islands	US\$1.00	100.00	-	100.00	-	Investment holding
China Modern Dairy II Ltd.	British Virgin Islands	US\$1.00	-	100.00	-	100.00	Investment holding
China Leading Dairy Ltd.	Hong Kong	HK\$1.00	-	100.00	-	100.00	Investment holding
Modern Farming (Anhui) Dairy Co., Ltd. (note i)	PRC	RMB20,000,000	-	98.91	-	98.91	Sales of milk
Modern Farm (Bengbu) Dairy Product Sales Co., Ltd.	PRC	RMB5,000,000	-	53.83	-	53.83	Sales of milk
Modern Farm (Saibei) Dairy Product Sales Co., Ltd.	PRC	RMB5,000,000	-	53.83	-	53.83	Sales of milk

*Notes:*

- i. The entity was established in PRC and became a sino-foreign investment enterprise.
- ii. These entities were established in PRC as domestic companies and wholly owned by Modern Farm.
- iii. These entities were acquired during the current year (note 34).
- iv. None of the subsidiaries have issued any debt securities at the end of the year.

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

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

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

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

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

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

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

## APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP

### 40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

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

**APPENDIX II FINANCIAL INFORMATION OF THE CMD GROUP**

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

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

**41. EVENTS AFTER THE REPORTING PERIOD**

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

**INDEBTEDNESS**

The following illustrates the indebtedness of the CMD Group as at the close of business on 31 December 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the CMD Group prior to the printing of this Composite Document: as at the close of business on 31 December 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the CMD Group prior to the printing of this Composite Document, the CMD Group has outstanding borrowings of approximately RMB6,796,021,000, which comprised of (i) secured and unguaranteed bank loans of approximately RMB366,568,000, which were secured by its assets, including biological assets, properties, plants and lands; (ii) unsecured and guaranteed bank loans of approximately RMB1,518,521,000, which were guaranteed by Modern Farming (Group) Co., Ltd.; (iii) other secured and guaranteed loans of RMB75,489,000, which were secured by the assets, including buildings and equipment, of its subsidiary, Modern Farm (Bengbu) Co., Ltd., and guaranteed by Modern Farming (Group) Co., Ltd.; and (iv) unsecured and unguaranteed corporate bond of RMB249,020,000, medium term notes of RMB1,796,605,000, short term bills of RMB799,425,000, and bank loans of RMB1,990,393,000. Furthermore, the CMD Group has financial liabilities measured at financial instrument at fair value through profit or loss in the amount of RMB833,808,000 as at close of business on 31 December 2016 arising from the exercise of the Investor Option by Success Dairy II.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the CMD Group did not have at the close of business on 31 December 2016 any loan capital issued and outstanding or agreed to be issued, bank overdrafts or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The CMD Directors confirm that there were no material changes in terms of indebtedness and contingent liabilities of the CMD Group since 31 December 2016 and up to the Latest Practicable Date.

**MATERIAL CHANGES**

Except as set out in this Composite Document as regards the Offers, and the items as disclosed below, the CMD Directors confirm that there has been no material change in the financial or trading position or outlook of the CMD Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the CMD Group were made up, up to and including the Latest Practicable Date.

**(1) Consolidated loss for the six months ended 30 June 2016**

As disclosed in CMD's interim report for the six months ended 30 June 2016, the CMD Group recorded a consolidated loss attributable to owners of CMD of approximately RMB565.7 million, as compared to a profit of approximately RMB477.0 million for the same period in 2015. The consolidated loss was mainly attributable to, among other things, (i) decrease in revenue; (ii) significant increase in loss arising from changes in fair value less costs to sell of dairy cows; and (iii) fair value losses from the value adjustment undertakings provided by CMD to Success Dairy II pursuant to the share purchase agreement entered into between CMD and Success Dairy II dated 6 July 2015. Further details with respect to the above are set out in CMD's announcement dated 13 July 2016 and interim report for the six months ended 30 June 2016.

