MODERN FARMING
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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Revenue for the year ended 31 December 2017 amounted to approximately RMB4,784 million, representing a slight decrease of approximately 1.6% (2016: RMB4,862 million).
- Sales volume of raw milk (totalling external and internal sales) amounted to approximately 1.15 million tons, representing a year-on-year 13.8% increase.
- Reduced in the cash cost of raw milk to RMB2.43/kg for the year ended 31 December 2017 (2016: RMB2.53/kg), as a result of effective cost control of the Group's farms.
- Increased in the average annual milk yield to 9.8 tons per milkable cow for the year ended 31 December 2017, representing an uplift of 0.4 tons or 4.3% (2016: 9.4 tons per milkable cow), attributable to the efficient operation of dairy farming.
- Pure milk of the Group was, for the fourth consecutive year, awarded the gold prize of Monde Selection, a honor generally regarded as "Nobel Prize" in the food and beverage industry, whereas the Company's Yogurt has grabbed the silver prize for the first time at the same event, signifying the Group's products have already been well recognized globally.
- Disposal of interest in milk production business units to Mengniu Group to form joint venture was approved by shareholders in early of 2018. By leveraging on Mengniu's Group's solid distribution network and marketing team, the Group could focus on upstream dairy farm business with secure robust income while strategically exploit new products.
- Launch of "Fresh" (「鮮語」), the Group's new pure milk product which made its debut in July 2017, is well recognized by the retail market.
- Synergies with Mengniu Group are emerging along with the completion of the mandatory cash offer by Mengniu which increased its interest in the Company. Positive synergistic effect was reflected on areas of procurement, financing, sales and marketing, production capacity and brand development.

* *For identification purpose only*

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2017, together with comparative figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
Revenue	*5*	**4,783,801**	4,862,311
Cost of sales before raw milk fair value adjustments		**(3,352,957)**	(3,258,127)
Raw milk fair value adjustments included in cost of sales		**(1,228,046)**	(1,116,860)
Loss arising from changes in fair value less costs to sell of dairy cows		**(868,337)**	(1,058,928)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		**1,228,046**	1,116,860
Other income		**51,832**	69,860
Selling and distribution costs		**(372,602)**	(786,929)
Administrative expenses		**(356,486)**	(274,210)
Share of loss of an associate		**(205)**	(1,616)
Other gains and losses, net		**(531,097)**	125,554
Other expenses		**(20,428)**	(94,324)
Loss before finance costs and tax	*6*	**(666,479)**	(416,409)
Finance costs	*7*	**(328,395)**	(368,582)
Loss before tax		**(994,874)**	(784,991)
Income tax credit (expense)	*8*	**27**	(504)
Loss and total comprehensive expense for the year		**(994,847)**	(785,495)
Loss and total comprehensive expense attributable to:			
Owners of the Company		**(975,116)**	(742,103)
Non-controlling interests		**(19,731)**	(43,392)
		(994,847)	(785,495)
Loss per share (RMB)	*10*		
Basic		**(16.19) cents**	(13.99) cents
Diluted		**(16.19) cents**	(13.99) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**4,698,736**	5,075,030
Land use rights		**125,802**	126,679
Goodwill		**1,424,539**	1,424,539
Interest in an associate		**–**	1,887
Available-for-sale equity investment		**12,934**	24,955
Biological assets		**7,751,070**	7,602,959
		14,013,081	14,256,049
CURRENT ASSETS			
Inventories		**848,635**	980,515
Trade and other receivables and advanced payments	12	**1,022,069**	1,348,480
Land use rights		**4,106**	4,012
Other financial assets		**31,704**	11,236
Pledged bank balances and non-pledged bank deposits		**131,467**	356,624
Cash and bank balances		**666,519**	851,788
		2,704,500	3,552,655
CURRENT LIABILITIES			
Trade and other payables	13	**2,019,466**	2,781,727
Tax payable		**2**	57
Bank borrowings – due within one year		**1,564,228**	3,278,325
Short-term debentures		**–**	799,425
Medium-term notes		**1,198,922**	–
Other borrowings – due within one year		**1,103,799**	38,527
Other financial liabilities		**–**	927,058
		5,886,417	7,825,119
NET CURRENT LIABILITIES		**(3,181,917)**	(4,272,464)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,831,164**	9,983,585
CAPITAL AND RESERVES			
Share capital		**526,058**	452,959
Share premium and reserves		**6,443,064**	6,568,554
Equity attributable to owners of the Company		**6,969,122**	7,021,513
Non-controlling interests		**119,307**	101,383
		7,088,429	7,122,896
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year		**1,913,029**	607,500
Medium-term notes		**599,458**	1,796,605
Corporate bonds		**1,045,761**	249,020
Other borrowings – due after one year		**–**	36,962
Deferred income		**184,487**	170,602
		3,742,735	2,860,689
		10,831,164	9,983,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31 December 2017

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

China Modern Dairy Holdings Ltd. (the "Company") is a limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, 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"). As at 31 December 2017, China Mengniu Dairy Co., Ltd. ("Mengniu") and Future Discovery Limited, its subsidiary together owned 60.76% of the issued share capital of the Company.

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").

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparation of the consolidated financial statements for the year ended 31 December 2017, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of that the Group incurred a net loss of RMB994,847,000 for the year ended 31 December 2017 (2016: RMB785,495,000) and, as of that date, the Group's current liabilities exceeded its total current assets by RMB3,181,917,000 (2016: RMB4,272,464,000). Having considered the available credit facilities of approximately RMB6,306,479,000 which remains unutilised as at 31 December 2017, 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.

3. 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 the following amendments to IFRSs for the first time in the current year.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle

Except as described below, 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.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[2]

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 a date to be determined
4. Effective for annual periods beginning on or after 1 January 2021

Except for the new IFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual items that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 Financial Instruments: Recognition and Measurement. 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 Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

- Debt instruments classified as loan and receivables carried at amortised cost as disclosed in note 12, these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. The Directors do not expect that the Group will continue to accept bills receivable as settlement of trade receivables in the future. Accordingly these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.

- Equity securities classified as available-for-sale ("AFS") equity investments carried at cost less impairment: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. At 31 December 2017, the Group performed an impairment assessment and recorded an impairment loss of RMB12,021,000, therefore the Directors consider the fair value of the AFS equity investment of the Group approximate its carrying value at 1 January 2018 and no fair value adjustment would be made to the Group's investment revaluation reserve at 1 January 2018 upon initial application of IFRS 9.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subjects to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers and the related Amendments

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.

