

CHINA DAIRY GROUP LTD

Registration No. 199703080Z

RESULTS FOR THE 1ST QUARTER ENDED 31 MARCH 2014

PART1- INFORMATION REQUIRED FOR ANNOUNCEMENT OF QUARTERLY (Q1, Q2 & Q3), HALF AND FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediate preceding financial year

1(a)(i) GROUP INCOME STATEMENT

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Revenue	494,126	490,498	0.7%
Cost of Sales	(342,680)	(337,271)	1.6%
Gross Profit	151,446	153,227	-1.2%
<u>Other Items of Income</u>			
Interest Income	399	301	32.6%
Other Credit	2,893	814	255.4%
<u>Other Items of Expenses</u>			
Marketing and Distribution Costs	(115,409)	(113,350)	1.8%
Administrative Expenses	(18,951)	(23,922)	-20.8%
Finance Costs	(2,059)	(2,920)	-29.5%
Other Charges	(4,714)	(324)	1354.9%
Share of Profit/(Loss) from Associate	(118)	(409)	-71.1%
Profit Before Tax	13,487	13,417	0.5%
Income Tax Expenses	(1,358)	-	NM
PROFIT FOR THE PERIOD	12,129	13,417	-9.6%
Profit / (Loss) Attributable to:			
Owners of the Parent	12,224	13,353	-8.5%
Non-Controlling Interests	(95)	64	NM
	12,129	13,417	-9.6%
Earnings Per Share (in currency units):			
Basic and Diluted (cents)	2.78	3.04	-8.5%

NM-Not meaningful

1(a)(ii) BREAKDOWN AND EXPLANATORY NOTES TO GROUP INCOME STATEMENT

(A) Revenue

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Sale of Finished Goods	473,640	478,906	-1.1%
Sale of Materials	20,486	11,592	76.7%
	<u>494,126</u>	<u>490,498</u>	<u>0.7%</u>

(B) Other Credits

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Gain from Disposal of Investment in Subsidiary	1,358	-	NM
Government Grant	1,292	-	NM
Other Income	243	190	27.9%
Foreign Exchange Adjustments Gain	-	609	NM
Rental Income	-	15	NM
	<u>2,893</u>	<u>814</u>	<u>255.4%</u>

(C) Other Charges

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Inventories Written Off	3,245	-	NM
Foreign Exchange Adjustments Loss	1,098	-	NM
Depreciation and Direct Operating Expenses of Investment Property	263	263	0.0%
Loss on Disposal of Plant and Equipment	105	28	275.0%
Other Cost	3	33	-90.9%
	<u>4,714</u>	<u>324</u>	<u>1354.9%</u>

NM-Not meaningful

(D) Finance Costs

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Interest Expense	<u>2,059</u>	<u>2,920</u>	-29.5%

(E) Depreciation and Amortisation

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Depreciation of Investment Property and PPE	10,125	10,645	-4.9%
Amortisation of Other Assets, Non current	<u>350</u>	<u>362</u>	-3.3%
	<u>10,475</u>	<u>11,007</u>	-4.8%

(F) Income Tax

	3 months to 31/03/2014	3 months to 31/03/2013	Change
	RMB'000	RMB'000	%
Current Tax Expense	<u>1,358</u>	<u>-</u>	NM
	<u>1,358</u>	<u>-</u>	NM

NM-Not meaningful

PPE-property, plant and equipment

1(b)(i) A statement of financial position (for the issuer and group) together with a comparative statement as at the end of the immediately preceding financial year.