**(2) Profit Warning for the year ended 31 December 2016**

As set out in the section headed “Profit Warning Announcement and profit forecast” in the “Letter from the CMD Board” of this Composite Document, it is expected that the CMD Group will record a consolidated net loss attributable to the equity holders of CMD of not less than RMB600 million for the year ended 31 December 2016, mainly attributable to (i) losses arising from sales of sprayed dried milk powder as a result of harsh market condition due to the impact of and effect from the import of milk powder in large packs and concentrated milk; (ii) increased expenditure on marketing and sales; and (iii) significant increase in loss on changes in the fair value less costs to sell of dairy cows of the CMD Group in the year ended 31 December 2016 as compared to 2015. Further details regarding the Profit Warning are set out in the aforesaid section of this Composite Document and the Profit Warning Announcement.

**(3) Grant and exercise of the Investor Option**

CMD and Success Dairy II entered into a supplemental deed pursuant to which CMD has granted to Success Dairy II the Investor Option. CMD received a notice from Success Dairy II on 28 December 2016 pursuant to which Success Dairy II has exercised the Investor Option subject to approval by Mengniu Shareholders of the Transaction at the EGM. Mengniu Shareholders approved the Transaction at the EGM on 3 February 2017 and CMD issued 488,036,618 New CMD Shares to Success Dairy II on 6 February 2017. Further details with respect to the above are set out in CMD’s announcements dated 12 December 2016, 21 December 2016, 4 January 2017 and 6 February 2017.

**(4) Acquisition of 45% equity interest in Modern Farm (Anhui) Dairy Product Sales Co., Ltd. (“MFDPS”)**

CMD entered into the June 16 SPA with the Individuals to acquire 45% equity interest in MFDPS for a consideration of approximately HK\$494.4 million by issuing 338,602,205 CMD Shares at an issue price of HK\$1.46 per CMD Share. The acquisition was completed on 25 January 2017 and 338,602,205 CMD Shares were issued by CMD to the Individuals. Further details of the acquisition and the June 16 SPA are set out in CMD’s circular dated 15 July 2016 and CMD’s announcements dated 16 June 2016, 22 June 2016, 12 December 2016 and 25 January 2017.

**(5) Issue of short term debentures, medium term notes and corporate bonds by a subsidiary**

As set out in CMD’s announcements dated 25 January 2016, 16 June 2016, 5 September 2016 and 22 January 2017, Modern Farming (Group) Co., Ltd., a non-wholly owned subsidiary of CMD, issued short term debentures of an aggregated amount of RMB1.8 billion. As set out in CMD’s announcements dated 23 March 2016 and 15 August 2016, Modern Farming (Group) Co., Ltd. issued medium term notes of RMB1.6 billion and domestic corporate bonds of RMB250 million respectively.

**1. REPORT FROM DELOITTE TOUCHE TOHMATSU**

*The following is the full text of the report prepared for the purpose of incorporation in this Composite Document, received from Deloitte Touche Tohmatsu, the auditors of CMD.*

6 February 2017  
The Board of Directors  
China Modern Dairy Holdings Ltd.  
Economic and Technological Development Zone  
Mannshan City, Anhui Province  
The People's Republic of China

Dear Sirs,

China Modern Dairy Holdings Ltd. (the "**Company**")

**Profit Estimate for the Year Ended 31 December 2016**

We refer to the statement as set out in the announcement of the Company dated 6 February 2017 in respect of the profit warning made by the directors of the Company (the "**Profit Warning Statement**") and as below:

*"The board of directors of the Company (the "**Board**") wishes to inform shareholders of the Company (the "**Shareholders**") and potential investors that, based on the assessment of the unaudited consolidated management accounts of the Group for the year ended 31 December 2016 (the "**Management Accounts**"), it is expected that the Group will record a consolidated net loss attributable to the equity holders of the Company of not less than RMB600 million (unaudited consolidated net loss attributable to the equity holders of the Company for the six months ended 30 June 2016: approximately RMB566 million) for the year ended 31 December 2016".*

**Directors' Responsibilities**

We have been advised by the directors of the Company that the Profit Warning Statement is based on the preliminary assessment by the directors of the Company of an estimate of the consolidated net loss attributable to equity holders of the Company for the year ended 31 December 2016 (the "**Profit Estimate**") which has been prepared based on the unaudited consolidated management accounts of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016.

The Company's directors are solely responsible for the Profit Estimate.