In 2016, the International Accounting Standards Board (the "IASB") issued clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments for land use rights as investing cash flows while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset for prepaid lease payments for land use rights where the Group is a lessee. The Group's prepaid lease payments cover the entire lease terms of the respective land use rights. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Upon application of IFRS 16, assessing whether the transfer of the assets is a sale under sale and leaseback transaction will be based on the requirements of IFRS 15 Revenue from Contracts with Customers.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments as lessee of RMB11,893,000 as disclosed in note 14. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, upon the application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. 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.

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.

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 Operating Segments are as follows:

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

Segment revenue, results, assets and liabilities

	Dairy farming *RMB'000*	**Liquid milk products** *RMB'000*	**Subtotal** *RMB'000*	**Inter-segment elimination*** *RMB'000*	**Total** *RMB'000*
For the year ended 31 December 2017					
Segment revenue	**4,399,358**	**664,609**	**5,063,967**	**(280,166)**	**4,783,801**
Segment cost of sales before raw milk fair value adjustments	**3,031,208**	**604,629**	**3,635,837**	**(282,880)**	**3,352,957**
Reportable segment profit (loss)	**791,894**	**(727,560)**	**64,334**	**2,714**	**67,048**
Loss arising from changes in fair value less costs to sell of dairy cows					**(868,337)**
Share of loss of an associate					**(205)**
Unallocated other income					**898**
Unallocated other gains and losses					**(34,372)**
Unallocated expenses					**(159,906)**
Loss before tax					**(994,874)**
As at 31 December 2017					
Segment assets	**14,761,917**	**893,749**	**15,655,666**	**(6,682)**	**15,648,984**
Unallocated assets					**1,068,597**
Consolidated assets					**16,717,581**
Segment liabilities	**8,661,962**	**934,280**	**9,596,242**	**(1,027)**	**9,595,215**
Unallocated liabilities					**33,937**
Consolidated liabilities					**9,629,152**

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB280,166,000, which are charged at internally agreed prices with reference to the local market prices between dairy farming segment and liquid milk products segment.

	Dairy farming *RMB'000*	Liquid milk products *RMB'000*	Subtotal *RMB'000*	Inter-segment elimination* *RMB'000*	Total *RMB'000*
For the year ended 31 December 2016					
Segment revenue	3,988,043	1,478,744	5,466,787	(604,476)	4,862,311
Segment cost of sales before raw milk fair value adjustments	2,763,230	1,099,127	3,862,357	(604,230)	3,258,127
Reportable segment profit (loss)	501,238	(355,719)	145,519	(246)	145,273
Loss arising from changes in fair value less costs to sell of dairy cows					(1,058,928)
Share of loss of an associate					(1,616)
Unallocated other income					10,577
Unallocated other gains and losses					229,228
Unallocated expenses					(109,525)
Loss before tax					(784,991)
As at 31 December 2016					
Segment assets	16,153,073	1,894,221	18,047,294	(942,720)	17,104,574
Unallocated assets					704,130
Consolidated assets					17,808,704
Segment liabilities	8,847,228	1,804,468	10,651,696	(934,350)	9,717,346
Unallocated liabilities					968,462
Consolidated liabilities					10,685,808

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB604,476,000, which are charged at internally agreed prices with reference to the local market prices between dairy farming segment and liquid milk products segment.

Other segment information

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

	Dairy farming *RMB'000*	Liquid milk products *RMB'000*	Subtotal *RMB'000*	Unallocated items *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017					
Additions to non-current assets *(note i)*	**1,631,441**	**43,194**	**1,674,635**	**403**	**1,675,038**
Depreciation and release of land use rights charged to profit or loss	**273,349**	**73,578**	**346,927**	**1,901**	**348,828**
Impairment loss of trade and other receivables recognised in profit or loss	**–**	**495,381**	**495,381**	**–**	**495,381**
Marketing and promotion expenses included in selling and distribution costs *(note ii)*	**–**	**92,504**	**92,504**	**–**	**92,504**
Loss on disposal of property, plant and equipment	**7,983**	**311**	**8,294**	**2,974**	**11,268**
Interest income	**(819)**	**(196)**	**(1,015)**	**(7,151)**	**(8,166)**
Finance costs	**322,103**	**6,292**	**328,395**	**–**	**328,395**
For the year ended 31 December 2016					
Additions to non-current assets *(note i)*	1,790,846	87,584	1,878,430	1,527	1,879,957
Depreciation and release of land use rights charged to profit or loss	253,960	65,261	319,221	4,173	323,394
Impairment loss of trade receivables recognised in profit or loss	1,589	–	1,589	–	1,589
Impairment loss on goodwill	16,955	–	16,955	–	16,955
Impairment loss on property, plant and equipment	69,061	–	69,061	–	69,061
Write-down of inventories to net realisable value	9,701	–	9,701	–	9,701
Marketing and promotion expenses included in selling and distribution costs *(note ii)*	–	507,731	507,731	–	507,731
Loss on disposal of property, plant and equipment	5,861	411	6,272	985	7,257
Interest income	(4,786)	(337)	(5,123)	(10,199)	(15,322)
Finance costs	339,943	28,639	368,582	–	368,582

Notes:

i. Additions to non-current assets comprise biological assets, property, plant and equipment, and land use rights.

ii. Marketing and promotion expenses are incurred for the purpose of promoting the Group's liquid milk products. The Group underwent a reform of its distribution networks to deal with the market competition during the year ended 31 December 2016. Since May 2017, the majority of the Group's liquid milk products were sold to Mengniu and its subsidiaries ("Mengniu Group") and no marketing activities were carried out thereafter.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit or loss represents the profit earned by or loss incurred from each segment without including loss arising from changes in fair value less costs to sell of dairy cows, fair value gains/losses from financial assets and liabilities at FVTPL, share of loss of an associate, 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 the 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 AFS equity investment, interest in an associate, corporate cash and bank balances, other financial assets and other head office and corporate assets; and

- all liabilities are allocated to operating segments other than tax payable, other financial liabilities and other head office or corporate liabilities

Revenue from major products

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

	2017	2016
	RMB'000	*RMB'000*
Raw milk	**4,119,192**	3,383,567
Processed liquid milk	**664,609**	1,478,744
	4,783,801	4,862,311

Geographic information

Since all 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 RMB4,119,192,000 (2016: RMB3,383,567,000) are revenue of approximately RMB3,304,833,000 (2016: RMB2,349,781,000) which arose from sales to a single external customer. During the current year, the Group also sold liquid milk products of RMB239,307,000 (2016: nil) to this customer.