STATEMENTS OF FINANCIAL POSITION

	Group		Company		Group	Company
	As at 31/03/2014	As at 31/12/2013	As at 31/03/2014	As at 31/12/2013	Change	Change
	RMB'000	RMB'000	RMB'000	RMB'000	%	%
ASSETS						
Non-Current Assets						
Property, Plant and Equipment	334,781	334,301	4	5	0.1%	-22.0%
Investment Property	3,525	3,614	-	-	-2.5%	-
Investments in Subsidiaries	-	-	401,790	389,899	-	3.0%
Investment in Associate	23,115	23,233	-	-	-0.5%	-
Other Financial Assets, Non-Current	-	-	-	-	-	-
Deferred Tax Assets	14,247	14,247	-	-	0.0%	-
Other Assets, Non-Current	45,425	45,775	-	-	-0.8%	-
Total Non-Current Assets	421,093	421,170	401,794	389,904	0.0%	3.0%
Current Assets						
Inventories	195,455	194,408	-	-	0.5%	-
Trade and Other Receivables, Current	154,548	122,789	15,913	15,438	25.9%	3.1%
Other Financial Assets, Current	3,000	3,000	-	-	0.0%	-
Other Assets, Current	53,493	62,624	90	51	-14.6%	76.5%
Cash and Cash Equivalents	135,589	93,343	3,712	4,543	45.3%	-18.3%
Total Current Assets	542,085	476,164	19,715	20,032	13.8%	-1.6%
Total Assets	963,178	897,334	421,509	409,935	7.3%	2.8%
EQUITY AND LIABILITIES						
Equity attributable to owners of the parent						
Share Capital	401,392	401,392	401,392	401,392	0.0%	0.0%
Retained Earnings/(Accumulated Losses)	(108,866)	(121,090)	5,118	5,966	-10.1%	-14.2%
Other Reserves	45,617	43,416	12,361	(45)	5.1%	NM
Equity, Attributable to Equity Holders of the Parent	338,143	323,718	418,871	407,313	4.5%	2.8%
Non-Controlling Interests	(528)	(433)	-	-	21.9%	-
Total Equity	337,615	323,285	418,871	407,313	4.4%	2.8%
Non-Current Liabilities						
Finance Lease, Non-Current	7,759	8,234	-	-	-5.8%	-
Total Non-Current Liabilities	7,759	8,234	-	-	-5.8%	-
Current Liabilities						
Trade and Other Payables, Current	477,395	421,759	2,638	2,621	13.2%	0.6%
Finance Lease, Current	1,540	1,800	-	-	-14.4%	-
Other Financial Liabilities, Current	130,400	130,400	-	-	0.0%	-
Income Tax Payable, Current	522	-	-	-	NM	-
Other Liabilities, Current	7,947	11,856	-	-	-33.0%	-
Total Current Liabilities	617,804	565,815	2,638	2,621	9.2%	0.6%
Total Liabilities	625,563	574,049	2,638	2,621	9.0%	0.6%
Total Equity and Liabilities	963,178	897,334	421,509	409,935	7.3%	2.8%
Detail of Other Components of Equity (for reference only)						
Statutory Reserve	26,833	26,833				
Capital Reserve	19,689	19,689				
Translation Reserve	(905)	(3,106)				
	45,617	43,416				

NM-Not meaningful

1(b)(ii) Aggregate amount of borrowings and debts securities for the Group.

Amount repayable in one year or less, or on demand

	As at 31/03/2014		As at 31/12/2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	130,400	-	130,400	-
Financial Lease, Current	1,540	-	1,800	-

Amount repayable after one year,

	As at 31/03/2014		As at 31/12/2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Financial Lease, Non-Current	7,759	-	8,234	-

Details of any collateral

As at 31 March 2014, the above bank borrowings of RMB130.4 million, financial lease current of 1.5 million and financial lease non-current of 7.8 million were secured by pledges on the group's PPE and land use rights, cash in bank, trade receivables and corporate guarantees by non-controlling shareholder of a subsidiary.