**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 Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

6 February 2017  
The Board of Directors  
China Modern Dairy Holdings Ltd.

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” issued by the HKICPA 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 on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

### **Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in the Profit Warning Statement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group and used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Yours faithfully,

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
Hong Kong

## 2. REPORT FROM SOMERLEY CAPITAL

*The following is the full text of the report prepared for the purpose of incorporation in this Composite Document, received from Somerley Capital, the Independent Financial Adviser.*

6 February 2017  
The board of directors  
China Modern Dairy Holdings Ltd.  
Unit 2402, 24/F, Alliance Building,  
130-136 Connaught Road Central,  
Sheung Wan,  
Hong Kong

Dear Sirs,

We refer to the announcement dated 6 February 2017 (the “**Profit Warning Announcement**”) issued by China Modern Dairy Holdings Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”). Capitalised terms used in this letter shall have the same meanings as defined in the Profit Warning Announcement unless otherwise specified.

We also refer to the statement (the “**Statement**”) made by the directors of the Company (the “**Directors**”) in the Profit Warning Announcement, that, based on the assessment of the unaudited consolidated management accounts of the Group for the year ended 31 December 2016, it is expected that the Group will record a consolidated net loss attributable to the equity holders of the Company of not less than RMB600 million (unaudited consolidated net loss attributable to the equity holders of the Company for the six months ended 30 June 2016: approximately RMB566 million) for the year ended 31 December 2016 (the “**Profit Estimate**”). The Statement is regarded as a profit forecast under the Takeovers Code and therefore, is required to be reported on pursuant to Rule 10 of the Takeovers Code.

The Statement has been prepared by the Directors based on the unaudited consolidated results of the Group for the year ended 31 December 2016.

We have discussed with you the bases upon which the Statement was prepared. We have also considered the letter on profit forecast dated 6 February 2017 issued by Deloitte, the auditors of the Company, to you, the text of which is set out in Appendix I to the Profit Warning Announcement, which stated that, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the Directors as set out in the Statement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group and used in the preparation of the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Based on the above, we are satisfied that the Statement, for which the Directors are solely responsible, has been made with due care and consideration.

Yours faithfully,  
For and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
M. N. Sabine  
*Chairman*

**1.      RESPONSIBILITY STATEMENT**

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offers and the CMD Group to the CMD Shareholders and the Optionholders.

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

**2.      SHARE CAPITAL AND CMD OPTIONS**

**Share Capital**

As at the Latest Practicable Date, the authorized share capital and the issued share capital of CMD were as follows:

	<i>HK\$</i>
 <i>Authorized share capital</i>	
10,000,000,000 CMD Shares	1,000,000,000
 <i>Issued and fully paid-up share capital</i>	
6,131,406,706 CMD Shares	613,140,670.6

All the issued CMD Shares are fully paid and rank *pari passu* in all respects including, in particular, the rights in respect of capital, dividend and voting.

As at the Latest Practicable Date, CMD had issued 826,638,823 New CMD Shares since 31 December 2016, being the end of the last financial year of CMD.

### **CMD Options**

As at the Latest Practicable Date, save for the CMD Options granted by CMD pursuant to the Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III under which 315,401,705 CMD Options remain outstanding, CMD has no outstanding convertible securities, options, warrants, derivatives or any other conversion rights in issue affecting CMD Shares.

The details of the outstanding CMD Options under the Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III are set out below:

Name of scheme	Date of grant	Exercise price per CMD Share	Outstanding as at the Latest Practicable Date
Management Option Scheme	31 October 2010	HK\$0.86	60,073,756
Share Option Scheme I	12 December 2012	HK\$2.89	27,323,315
Share Option Scheme II	6 June 2014 17 June 2015 9 September 2016	HK\$3.38 HK\$2.83 HK\$1.52	81,354,634
Share Option Scheme III	8 November 2016	HK\$1.71	146,650,000

### **3. DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date, the interests and short positions of each CMD Director and chief executive of CMD in the shares, underlying shares and debentures of CMD or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to CMD and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the CMD Director or chief executive of CMD was taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by CMD referred to therein, or which were required, pursuant to the Model

<b>APPENDIX IV      GENERAL INFORMATION OF THE CMD GROUP</b>
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Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “Model Code”), to be notified to CMD and the Stock Exchange were as follows:

Name of CMD Director	Nature of interest	Number of CMD Shares or underlying CMD Shares	Approximate percentage of shareholding interest
Ms. GAO Lina <sup>(1)</sup>	Interest in controlled corporation	221,581,733	3.61%
	Beneficial owner	57,736,339 <sup>(2)</sup>	0.94%
Mr. HAN Chunlin	Beneficial owner	36,054,583 <sup>(3)</sup>	0.59%
Mr. SUN Yugang	Beneficial owner	16,064,990 <sup>(3)</sup>	0.26%

(1) Ms. GAO Lina holds approximately 49.12% of the interests in Jinmu. Ms. GAO Lina is deemed to be interested in the 221,581,733 CMD Shares held by Jinmu under the SFO.

(2) This represent 4,800,000 CMD Shares and interests in the 52,936,339 underlying CMD Shares of the CMD Options granted by CMD.

(3) These represent interests in the underlying CMD shares of the CMD Options granted by CMD.

As at the Latest Practicable Date, save as disclosed above, none of the CMD Directors nor chief executive of CMD had any interests or short positions in the shares, underlying shares and debentures of CMD or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to CMD and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the CMD Director or chief executive of CMD was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register of CMD referred to therein; (iii) pursuant to the Model Code, to be notified to CMD and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code.

#### 4. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

- (a) neither CMD, nor any member of the CMD Group, was interested in any Mengniu Shares or any warrants, options, convertible securities or derivatives in respect of any Mengniu Shares;
- (b) none of the CMD Directors was interested within the meaning of Part XV of the SFO in Mengniu Shares or any warrants, options, convertible securities or derivatives in respect of any Mengniu Shares;
- (c) save as disclosed in the section headed “3. Disclosure of Interests” in this appendix, none of the CMD Directors was interested within the meaning of Part XV of the SFO in CMD Shares or any warrants, options, convertible securities or derivatives in respect of any CMD Shares;

- (d) none of the subsidiaries of CMD, pension funds of CMD or of a subsidiary of CMD or an adviser to CMD as specified in class (2) of the definition of “associate” in the Takeovers Code but excluding any exempt principal trader, owned or controlled any CMD Shares or any convertible securities, warrants, options or derivatives in respect of any CMD Shares;
- (e) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between CMD, or any of CMD’s associates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person;
- (f) no fund managers (other than exempt fund managers) connected with CMD had managed any CMD Shares or any convertible securities, warrants, options or derivatives in respect of any CMD Shares on a discretionary basis;
- (g) as disclosed in the section headed “3. Non-Accepting Shareholders” in the “Letter from UBS and DBS”, Ms. GAO Lina has committed herself not to accept the Share Offer in respect of the CMD Shares she beneficially owns. Each of Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang intends to accept the Option Offer in respect of the CMD Options each of them respectively holds; and
- (h) none of CMD or the CMD Directors had borrowed or lent any CMD Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any CMD Shares.

**5. DEALINGS IN SECURITIES**

- (a) During the Relevant Period, none of CMD, any of its subsidiaries, nor any CMD Directors had dealt for value in any Mengniu Shares or any other convertible securities, warrants, options or derivatives in respect of any Mengniu Shares.
- (b) During the Relevant Period, none of the CMD Directors had dealt for value in any CMD Shares, convertible securities, warrants, options, or derivatives in respect of any CMD Shares.
- (c) During the Offer Period and up to the Latest Practicable Date, none of the subsidiaries of CMD, or pension funds of CMD or of a subsidiary of CMD or, any adviser to CMD as specified in class (2) of the definition of “associate” in the Takeovers Code but excluding exempt principal traders had dealt for value in any CMD Shares or any convertible securities, warrants, options or derivatives in respect of any CMD Shares.

- (d) During the Offer Period and up to the Latest Practicable Date, no fund managers connected with CMD (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any CMD Shares or any other convertible securities, warrants, options or derivatives in respect of any CMD Shares.
- (e) During the Offer Period and up to the Latest Practicable Date, no person between whom there is arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and CMD or any of CMD's associates by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code had dealt for value in any CMD Shares or any convertible securities, warrants, options or derivatives in respect of any CMD Shares.