6. LOSS BEFORE FINANCE COSTS AND TAX

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

	2017 *RMB'000*	2016 *RMB'000*
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	**2,828,951**	2,339,029
Production costs for liquid milk products	**524,006**	919,098
	3,352,957	3,258,127
Gains arising on initial recognition of raw milk at fair value less cost to sell at the point of harvest	**1,228,046**	1,116,860
	4,581,003	4,374,987
Other gains and losses:		
Fair value gain from contingent considerations	**–**	(228,540)
Loss from settlement of Modified Considerations	**15,361**	–
Loss (gains) from disposal/deemed disposal of an associate	**239**	(1,462)
Net foreign exchange (gain) loss	**(10,199)**	11,424
Loss from disposal of inventories	**5,134**	–
Loss from disposal of property, plant and equipment	**11,268**	7,257
Loss arising from closure of a dairy farm:		
Impairment loss on property, plant and equipment	**–**	69,061
Write-down of inventories to net realisable value	**–**	9,701
	–	78,762
Impairment loss of trade and other receivables:		
Impairment loss on trade receivables	**495,271**	1,589
Impairment loss on other receivables	**110**	–
	495,381	1,589
Impairment loss on AFS equity investment	**12,021**	–
Impairment loss on goodwill	**–**	16,955
Fair value loss (gain) on the foreign currency forward	**1,949**	(11,236)
Gains on derecognition of financial liabilities	**(57)**	(303)
	531,097	(125,554)
Depreciation of property, plant and equipment	**586,283**	552,306
Less: capitalised in biological assets	**(241,561)**	(233,570)
Depreciation charged to profit or loss	**344,722**	318,736
Equity-settled share option expense	**92,623**	43,143
Share award expense	**14,517**	–
Other employee benefits costs	**478,750**	449,382
Less: capitalised in biological assets	**(113,903)**	(121,616)
Employee benefits charged to profit or loss	**471,987**	370,909
Auditors' remuneration	**2,700**	5,000
Release of land use rights	**4,106**	4,658

7. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest expenses on:		
Bank borrowings	**162,453**	230,012
Short-term debentures	**28,496**	43,529
Medium-term notes	**93,675**	71,624
Other borrowings	**25,588**	5,112
Corporate bonds	**47,508**	5,263
Total borrowing cost	**357,720**	355,540
Less: amounts capitalised for construction of property, plant and equipment	**(537)**	(3,033)
Cost of discount of bills receivable	**2,965**	15,949
Fair value (gain) loss on interest rates swaps	**(31,753)**	126
	328,395	368,582

For the year ended 31 December 2017, 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 5.46% per annum (2016: 5.46% per annum).

8. INCOME TAX (CREDIT) EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	**156**	504
Over provision in prior years:		
PRC Enterprise Income Tax	**(183)**	–
	(27)	504

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 Holdings Limited ("Aquitair") from Modern Farming (Group) Co., Ltd. ("Modern Farming"), a PRC subsidiary of the Group and the holding company of other PRC subsidiaries of the Group, is subject to Irish Income Tax at 25%. As at 31 December 2017, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farming was approximately RMB1,153,383,000 (31 December 2016: RMB1,562,974,000). 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.

According to the prevailing tax rules and regulation in the PRC, 18 subsidiaries (2016: 16 subsidiaries) of the Group are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC for the year ended 31 December 2017.

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 loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017	2016
	RMB'000	*RMB'000*
Loss before tax	**(994,874)**	(784,991)
Tax at applicable income tax rate at 25% (2016: 25%)	**(248,719)**	(196,248)
Effect of tax exemption granted to agricultural entities	**(40,689)**	(76,682)
Effect of losses incurred for agricultural business and other non-deductible expenses	**249,422**	121,007
Tax effect of tax losses not recognised	**40,190**	152,427
Utilisation of tax losses previously not recognised	**(48)**	–
Over provision in respect of prior years	**(183)**	–
Income tax expense	**(27)**	504

As at 31 December 2017, the Group's PRC subsidiaries had unused tax losses of RMB307,528,000 (31 December 2016: RMB146,963,000) incurred by non-agricultural business in the PRC. These unused tax losses as at 31 December 2017 will expire in year 2018 to year 2022 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.

9. DIVIDENDS

No dividend (2016: nil) was paid or proposed for ordinary shareholders of the Company during 2017, nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

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

	2017	2016
	RMB'000	*RMB'000*
Loss		
Loss for the purposes of basic and diluted loss per share	**(975,116)**	(742,103)

	2017	2016
	Shares	*Shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,022,884,528**	5,302,909,436

The number of shares adopted in the calculation of the basic loss per share has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme. The calculation of diluted loss per share for the year ended 31 December 2017 and 2016 has not taken into account the effect of the share options and share awards of the Company, as appropriate, since the assumed exercise and vesting would result in decrease in loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Plant and equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
Balance at 1 January 2016	4,909,023	27,143	1,897,718	163,977	6,997,861
Additions	–	1,597	64,782	264,636	331,015
Transfer	182,812	–	145,631	(328,443)	–
Disposals	(11,853)	(2,319)	(59,170)	–	(73,342)
Balance at 31 December 2016	5,079,982	26,421	2,048,961	100,170	7,255,534
Additions	**–**	**457**	**49,539**	**177,268**	**227,264**
Transfer	**167,090**	**–**	**58,978**	**(226,068)**	**–**
Disposals	**(16,992)**	**(4,011)**	**(63,341)**	**–**	**(84,344)**
Balance at 31 December 2017	**5,230,080**	**22,867**	**2,094,137**	**51,370**	**7,398,454**
Accumulated depreciation					
Balance at 1 January 2016	(993,801)	(9,697)	(574,838)	–	(1,578,336)
Charge for the year	(324,355)	(2,313)	(225,638)	–	(552,306)
Eliminated on disposals of assets	5,354	1,993	54,480	–	61,827
Balance at 31 December 2016	(1,312,802)	(10,017)	(745,996)	–	(2,068,815)
Charge for the year	**(314,747)**	**(1,752)**	**(269,784)**	**–**	**(586,283)**
Eliminated on disposals of assets	**8,591**	**3,383**	**48,952**	**–**	**60,926**
Balance at 31 December 2017	**(1,618,958)**	**(8,386)**	**(966,828)**	**–**	**(2,594,172)**
Impairment					
Balance at 1 January 2016	(41,528)	(15)	(1,085)	–	(42,628)
Charge for the year	(62,652)	(99)	(6,310)	–	(69,061)
Balance at 31 December 2016	(104,180)	(114)	(7,395)	–	(111,689)
Eliminated on disposal	**4,163**	**32**	**1,948**	**–**	**6,143**
Balance at 31 December 2017	**(100,017)**	**(82)**	**(5,447)**	**–**	**(105,546)**
Carrying amounts					
Balance at 31 December 2017	**3,511,105**	**14,399**	**1,121,862**	**51,370**	**4,698,736**
Balance at 31 December 2016	3,663,000	16,290	1,295,570	100,170	5,075,030

As at 31 December 2017, certain of the Group's buildings, plant and equipment with an aggregate carrying amount of RMB93,877,000 (2016: RMB107,782,000) have been pledged as security for other borrowings of the Group. At 31 December 2016, buildings, plant and equipment with an aggregate carrying amount of RMB133,734,000 have been pledged as security for bank borrowings of the Group.