1(b)(iii) STATEMENT OF COMPREHENSIVE INCOME

	3 months to 31/03/2014 RMB'000	3 months to 31/03/2013 RMB'000	Change %
Profit for the Period	12,129	13,417	-9.6%
Other Comprehensive Income:			
Items That May Be Reclassified Subsequently to Profit or Loss			
Exchange Differences on Translating Foreign Operations	2,201	(726)	NM
Other Comprehensive Income for the Period, Net of Tax	2,201	(726)	NM
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	14,330	12,691	12.9%
Total Comprehensive Income Attributable to:			
Owners of the Parent	14,425	12,627	14.2%
Non-Controlling Interests	(95)	64	NM
	14,330	12,691	12.9%

NM-Not meaningful

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

GROUP STATEMENT OF CASH FLOWS

	3 months to 31/03/2014 RMB'000	3 months to 31/03/2013 RMB'000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Profit Before Tax	13,487	13,417
Adjustment for:		
Interest Income	(399)	(301)
Interest Expense	2,059	2,920
Share of Loss from Associate	118	409
Depreciation of Investment Property, Leasehold property, Plant and Equipment	10,125	10,645
Amortisation of Other Assets, Non Current	350	362
Loss on Disposal of Plant and Equipment	105	28
Foreign Exchange Adjustment Loss/(Gain)	1,098	(609)
Gain on Disposal of investment in subsidiary	(1,358)	-
Net Effect of Exchange Rate Changes in Consolidating Subsidiaries	(72)	46
Operating Cash Flows Before Changes in Working Capital	25,513	26,917
Inventories	(1,047)	31,276
Trade and Other Receivables, Current	(33,000)	(31,885)
Other Assets, Current	9,131	(7,681)
Trade and Other Payables, Current	58,424	22,201
Other Liabilities, Current	(3,909)	(4,978)
Net Cash Flows From Operations Before Interest and Tax	55,112	35,850
Net Cash Flows From Operating Activities	55,112	35,850
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Disposal of PPE and Land Use Right	22	-
Purchase of PPE and Land Use Right	(10,643)	(4,324)
Interest Received	399	301
Net Cash Flows Used In Investing Activities	(10,222)	(4,023)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Decrease in Short-Term Borrowing	-	(200)
Decrease in Finance Lease, Non-current	(735)	-
Cash Restricted in Use Over 3 Months	(1,460)	10,030
Interest Paid	(2,059)	(2,920)
Net Cash Flows From/(Used in) Financing Activities	(4,254)	6,910
Net Increase/(Decrease) in Cash and Cash Equivalents	40,636	38,737
Cash and Cash Equivalents, Cash Flow Statement, Beginning Balance	88,873	121,125
Effects of Foreign Exchange Rate Adjustments	150	(163)
Cash and Cash Equivalents, Cash Flow Statement, Ending Balance	129,659	159,699
Restricted	5,930	7,320
Non-restricted	129,659	159,699

PPE-property, plant and equipment

- 1(d)(i) A statement (for the issuer and group) showing either**
- (i) all changes in equity or**
 - (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

STATEMENT OF CHANGES IN EQUITY

	Group					
	Total Equity	Attributable to Parent Sub-total	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves	Non Controlling Interest
<u>3 Months ended 31 March 2014</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Opening Balance at 1 January 2014	323,285	323,718	401,392	(121,090)	43,416	(433)
Movement in Equity:						
Total Comprehensive Income for the Period	14,330	14,425	-	12,224	2,201	(95)
Closing Balance at 31 March 2014	337,615	338,143	401,392	(108,866)	45,617	(528)

	Group					
	Total Equity	Attributable to Parent Sub-total	Share Capital	Retained Earnings	Other Reserves	Non Controlling Interest
<u>3 Months ended 31 March 2013</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Opening Balance at 1 January 2013	314,693	312,341	401,392	(138,025)	48,974	2,352
Movement in Equity:						
Total Comprehensive Income for the Period	12,691	12,627	-	13,353	(726)	64
Closing Balance at 31 March 2013	327,384	324,968	401,392	(124,672)	48,248	2,416

	Company			
	Total Equity	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
3 Months ended 31 March 2014				
Opening Balance at 1 January 2014	407,313	401,392	5,966	(45)
Movement in Equity:				
Total Comprehensive Income for the Period	11,558	-	(848)	12,406
Closing Balance at 31 March 2014	418,871	401,392	5,118	12,361

	Company			
	Total Equity	Share Capital	Retained Earnings/ (Accumulated Losses)	Other Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
3 Months ended 31 March 2013				
Opening Balance at 1 January 2013	436,772	401,392	8,938	26,442
Movement in Equity:				
Total Comprehensive Income for the Period	(8,896)	-	(825)	(8,071)
Closing Balance at 31 March 2013	427,876	401,392	8,113	18,371

1(d)(ii) SHARE CAPITAL

Details of any changes in company's share capital arising from rights issue, bonus issue, share buy backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There were no changes in the Company's share capital for the year ended 31 March 2014.