## **6. LITIGATION**

As at the Latest Practicable Date, none of CMD and its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was pending or threatened by or against CMD or any other member of the CMD Group.

## **7. MATERIAL CONTRACTS**

The following contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by CMD or any of its subsidiaries, was entered into by CMD during the period commencing on the date which is two years before the commencement of the Offer Period up to and including the Latest Practicable Date; and is or may be material:

- (a) The share purchase agreement dated 6 July 2015 entered into among CMD, Success Dairy II, Asia Dairy Holdings and Asia Dairy Holdings II, pursuant to which CMD purchased approximately 82% of the total issued share capital of Asia Dairy Holdings and Asia Dairy Holdings II, respectively, and CMD, in consideration, issued 477,429,132 CMD Shares at the price of HK\$4.00 per CMD Share to Success Dairy II.
- (b) The June 16 SPA dated 16 June 2016 entered into among CMD and the Individuals for the sale and purchase of 45% equity interest in Modern Farm (Anhui) Dairy Product Sales Co., Ltd. (現代牧業(安徽)乳品銷售有限公司) after the completion of the reorganization and pursuant to which a total of 338,602,205 CMD Shares were issued at HK\$1.46 per CMD Share to the wholly-owned entities of the Individuals by CMD as consideration at the completion date of the June 16 SPA.
- (c) The supplemental agreement dated 9 December 2016 entered into between CMD and the Individuals to extend the long stop date of the June 16 SPA to 13 March 2017 or such other date as CMD and the Individuals may agree in writing.

- (d) The supplemental deed dated 12 December 2016 entered into among CMD, Success Dairy II, Asia Dairy Holdings and Asia Dairy Holdings II pursuant to which CMD granted to Success Dairy II the Investor Option and Success Dairy II granted to CMD a call option.

**8. CMD DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the CMD Directors had entered into a service contract with any member of the CMD Group or the associated companies of CMD which:

- (a) was entered into or amended (including both continuous and fixed term contracts) within 6 months prior to the commencement of the Offer Period;
- (b) is a continuous contract with a notice period of 12 months or more; or
- (c) is a fixed term contract with more than 12 months to run irrespective of the notice period.

**9. EXPERTS AND CONSENT**

The following are the names and qualification of the experts who had been engaged by CMD and who have been named in this Composite Document or who have given their opinion or advice, which is contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	certified public accountant
Sommerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of Deloitte Touche Tohmatsu and Sommerley Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and references to its name in the form and context in which it appears.

**10. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, no arrangement was in place for any benefit (other than statutory compensation) to be given to any CMD Directors as compensation for loss of office or otherwise in connection with the Offers.
- (b) As at the Latest Practicable Date, save for the arrangement of resignation of certain existing CMD Directors as set out under the paragraph headed "Proposed change of board composition of CMD" in the section headed

“Mengniu’s Intention on the CMD Group” in the “Letter from UBS and DBS” as set out in this Composite Document, there was no agreement or arrangement between any CMD Directors and any other person which was conditional on or dependent upon the outcome of the Offers or is otherwise connected with the Offers.

- (c) As at the Latest Practicable Date, there was no material contract entered into by Mengniu in which any CMD Director has a material personal interest, except the SPA where Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. ZHANG Ping have their respective interest in the Transaction as set out below:
- i. Mr. YU Xubo is currently the president of COFCO Corporation, the controlling shareholder of Mengniu;
  - ii. Mr. WOLHARDT Julian Juul is currently a director of Success Dairy II and he has been a member of KKR Asia Limited, an affiliate of KKR China Growth Fund L.P., a subsidiary of which is New Dairy Investment Ltd, one of the ultimate shareholders of Success Dairy II, until 31 December 2016, and that since 1 January 2017 he has been an advisor of KKR Asia Limited;
  - iii. Mr. HUI Chi Kin Max is currently a managing director of CDH China Management Company Limited, the manager of CDH Fund IV, L.P., which wholly-owns Crown Dairy Holdings Limited, one of the ultimate shareholders of Success Dairy II; and
  - iv. Mr. ZHANG Ping is a member of the senior management of Mengniu.
- (d) The registered address of CMD is Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.
- (e) The principal place of business of CMD in Hong Kong is at Unit 2402, 24/F, Alliance Building, 130-136, Connaught Road Central, Sheung Wan, Hong Kong.
- (f) The Registrar of CMD is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (g) The principal business address of Somerley Capital is 20th Floor, China Building, 29 Queen’s Road Central, Hong Kong.