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%

Impairment losses recognised

Since November 2014, the Group's operation of Modern Farming (Tongshan) Co., Ltd ("Tongshan Farm") was suspended. In 2016, management of the Company determined that the operation of Tongshan Farm would not be resumed in the foreseeable future. Management of the Group carried out an impairment review of the recoverable amount of property, plant and equipment in Tongshan Farm and recognised impairment for property, plant and equipment of Tongshan Farm and recorded impairment loss of RMB69,061,000 in other gains and losses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

12. TRADE AND OTHER RECEIVABLES AND ADVANCED PAYMENTS

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**1,392,547**	1,217,606
Bills receivable	**500**	1,500
Less: allowance for doubtful debts *(note)*	**(495,167)**	(1,589)
	897,880	1,217,517
Advanced payments for feeds and materials	**97,178**	82,787
Input value added tax recoverable	**21,457**	31,261
Interest receivables	**144**	694
Receivables in respect of disposal of property, plant and equipment	**–**	9,842
Others	**5,410**	6,379
	1,022,069	1,348,480

Note: In June 2017, the Group entered into a framework supply and processing agreement with Mengniu Group, pursuant to which the Group agreed to sell its liquid milk products to Mengniu Group to enlarge its market share by leveraging the established distribution channel of Mengniu Group. In the meantime, the Group discontinued its direct cooperation with other major distributors (the "Distributors"). These Distributors have been engaged by Mengniu Group as the secondary distributors of Mengniu Group for distribution of liquid milk products of the Group. In view of the termination of the direct distributorship with these Distributors and the delay of repayments, the Group anticipated the trade receivable of RMB1,069,543,000 due from these Distributors may not be fully recovered. After taking into account of the present value of future collection and the security of 318,697,354 ordinary shares of the Company provided by certain individuals who used to be the non-controlling equity holders of Modern Farming (Anhui) Dairy Product Sales Co., Ltd. ("Modern Farming Anhui") and were responsible for selecting distributors, an impairment loss of RMB488,489,000 was recognised in respect of the Group's trade receivables due from these Distributors. The Group will closely monitor the operations of these Distributors and reinforce collection to the extent possible.

The Group allows credit periods of 30 to 360 days to its customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts 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:

	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
– within 120 days	**314,426**	672,426
– beyond 120 days but within 360 days	**77,583**	461,328
– beyond 360 days but within 720 days	**505,371**	82,263
Bills receivable		
– within 120 days	**500**	–
– beyond 120 days but within 360 days	**–**	1,500
	897,880	1,217,517

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. Credit quality and credit limits attributed to customers are reviewed once a year. As at 31 December 2017, 41% (2016: 92%) of the trade receivables that are neither past due nor impaired have the best credit scoring under the internal credit scoring system used by the Group.

Aged analysis of trade receivables which are past due but not impaired

	2017	2016
	RMB'000	*RMB'000*
1-90 days past due	**201,975**	72,441
91-180 days past due	**165,443**	25,966
181-270 days past due	**99,327**	–
271-360 days past due	**61,931**	–
Over 360 days past due	**4,828**	–
Total	**533,504**	98,407

Movements in the allowance for doubtful debts

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**1,589**	–
Impairment loss recognised during the year	**495,271**	1,589
Amounts written off as uncollectible	**(1,693)**	–
At 31 December	**495,167**	1,589

Included in the allowance of doubtful debts are individually impaired trade receivable with an aggregate balance of RMB495,167,000 (2016: RMB1,589,000).

Transfers of financial assets

At 31 December 2016, bills receivable amounting to RMB1,500,000 were transferred to suppliers by endorsing those receivables on a full recourse basis. 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. No such transfer was made during the year ended 31 December 2017 which was outstanding at 31 December 2017.

Bills receivable endorsed to suppliers with full recourse

	2017	2016
	RMB'000	*RMB'000*
Carrying amount of transferred assets	**–**	1,500
Carrying amount of associated liabilities	**–**	(1,500)
Net position	**–**	–

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

13. TRADE AND OTHER PAYABLES

The credit period granted by suppliers for trade purchases is generally 120 days. The following is an aged analysis of trade and bills payable at the end of the reporting period:

	2017	2016
	RMB'000	*RMB'000*
Trade payables		
– within 60 days	**926,757**	1,204,450
– beyond 60 days but within 120 days	**296,373**	213,399
– beyond 120 days but within 360 days	**44,959**	80,461
– beyond 360 days but within 720 days	**10,483**	3,832
Bills payable *(note)*	**61,458**	377,055
	1,340,030	1,879,197
Payable for acquisition of property, plant and equipment	**393,745**	554,959
Accrued staff costs	**84,548**	70,965
Accrued interest expenses	**113,890**	102,009
Advance payments from customers	**17,791**	77,119
Others	**69,462**	97,478
	2,019,466	2,781,727

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

14. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments under operating leases recognised during the year is RMB22,390,000 (2016: RMB23,020,000).

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:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**9,485**	11,078
In the second to fifth year inclusive	**2,225**	9,666
Over five years	**183**	–
	11,893	20,744

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

15. EVENTS AFTER REPORTING PERIOD

The Group had the following significant events after the reporting period:

On 21 December 2017, the Board passed a resolution to sell 50% equity interests in Modern Farming (Feidong) Co., Ltd. (the "Feidong") and Modern Farming (Bengbu) Co., Ltd. (the "Bengbu"), which are engaged in the production of liquid milk products to Mengniu Group at mutually agreed prices. On 22 January 2018, Modern Farming and Inner Mongolia Mengniu Dairy (Group) Company Limited (the "Inner Mongolia Mengniu") entered into two share transfer agreements, pursuant to which Modern Farming agreed to sell, and Inner Mongolia Mengniu agreed to acquire 50% equity of Feidong and Bengbu at an aggregate cash consideration of RMB56.04 million.