The Company did not have any outstanding convertibles and treasury shares as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

1(d)(iii) To show the total number of issued shares (excluding treasury shares) as at the end of the current financial period and as at the end of the immediately proceeding year.

	As at 31/03/2014	As at 31/12/2013
Total Number of Issued Shares	439,627,300	439,627,300
Less: Treasury Shares	-	-
Total Number of Issued Shares Excluding Treasury Shares	439,627,300	439,627,300

1(d)(iv) A statement showing all sales, transfers disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited, or reviewed in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard.

The figures have not been audited or reviewed by our auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements.

The above financial information has been prepared using the same accounting policies and methods of computation as presented in the financial statements for the year ended 31 December 2013, except for the new and revised Financial Reporting Standards (FRS) adopted which came into effect for the accounting periods beginning on or after 1 January 2014. The adoption of the new FRS has no material impact on the financial statements of the Group.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons form and the effect of, the change.

Please refer to note 4 above.

6. Earning per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:

- (a) based on the weighted average number of ordinary share on issue and
(b) on a fully diluted basis (detailing any adjustments made to the earnings)

	Group	
	3 months to 31/03/2014	3 months to 31/03/2013
Earning/(Losses) Per Share Based on Group's Net Profit Attributable to Shareholders:		
(i) Based on the Weighted Average Number of Ordinary Shares on Issue (RMBcents)	2.78	3.04
(ii) Based on Fully Diluted Basis (RMBcents)	2.78	3.04
Number of Existing Issued Ordinary Shares (weighted average)	439,627,300	439,627,300
Number of Existing Issued Ordinary Shares (fully diluted)	439,627,300	439,627,300

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-

- (a) current period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	As at 31/03/2014	As at 31/12/2013	As at 31/03/2014	As at 31/12/2013
Net Asset Value Per Share (RMBcents)	76.92	73.63	95.28	92.65
Number of Existing Issued Ordinary Shares (period end)	439,627,300	439,627,300	439,627,300	439,627,300

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the Group's business. The review must discuss any significant factors that affected the turnover, costs and earning of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period report on.

PERFORMANCE REVIEW

(a) GROUP INCOME STATEMENT

Revenue

The Group's revenues increased by 0.7% from RMB 490.5 million for the 1st quarter ended 31 March 2013 ("Q1 2013") to RMB 494.1 million for the 1st quarter ended 31 March 2014 ("Q1 2014"). Sales of finished goods for Q1 2014 were RMB 473.6 million, posting a decrease of RMB 5.3 million or 1.1% over the corresponding period last year. Sales of materials for Q1 2014 were RMB 20.5 million, increased by 76.7%, or RMB 8.9 million from Q1 2013.

Due to the increase in average selling prices and improvement in product mix, the sales of liquid milk posted an increase of 4.4 million or 1.29% from RMB 339.6 million for Q1 2013 to RMB 344.0 million for Q1 2014. However, the sales of milk powder decreased by 6.92% from RMB 139.3 million for Q1 2013 to RMB 129.7 million for Q1 2014 due to decrease in sale of lower margin products in face of higher material cost and decrease in average sell price in some provinces.

Gross Profit

Gross profit of the Group decreased by 1.2%, or RMB 1.8 million from RMB 153.2 million for Q1 2013 to RMB 151.4 million for Q1 2014. Gross profit margin in Q1 2014 decreased 0.6% compared to Q1 2013.