## 1. RESPONSIBILITY STATEMENT

The information contained in this Composite Document relating to Mengniu and its intentions has been supplied by Mengniu.

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

## 2. MARKET PRICES

The table below shows the closing prices of the CMD Shares quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price per CMD Share HK\$
<b>2016</b>	
29 July 2016	1.02
31 August 2016	1.22
30 September 2016	1.46
31 October 2016	1.69
30 November 2016	2.06
30 December 2016	1.91
<b>2017</b>	
3 January 2017 (being the Last Trading Day)	1.88
27 January 2017	1.92
10 February 2017 (being the Latest Practicable Date)	1.95

During the Relevant Period:

- (i) the highest closing price of the CMD Shares as quoted on the Stock Exchange was HK\$2.13 per CMD Share on 29 November 2016; and
- (ii) the lowest closing price of the CMD Shares as quoted on the Stock Exchange was HK\$0.99 per CMD Share on 15 July 2016.

### 3. DISCLOSURE OF INTERESTS

#### Disclosure of interests of Mengniu and its Concert Parties

As at the Latest Practicable Date (after SPA Completion having taken place), Mengniu and its Concert Parties (other than Success Dairy II) were interested in 2,313,368,750 CMD Shares, representing approximately 37.7% of the entire issued share capital of CMD.

As it is a wholly-owned subsidiary of Mengniu, Mengniu SPV is considered as Mengniu's Concert Party. As at the Latest Practicable Date, Mengniu held 1,347,903,000 CMD Shares, and Mengniu SPV held 965,465,750 CMD Shares, being the Subject Shares under the SPA. Save as disclosed above, as at the Latest Practicable Date, Mengniu and its Concert Parties did not have any beneficial interest in any CMD Shares, CMD Options, convertible securities, warrants or options or any derivatives in respect of CMD Shares.

As at the Latest Practicable Date, UBS, DBS and their respective group companies (excluding those entities that are exempt principal traders or exempt fund managers) did not have any beneficial interest in any CMD Shares, CMD Options, convertible securities, warrants or options or any derivatives in respect of CMD Shares.

#### Disclosure of interests of Non-Accepting Shareholders

As at the Latest Practicable Date, the shareholding of Non-Accepting Shareholders in CMD is as follows:

Non-Accepting Shareholders	Number of CMD Shares held	% of issued CMD Shares (Note)
Ms. Lina Gao	4,800,000	0.08%
Jinmu Holdings Company Limited ("Jinmu")	221,581,733	3.61%
ZUO Weilin	121,638,225	1.98%
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%
<b>TOTAL</b>	<b>564,983,938</b>	<b>9.21%</b>

Note: Assuming none of the outstanding CMD Options is exercised.

**4. DEALINGS IN SECURITIES OF CMD**

During the Relevant Period, save for the acquisition of 965,465,750 CMD Shares by Mengniu from Success Dairy II for a consideration of HK\$1,873,003,555, paid in U.S. dollars, which is equivalent to US\$241,475,350 as determined by the Exchange Rate (being HK\$1.94 or US\$0.25 per CMD Share) which has been completed on 7 February 2017, neither Mengniu, the Mengniu Directors nor any of Mengniu's Concert Parties (excluding exempt principal traders and exempt fund managers) or any other persons identified in the section headed "3. Disclosure of Interests" above had dealt for value in any CMD Shares, CMD Options, convertible securities, warrants or options or any derivatives in respect of CMD Shares.