Given the share transfer agreements will not be effective until they are approved by the shareholders of the Company and Mengniu and its concerting parties is not permitted to vote in the shareholders meeting, the Directors are in the opinion that probability of the approval of the share transfer agreements remained uncertain at 31 December 2017 and therefore the definition of disposal group held for sale pursuant to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations was not met at 31 December 2017.

The share transfer agreements were approved by the shareholders of the Company at the extraordinary general meeting held on 2 March 2018.

INDUSTRY OVERVIEW: SURVIVED AFTER COLD WINTER

After the Chinese Lunar New Year in 2017, as demand for raw milk from major dairy enterprises plunged, surplus of raw milk in the market led to a continuous decrease in raw milk price. For each summer as a seasonal effect, raw milk production decreases due to the heat stress of cows caused by the high temperature and rainy weather throughout the country. The upstream dairy industry suffered from distressed business environment, with small-scale farms' withdrawal from the market and large-scale farms' decreasing operation profitability.

In the second half of 2017, International Farm Comparison Network (IFCN) announced at the 18th IFCN Dairy Conference held in Kyle, Germany that the second global dairy crisis since 2013 has come to an end and the global milk price was entering a new cycle in 2018. The supply and demand of raw milk gradually struck the balance in the second half of 2017 as a result of decline in domestic dairy herd size. The oversupply situation was eased and the domestic raw milk price rebounded significantly comparing with the first half of 2017.

Since dairy industry is an important indicator of a country's agricultural modernization level, it is strategically significant to develop, expand and rejuvenate it to achieve a moderately prosperous society. In view of this, the relevant state departments have taken a series of supportive policies: in early 2017, the "National Development Planning for Dairy Industry (2016-2020) (《全國奶業發展規劃 (2016-2020)》)" jointly formulated by the Ministry of Agriculture, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce, and the Food and Drug Administration was officially promulgated, putting forward eleven major tasks such as " Developing Standardized Dairy Farming in Large-scale", "Accelerating Industrial Integration" and "Building Domestic Dairy Brands"; in June, the Dairy Association of China held the 8th Dairy Conference of China & the 2017 China Dairy Exhibition; in July, D20 Summit of the Dairy Industry of China 2017 which was themed "Building Brands and Revitalizing Dairy Industry", was held; The Dairy Association of China and Milk and Dairy Products Quality Supervision Inspection and Test Center of Ministry of Agriculture jointly released " Quality Report of China Dairy Industry (2017) (《中國奶業質量報告(2017)》)"; on 1 January 2018, the most stringent registration system for infant milk powder formula was officially implemented. The introduction of these series of policies marked the state's determination to lead the reform, reshape the layout in the dairy industry and become a strong dairy nation.

With the ongoing upgrades of domestic consumption in the first and second tier cities, the breaking of urban-rural dualistic structure, and the wealth effect in the third and fourth tier cities, the domestic consumption for high-quality dairy products is available for further improvements which means a great potential for the dairy industry. Currently, China's dairy industry is under transformation. Only large-scale farms with intensive, detailed and scientific operation can fulfill the growing demand for high-quality raw milk. The integration of upstream and lower stream business helps to build a win-win situation and has become the trend of dairy industry.

After a three-year low, the international raw milk price has rebounded in second half of 2017, with domestic supply and demand reaching equilibrium by the end of 2017. Raw milk price has entered into a upward trend cycle and the industry is heading towards a brand-new spring of hope and revival.

BUSINESS REVIEW: FREE FROM BURDEN AND STRENGTHEN COORDINATION, FOCUS ON UPSTREAM WITH EXISTING ADVANTAGES

In 2017, revolution, cooperation and transformation were the three key words of the Group. During the year, the Group was primarily engaged in two businesses: (i) dairy farming business, which mainly involves the production and sales of raw milk to customers for processing into dairy products; and (ii) the business of branded liquid milk which mainly involves the production and sales of liquid milk product. In June 2017, the Group has preliminary entered into a supply and processing framework agreement with Mengniu Group, pursuant to which the Group sell the branded liquid milk products to Mengniu Group by the way of cost plus 3%, and Mengniu Group would be responsible for the sales and distribution of the Group's brand milk products. In January 2018, the Group announced that Modern Farming and Inner Mongolia Mengniu entered into two share transfer agreements, pursuant to which Modern Farming agreed to sell, and Inner Mongolia Mengniu agreed to acquire 50% of Feidong and Bengbu which are attributed to two milk production business units. Feidong and Bengbu will cease to be subsidiaries of the Group upon completion of the Disposal which was approved by shareholders of the Company in March 2018.

For the reporting period, the Group has continued in striving for high standards on raw milk quality and won the market trust by our high-end products with "purity, genuineness, freshness and vitality", the integration of "planting – farming – processing" and the advanced production model of two-hour milking to processing. The Group also adheres to the principle of prioritized safety, proactively develops and implements modern scientific breeding and feeding know-how. On the cost aspect, the Group has lowered operating costs by refining management, improving nutrients, and taking measures to economize expenditure. On the income aspect, the Group has increased core income by optimizing the herd portfolio, scientific farming and improving the unit production output. Both cost reduction and unit production output improvement dually led the Group's core business to achieve sustainable and healthy development.

On 21 March 2017, the Mengniu Group completed a mandatory cash offer acquisition towards the Group and Mengniu Group owns 60.76% of issued share capital of the Company up to the date of this announcement. The synergy between the Group and Mengniu Group was further strengthened after Mengniu Group has increased its interest in the Company. As Mengniu is a leading enterprise in Chinese dairy industry, strengthening the cooperation with Mengniu not only provides the Group with stable basis of high-quality raw milk output but also helps to deliver our branded milk of "purity, genuineness, freshness and vitality" to the mass retail market with the help of Mengniu's matured sales network.

In 2017, the Group has undergone a series of revolutions. Unit production output improvement and cost reduction were implemented simultaneously in the upstream business. For the lower stream business, the Group took proactive changes, which strengthened the synergies with Mengniu Group. After getting rid of the historical burden, the Group will leverage its existing advantages in resource and re-focus on its upper stream dairy farming business. As for the lower stream business, the Group will closely cooperate with Mengniu to enhance our brand competitiveness.

In July 2017, "Fresh", the room-temperature pure milk jointly developed by the Group and Mengniu Group made its debut. The packaging of "Fresh" adopts the innovative design concept of silver/white "fridge", symbolizing a refrigerator-like freshness, and highlighting the Group's unique feature of "two-hour milking to processing". "Fresh" sponsored the popular internet entertainment show "ROCK & ROAST", and the brand got high exposure in the internet medias.