The gross profit margin of liquid milk segment increased by 2.1 percentage point from 24.9% for Q1 2013 to 27.0% for Q1 2014 due to higher average selling prices. However, milk powder segment decreased by 2.4 percentage point from 46.6% for Q1 2013 to 44.2% for Q1 2014 due to higher material cost and decrease in average sell price in some provinces.

Other Credits

Other credits increased by 255.4% mainly because the increase in gain from disposal of investment in subsidiary Tianjin, government grant and other income offset the absence of foreign exchange adjustments gain.

Marketing and Distribution Costs

Marketing and distribution costs increased by 1.8% in Q1 2014 compared to the same period last

year.

Administrative Expenses

Administrative expenses decreased by 20.8% in Q1 2014 compared to the same period last year. The decreases was resulted primarily from a decrease in other taxes.

Finance Costs

Finance costs decreased by 29.5% in Q1 2014 compared to the same period last year. This was mainly due to decrease in interest expenses result from less bank borrowings compared with the same period in 2013.

Other Charges

Other charges increased from Q1 2013 to Q1 2014 due to increase in inventories written off, foreign exchange adjustments loss and loss on disposal of plant and equipment.

Share of Profit/Loss from Associate

The share of loss from an associate was a result of loss incurred by Shaanxi Aomeihui Dairy Technology Co., Ltd (陕西澳美慧乳业科技有限公司(“Aomeihui”)) during the year.

Profit/Loss Before Tax

As a result of the above, profit before tax was RMB 13.5 million in Q1 2014, as compared to profit before tax RMB 13.4 million in Q1 2013.

Profit/Loss , Net of Tax

Profit after income tax was RMB 12.1 million for Q1 2014, as compared to profit after tax RMB 13.4 million for Q1 2013.

(b) STATEMENTS OF FINANCIAL POSITION

The increase in trade and other receivables of 25.9%, or RMB 31.8 million, due to changes in customer mix.

Other assets-current decreased by 14.6%, or RMB 9.1 million as prepayments to suppliers decreased.

Cash and cash equivalents increased by 45.3%, or RMB 42.2 million due to profit marking in the period.

Finance lease liabilities decreased by 5.8% or RMB 0.5 million due to payment of finance lease liabilities in current period.

Trade and other payable increased by 13.2% or RMB 55.6 million due to increase in credit term enjoyed for purchase.

Other liabilities-current decreased by 33%, or RMB 3.9 as advances from customers decreased.

Negative working capital is mainly due to the presence of other financial liabilities which were short term in nature. However, these are revolving financing facilities which can be rolled-forward as and when due.

(c) GROUP STATEMENT OF CASH FLOWS

Net cash from operating activities was RMB 55.1 million for Q1 2014 mainly because the group generated profit in the quarter and decrease in working capital employed

Net cash used in investing activities was RMB 10.2 million for Q1 2014 mainly because of addition in PPE.

Net cash used in financing activities was RMB 4.3 million for Q1 2014 mainly due to payment of interest and increase in cash restricted in use over 3 months.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Group's performance for 3 months ended 31 March 2014 is consistent with its prospect statement as announced on 28 February 2014.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The rising prices of key raw materials continue to exert pressure on the Group's profit margin. The Group also anticipates that the dairy industry environment will remain challenging and competition will still be intense. However, it will continue retaining its liquid milk leading position in its home market of Shaanxi Province through stringent quality management, increasing sales contribution from higher end products and effective sales and marketing programs.

Aiming at long term competitiveness, the Group will continue to invest in product quality, product innovation, branding and its distribution network.

11. Dividend

(a) Current Financial Period Reported On Any dividend declared for the current financial period reported on?

No dividend has been declared for the current financial period.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

Not Applicable.

(c) Date payable

Not Applicable.

(d) Books closure date

Not Applicable.

12. If no dividend has been declared / recommended, a statement to that effect.

Not Applicable.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.,

Not Applicable.

14. NEGATIVE CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5)

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial results for the period ended 31 March 2014 to be false or misleading.

BY ORDER OF THE BOARD

Liu Huaguo
Director
Date: 14/05/2014

Kong Jing
Director
Date: 14/05/2014