**5. INTERESTS IN CMD AND OTHER ARRANGEMENTS IN CONNECTION WITH THE OFFERS**

As at the Latest Practicable Date:

- (i) save as disclosed under the section headed "3. Disclosure of Interests" in this Appendix above, none of Mengniu, Mengniu Directors, and/or any of Mengniu's Concert Parties (excluding UBS group and DBS group entities that are exempt principal traders or exempt fund managers) owned or had control or direction over any voting rights or rights over the CMD Shares, CMD Options, or convertible securities, warrants, options or any derivatives in respect of CMD Shares;
- (ii) there is no outstanding derivative in respect of the securities in CMD entered into by Mengniu or any of its Concert Parties (excluding UBS group and DBS group entities that are exempt principal traders or exempt fund managers);
- (iii) there was no agreement, arrangement for or understanding that any CMD Shares or CMD Options acquired by Mengniu in pursuance of the Offers would be transferred, charged or pledged to any other persons;
- (iv) other than the Non-Accepting Shareholders as disclosed under the section headed "3. Non-Accepting Shareholders" in the "Letter from UBS and DBS" and the section headed "3. Disclosure of Interest" in this Appendix above, neither Mengniu nor any of its Concert Parties had received, prior to the posting of this Composite Document, irrevocable commitment to accept or reject the Offers from any other persons;
- (v) none of Mengniu, Mengniu Directors, or Mengniu's Concert Parties had any arrangement (whether by way of option, indemnity, or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, relating to any CMD Shares, CMD Options, or convertible securities, warrants, options or any derivatives in respect of CMD Shares, with any other person;

- (vi) neither Mengniu nor any of its Concert Parties (excluding UBS group and DBS group entities that are exempt principal traders or exempt fund managers) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of CMD;
- (vii) no benefit (other than statutory compensation) was or would be given to any CMD Directors as compensation for loss of office or otherwise in connection with the Offers;
- (viii) save for the Sale and Purchase Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between Mengniu or its Concert Parties and any CMD Director, recent CMD Director, CMD Shareholder or recent CMD Shareholder which had any connection with or dependence upon the Offers; and
- (ix) save for the Sale and Purchase Agreement which has been completed on 7 February 2017, there was no agreement or arrangement to which Mengniu and/or its Concert Parties was a party which related to the circumstances in which Mengniu may or may not invoke or seek to invoke a pre-condition or condition to the Offers.

## 6. QUALIFICATIONS AND CONSENT OF EXPERT

The following are the qualifications of the expert whose letter/opinions is/are contained in this Composite Document:

<b>Name</b>	<b>Qualifications</b>
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 SFO
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 SFO

The above experts have given and have not withdrawn their respective written consent to the issue of this Composite Document with the inclusion herein of their advice, letter and/or the references to their names, in the form and context in which it appears.

## 7. MATERIAL CONTRACTS

The following contracts have been entered into by Mengniu and its Concert Parties (other than Success Dairy II) which are or may be material:

- (a) the Sale and Purchase Agreement;
- (b) the facility agreement dated 4 January 2017 and entered into between DBS Bank Ltd., Hong Kong Branch as lender and Mengniu as borrower, of an amount of US\$650,000,000 in respect of the financing of the consideration payable under the SPA and the Offers;
- (c) the facility agreement dated 16 January 2017 and entered into between China Merchants Bank Co., Ltd., Hong Kong Branch as lender and Mengniu as borrower, of an amount of HK\$2,000,000,000 in respect of the financing of the consideration payable under the SPA and the Offers;
- (d) the equity transfer agreement dated 21 September 2015 entered into between Yashili International Group Co. Ltd (“Yashili Guangdong”) and Inner Mongolia Mengniu Dairy (Group) Company Limited (“Mongolia Mengniu”), a subsidiary of the Mengniu, pursuant to which Yashili Guangdong agreed to purchase from Mongolia Mengniu the entire equity interests in Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. for a consideration of RMB1,050 million (equivalent to approximately HK\$1,278 million); and
- (e) the equity transfer agreement dated 1 December 2015 entered into between Yashili Guangdong and Danone Asia Pacific Holdings Pte. Ltd. to acquire the entire equity interests in Dumex Baby Food Co., Ltd. for a consideration of €150 million (equivalent to approximately HK\$1,230 million).