On the Valentine's Day in 2018, the Group launched its European-style yogurt "L'Amour" which adopts the Company's high-quality milk sources with selected Europe imported bacteria, which finishes milking to processing in two hours. It offers consumers with two combined flavors, Love Rose and Romantic Cranberry. The Group believes that the series of initiatives will help strengthen its core competitiveness, reduce operating costs and improve efficiency, pave the way to maximize the Group's value.

As a pioneer in the domestic large-scale farming, the Group created the production model of "Integration of Planting, Breeding and Processing, Zero Distance and Two Hours". With efficient interaction between large scale farms coupled with advanced milk processing plant, the Group could achieve organic integration and seamless connection with zero distance among primary, secondary and tertiary industry. The Group's milk quality has consistently met stringent requirements of international food rating standards, and thus has won a widespread recognition. On 29 May 2017, at Monde Selection, which is generally regarded as "Nobel Prize" in the food industry, the Group's pure milk was awarded the Gold Prize for the fourth consecutive year, creating a new pure milk award-winning record within the industry, while the room-temperature yogurt was also awarded the silver prize on the same event. The awards of such honor fully prove that the quality of the Group's raw milk has been well recognised globally by worldwide authorities and is well up to international top-notch level. At the D20 Summit held in July 2017, Modern Farming has become the focus again and attracted the interests of both CCTV and News Network. In October 2017, story about Modern Farming was broadcasted in the documentary "China Revealed", the third season of "China's Mega Projects", introducing large-scale breeding and "integrated production model with zero distance" in detail.

On 20 June 2017, the Group became the first and only enterprise in the PRC with integrated production model recognized by SGS, one of the world's leading inspection, verification, testing and certification company, demonstrating the Group's innovative "Integration production model" has passed the stringent inspection performed by the international authoritative inspection institutions.

OUR DAIRY FARMS

We are the largest dairy farming company and the largest producer of raw milk in the PRC in terms of herd size and volume of production. As at 31 December 2017, the Group operates a total of 26 dairy farms (most of which have over 10,000 dairy cows) in the PRC with 233,058 dairy cows in total. As a nationwide farm, we are endowed with unique geographical advantages that our farms are adjacent to various processing plants of dairy products and abundant supply of feed. For the year ended 31 December 2017, the dairy farming business of the Group recorded external sales revenue of RMB4,119.2 million, representing 86.11% of the total revenue of the Group. Total external sales volume of raw milk amounted to 1,075,538 tons.

Our financial performance are directly affected by the milk yield per milkable cow. In general, as milk yield per milkable cow improves, the unit cash costs of production of milk decreases. Milk yield per milkable cow is affected by a number of factors, including a cow's stage of lactation, breed, genetics and feed mix. For the year ended 31 December 2017, we have recorded an average annual milk yield of 9.8 tons per milkable cow, representing an increase of 0.4 tons from 9.4 tons per milkable cow of last year. Cash costs of milk decreased to RMB2.43/kg this year from RMB2.53/kg of last year. Proportion of milkable cows increased to 54.4% for the current year from 52.0% of last year.

The cash EBITDA[1] increased to RMB1,081.8 million for the year ended 31 December 2017 (2016: RMB840.4 million). As a result of an increase of milk yield from milkable cow, the Group's cash EBITDA margin increased to 22.61% for the year ended 31 December 2017 (2016: 17.28%).

PROSPECTS: INDUSTRIAL UPGRADING AND SYNERGY

Since the decade-old melamine incident, the industry has been highly attentive to milk quality and safety. After nearly a decade of industrial upgrading, the Quality Report of China Dairy Industry (2017) (《中國奶業質量報告(2017)》) which was released in 2017, pointed out that domestic dairy products has increased significantly, which is leading the industry to revitalization. As supply-side reform gradually deepens in the PRC, continuous upgrading in the demand-side consumption resulted in an increasing demand for quality milk in the market. The improvement in both quality and quantity of dairy products and the sound and sustainable development of the dairy industry are based on the effective link and synergetic development of every sector in the entire industry chain. The green development and sustainable economy model of "Integration of Planting, Breeding and Processing, Zero Distance and Two Hours Within Milking to Processing" (零距離2小時，種養加一體化)" first created by the Group for its upper stream development, along with the strong and complementary cooperation between our lower stream brands and Mengniu Group, have high degree of consistency with the core philosophy of the "Thirteenth Five-year" Plan for the dairy industry and conforms to the historical trend of industrial upgrading and development.

Along with the recovery in milk price and the decline in domestic dairy herd size, the supply and demand of raw milk in the PRC has achieved equilibrium by the end of 2017. Some experts estimated that the price of domestic raw milk will show a moderate increase in 2018, which indicates that the upper stream farming industry is recovering from depression. Being the largest dairy farming enterprise in the PRC, the Group will follow the trend, increase unit production output, reduce operation cost, optimize herd structure and improve quality in the upper stream, and, for lower stream development, seek for cooperation, establish brands and inject more impetus. Based on our existing upper stream strengths, we will improve performance results through a large-scale, standardized and integrated breeding model, and regard high standard, high positioning and high starting point as our corporate orientations so as to provide consumers with quality dairy products.

Note 1:

Cash EBITDA is defined as *Loss before Finance Costs and Tax* after having added back: i) Depreciation for Property Plant and Equipment; ii) Amortization; iii) Other Gains and Losses, Net; and iv) Loss Arising from Changes in Fair Value Less Costs to sell of dairy cows.

Looking back, 2017 was a thrilling and fantastic year that encountered complex changes and development for the Group. Looking forward, 2018 is a year full of opportunities and challenges ahead. On the new journey, we should follow the trend and forge ahead. It is necessary to have a sense of crisis "as if facing the abyss and treading on thin ice", and a positive attitude of "ascending to the peak to take the lead in the industry". We should rely on, consolidate and strengthen our core competitive advantages and also embrace external changes while staying vigilant. In this best yet also worst era, standing at the junction of recovery, the Modern Dairy will certainly provide the most nutritious milk for consumers by upholding a dedicated, professional and committed attitude, devote our solid contribution to the development of China's dairy industry, and strive to maximize the value for the shareholders of the Group.

FINANCIAL HIGHLIGHTS

Herd Size

	As at 31 December 2017 *Head*	As at 31 December 2016 *Head*
Dairy cows		
Milkable cows	**126,839**	119,286
Heifers and calves	**106,219**	109,914
Total number of dairy cows	**233,058**	229,200

As at 31 December 2017, we are the largest dairy farming company in terms of herd size as well as the largest raw milk supplier in the PRC. The current herd size is 233,058 compared to 229,200 as at 31 December 2016.

Milk Yield

As of the year ended 31 December 2017, we recorded an average annual milk yield of 9.8 tons per milkable cow, representing an increase of 4.26% as compared to 9.4 tons as of the year ended 31 December 2016. Such results are attributable to effective herd management, genetic quality improvement of our cows through generations and increase in the number of cows reaching the peak stage of lactation.

FINANCIAL OVERVIEW

Revenue

The following table sets forth the breakdown of the consolidated revenue of our two operating segments for the years ended 31 December 2017 and 2016, respectively:

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	External Sales	**Internal Sales**	**Subtotal**	External Sales	Internal Sales	Subtotal
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Sales of raw milk business	**4,119,192**	**280,166**	**4,399,358**	3,383,567	604,476	3,988,043
Sales of liquid milk products business	**664,609**	**–**	**664,609**	1,478,744	–	1,478,744
Consolidated revenue	**4,783,801**	**280,166**	**5,063,967**	4,862,311	604,476	5,466,787

The Group's revenue slightly decreased by 1.61% from RMB4,862.3 million for the year ended 31 December 2016 to RMB4,783.8 million for the year ended 31 December 2017, mainly due to the impact of transition between business and market of branded milk.

The following table sets forth the details of sales revenue, sales volume and ASP of our raw milk for the periods indicated:

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Sales revenue	**Sales volume**	**ASP**	Sales revenue	Sales volume	ASP
	RMB'000	***tons***	***RMB/ton***	*RMB'000*	*tons*	*RMB/ton*
Raw milk						
External sales	**4,119,192**	**1,075,538**	**3,830**	3,383,567	855,353	3,956
Internal sales	**280,166**	**73,235**	**3,826**	604,476	154,501	3,912
Subtotal	**4,399,358**	**1,148,773**	**3,830**	3,988,043	1,009,854	3,949

- *Dairy farming business*

  Sales revenue of raw milk for the year ended 31 December 2017 (as an aggregate of external and internal sale) increased by 10.32% from RMB3,988.0 million for the same period of last year to RMB4,399.4 million.

  External sales of raw milk has recorded an 21.74% increase from last reporting year of RMB3,383.6 million to current reporting year of RMB4,119.2 million.

  Although average selling price (ASP) of raw milk decreased by 3.04% from RMB3.95/kg for the year ended 31 December 2016 to RMB3.83/kg for the year ended 31 December 2017, our sales volume increased by 13.76% from 1.010 million tons for the same period of last year to 1.15 million tons as at 31 December 2017, mainly due to the increase in annual milk yield per cow and number of milkable cows.

- *Liquid milk products business*

  The business model of downstream business has undergone repositioning. Starting from mid-2017, the Group starts to sell its liquid milk products by way of cost plus 3% to Mengniu Group. As result of rebuilding the pricing system, revenue from our liquid milk products business decreased by 55.06% from RMB1,478.7 million for the year ended 31 December 2016 to RMB664.6 million for the year ended 31 December 2017. For the years ended 31 December 2016 and 2017, the revenue from liquid milk products business accounted for 30.41% and 13.89% of the combined revenue for the respective year.

  Total sales volume of our liquid milk decreased by 50.38% from 150,313 tons for the year ended 31 December 2016 to 74,584 tons for the year ended 31 December 2017.

COST OF SALES BEFORE RAW MILK FAIR VALUE ADJUSTMENTS

The Group's cost of sales before raw milk fair value adjustments primarily consisted of cost of dairy farming and cost of liquid milk products. The following table sets forth the breakdown of the cost of sales of our products for the years indicated:

Cost of sales before raw milk fair value adjustments

- *Dairy farming business:*

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	RMB'000	*%*	*RMB'000*	*%*
Feed cost	**2,262,827**	**74.7%**	2,083,737	75.4%
Labor cost	**206,420**	**6.8%**	180,377	6.5%
Utilities	**70,257**	**2.3%**	60,357	2.2%
Depreciation	**239,264**	**7.9%**	203,325	7.4%
Other costs of farms	**252,440**	**8.3%**	235,434	8.5%
Subtotal of cost of sales before raw milk fair value adjustments of the dairy farming business	**3,031,208**	**100%**	2,763,230	100%
Inter-segment cost	**(202,257)**		(424,201)	
Cost of external sales before raw milk fair value adjustments of the dairy farming business	**2,828,951**		2,339,029	

Total feed cost (before eliminating cost of sales in relation to internal supply of raw milk) for the year ended 31 December 2017 increased by 8.60% to RMB2,262.8 million from RMB2,083.7 million of last year, mainly due to the increase in number of milkable cows.

Meanwhile, the cost (excluding depreciation) per ton of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 4.12% from RMB2,535 of last year to RMB2,430 for the year ended 31 December 2017, mainly due to an increase in annual milk yield per cow.

- *Liquid milk products business*

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	RMB'000	**%**	*RMB'000*	%
Raw materials	**481,927**	**79.7%**	908,193	82.6%
Labor cost	**31,632**	**5.2%**	52,613	4.8%
Depreciation	**41,307**	**6.8%**	55,743	5.1%
Utilities	**17,928**	**3.0%**	32,544	3.0%
Other processing costs	**31,835**	**5.3%**	50,034	4.5%
Subtotal of cost of sales before raw milk fair value adjustments of the liquid milk products business	**604,629**	**100%**	1,099,127	100%
Inter-segment cost	**(80,623)**		(180,029)	
Cost of external sales before raw milk fair value adjustments of the liquid milk products business	**524,006**		919,098	

In respect of the sales volume of liquid milk, the raw material cost for the year ended 31 December 2017 (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 46.94% from RMB908.2 million of last year to RMB481.9 million, mainly because total sales volume of our liquid milk decreased by 50.38% from 150,313 tons for the year ended 31 December 2016 to 74,584 tons for the year ended 31 December 2017.

Cash cost (excluding depreciation) per ton of liquid milk sold (before eliminating cost of sales in relation to internal supply of raw milk) increased from RMB6,941 for the same period last year to RMB7,553 for the year ended 31 December 2017, representing an increase of 8.82% on a year-on-year basis.

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth the breakdown of gross profit and gross profit margin before raw milk fair value adjustments of two operating segments for the years indicated:

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Gross profit *RMB'000*	**Gross Profit margin**	Gross profit *RMB'000*	Gross Profit margin
Dairy farming business				
Before elimination	**1,367,868**	**31.09%**	1,224,813	30.71%
After elimination	**1,290,241**	**31.32%**	1,044,538	30.87%
Liquid milk products business				
Before elimination	**59,980**	**9.02%**	379,617	25.67%
After elimination	**140,603**	**21.16%**	559,646	37.85%

- *Dairy farming business*

  Gross profit of our dairy farming business before raw milk fair value adjustments (before eliminating cost of sales in relation to internal supply of raw milk) increased by 11.68% from RMB1,224.8 million for the year ended 31 December 2016 to RMB1,367.9 million for the year ended 31 December 2017, mainly due to the increase in sales volume of raw milk.