## 8. MISCELLANEOUS

- (a) The principal member of Mengniu’s Concert Party is Mengniu SPV.
- (b) The Mengniu Directors comprise Mr. Jeffrey, Minfang Lu, Mr. Bai Ying and Ms. Wu Wenting as executive directors, Mr. Ma Jianping, Mr. Niu Gensheng, Mr. Tim Ørting Jørgensen and Mr. Filip Kegels as non-executive directors, Mr. Jiao Shuge (alias Jiao Zhen), Mr. WOLHARDT Julian Juul, Mr. Zhang Xiaoya and Mr. Yau Ka Chi as independent non-executive directors. The registered office of Mengniu is situated at Maples Corporate Services Limited, P.O. Box 309, Uglund House, Grand Cayman KY1-1104, Cayman Islands.

- (c) COFCO Corporation is deemed interested in an aggregate of 1,234,500,758 Mengniu Shares, which represents approximately 31.45% of the issued share capital of Mengniu as at the Latest Practicable Date, comprising (a) 1,233,700,758 Mengniu Shares through its wholly-owned subsidiary, COFCO (Hong Kong) Limited and (b) 800,000 Mengniu Shares through another of its wholly-owned subsidiary, COFCO (BVI) Limited. COFCO (BVI) Limited is deemed interested in 800,000 Mengniu Shares through its wholly-owned subsidiary, COFCO (BVI) No. 9 Limited.
- (d) The correspondence Hong Kong address of Mengniu is Suites 801-2, 8th Floor, COFCO Tower 262 Gloucester Road, Causeway Bay Hong Kong.
- (e) The principal place of business of UBS is situated at 46th–52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (f) The registered office of DBS is situated at 17th Floor, The Center, 99 Queen's Road Central, Hong Kong.
- (g) The English text of this Composite Document and the Forms of Acceptance shall prevail over their respective Chinese texts in the case of inconsistency.

Copies of the following documents will be available for inspection (i) on the websites of the SFC (<http://www.sfc.com.hk>), Mengniu (<http://www.mengniuir.com>) and CMD (<http://www.moderndairyir.com/en/index.htm>) during the period from the date of this Composite Document onwards for as long as the Offers remain open for acceptance; and (ii) during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong) (Hong Kong time) at the principal place of business of CMD in Hong Kong at Unit 2402, 24/F, Alliance Building, 130-136, Connaught Road Central, Sheung Wan, Hong Kong, from the date of this Composite Document up to the Offer Closing Date:

- (a) the memorandum and articles of association of Mengniu valid as at the Latest Practicable Date;
- (b) the memorandum of association and articles of association of CMD valid as at the Latest Practicable Date;
- (c) the annual report of Mengniu for the financial year ended 31 December 2015;
- (d) the annual report of Mengniu for the financial year ended 31 December 2014;
- (e) the annual report of CMD for the financial year ended 31 December 2015;
- (f) the annual report of CMD for the financial year ended 31 December 2014;
- (g) the annual report of CMD for the six months ended 31 December 2013;
- (h) the annual report of CMD for the financial year ended 30 June 2013;
- (i) the interim report of CMD for the six months ended 30 June 2016;
- (j) the letter from UBS and DBS dated 14 February 2017 to the CMD Shareholders and the Optionholders, the text of which is set out on pages 9 to 26 in this Composite Document;
- (k) the letter from the CMD Board dated 14 February 2017 to the CMD Shareholders and the Optionholders, the text of which is set out on pages 27 to 35 of this Composite Document;
- (l) the letter from the Independent Board Committee dated 14 February 2017 to the CMD Shareholders and the Optionholders, the text of which is set out on pages 36 to 37 of this Composite Document;
- (m) the letter from the Independent Financial Adviser dated 14 February 2017 to the Independent Board Committee, the text of which is set out on pages 38 to 64 of this Composite Document;
- (n) the written unconditional and irrevocable confirmations and undertakings from Non-Accepting Shareholders stating that they will not accept the Share Offer;

- (o) the letters of consent referred to in the section headed “9. Experts and Consent” in Appendix IV and the section headed “6. Qualifications and Consent of Expert” in Appendix V to this Composite Document;
- (p) the material contracts referred to in the section headed “7. Material Contracts” in Appendix IV and the section headed “7. Material Contracts” in Appendix V to this Composite Document;
- (q) the reports issued by Deloitte Touche Tohmatsu and Somerley Capital on the Profit Warning Announcement set out in Appendix III to this Composite Document.