  Gross profit margin of our dairy farming business before raw milk fair value adjustments (before eliminating cost of sales in relation to internal supply of raw milk) increased by 0.39% from 30.71% for the year ended 31 December 2016 to 31.10% for the year ended 31 December 2017, primarily due to, due to the increase in annual milk yield per cow.

- *Liquid milk products business*

  Gross profit of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 84.2% from RMB379.6 million for the year ended 31 December 2016 to RMB60.0 million for the year ended 31 December 2017. The aforesaid decrease was mainly due to the decrease in sales volume and price of our branded milk.

  Gross profit margin of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) decreased by 17.65% from 25.67% for the year ended 31 December 2016 to 9.02% for the year ended 31 December 2017, mainly because sales model was changed to cost plus 3%.

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

As at 31 December 2017, the biological assets of the Group were valued at RMB7,751.1 million (As at 31 December 2016: RMB7,603.0 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the fair value of dairy cows less costs to sell dairy cows were RMB868.3 million for the year ended 31 December 2017 (For the year ended 31 December 2016: RMB1,058.9 million), representing a decrease of 18.00% year-on-year, mainly due to low death and culling rate of dairy cows and the decrease in capital inputs to heifers and calves.

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

Our gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest increased by 9.95% from RMB1,116.9 million for the year ended 31 December 2016 to RMB1,228.0 million for the year ended 31 December 2017, mainly due to the increase in sales volume of our raw milk.

International Financial Reporting Standards (IFRS) required that raw milk harvested was initially measured at fair value less costs to sell, and the difference between the fair value less costs to sell and the actual costs incurred was charged to profit or loss.

Other income

For the year ended 31 December 2017, other income amounted to RMB51.8 million (2016: RMB69.9 million). Other income mainly consisted of government grants and interest income, of which interest income for the year ended 31 December 2017 amounted to RMB8.2 million (2016: RMB15.3 million), and government grants for the year ended 31 December 2017 amounted to RMB37.6 million (2016: RMB52.0 million). Government grants mainly consisted of subsidies for agricultural projects such as "Grain to Fodder", "Environmental Protection and safety" and "Digitalized Breeding".

OPERATING EXPENSES

	For the year ended 31 December 2017 *RMB'000*	For the year ended 31 December 2016 *RMB'000*
Selling and distribution costs	**372,602**	786,929
Administrative expenses	**356,486**	274,210
Total operating expenses	**729,088**	1,061,139

Our operating expenses decreased from RMB1,061.1 million for the year ended 31 December 2016 to RMB729.1 million for the year ended 31 December 2017. Of which:

Selling and distribution costs

	For the year ended 31 December 2017 *RMB'000*	For the year ended 31 December 2016 *RMB'000*
Farm segment		
Transportation costs	**149,779**	114,299
Liquid milk segment		
Transportation, loading and unloading costs	**43,301**	108,841
Staff remuneration	**40,044**	22,340
Publicity expenses	**92,514**	507,731
Others	**44,644**	32,317
Business tax and surcharge	**2,320**	1,401
Total selling and distribution costs	**372,602**	786,929

Selling and distribution costs mainly consisted of, among other things, transportation costs for sales of raw milk, transportation costs for sales of liquid milk products, salaries of sales personnel and daily expenses.

The amount of raw milk transportation costs included in selling and distribution costs increased to RMB149.8 million for the year ended 31 December 2017 from RMB114.3 million for the corresponding period of last year, mainly attributable to an increase in the sales volume of raw milk.

The amount of liquid milk marketing and promotion expenses included in selling and distribution costs decreased significantly to RMB92.5 million for the year ended 31 December 2017 from RMB507.7 million for the corresponding period of last year, mainly because our downstream business sales model of selling liquid milk products to Mengniu Group changed to a new calculation of cost + 3% in mid-2017 and that Mengniu Group bore the marketing and selling fees.

Administrative expenses

The Company recorded RMB356.5 million for the year ended 31 December 2017 (2016: RMB274.2 million), representing an increase of 30.01%.

Administrative expenses mainly included, remuneration of management staff (including equity-based share option expenses) and depreciation charges of office building, staff quarters and facilities, of which remuneration of management staff (excluding equity-based share option expenses) increased from RMB103.5 million for the year ended 31 December 2016 to RMB127.5 million for the year ended 31 December 2017.

During the year ended 31 December 2017, equity-based share option expenses included in administrative expenses amounted to RMB96.3 million, as compared to RMB43.1 million for the year ended 31 December 2016, representing an increase of 123.43%. It was mainly due to a one-off amortization of the remaining unamortized value of options after the staff members' acceptance of the offer made by Mengniu in respect of their options during the period.

Other gains and losses

For the year ended 31 December 2017, losses arising from other gains and losses amounted to RMB531.1 million (2016: net gain of RMB125.6 million) mainly consisting of, impairment loss from receivables, net amount of foreign exchange losses, impairment provision for fixed assets, impairment loss on goodwill and net loss (gain) of fair value arising from financial liabilities measured at fair value through profit or loss (FVTPL). The breakdown of other gains and losses is as follows:

	For the year ended 31 December 2017 *RMB'000*	For the year ended 31 December 2016 *RMB'000*
Other gains and losses:		
Fair value gain from contingent considerations	**–**	(228,540)
Loss from settlement of Modified Considerations	**15,361**	–
Loss (gains) arising on deemed disposal of an associate	**239**	(1,462)
Net foreign exchange (gain) loss	**(10,199)**	11,424
Loss from disposal of inventories	**5,134**	–
Loss from disposal of property, plant and equipment	**11,268**	7,257
Loss arising from closure of a dairy farm:		
Impairment loss of property, plant and equipment	**–**	69,061
Write-down of inventories to net realisable value	**–**	9,701
	–	78,762
Impairment loss of trade receivables	**495,271**	1,589
Impairment loss of other receivables	**110**	–
Impairment loss of AFS equity investment	**12,021**	–
Impairment loss of goodwill	**–**	16,955
Fair value loss (gain) on foreign currency forward	**1,949**	(11,236)
Gains on derecognition of financial liabilities	**(57)**	(303)
	531,097	(125,554)

Other expenses

For the year ended 31 December 2017, the other expenses amounted to RMB20.4 million (2016: RMB94.3 million), mainly consisting of, among other things, losses from sales of milk powder and expenditure of donations.

For the year ended 31 December 2017, losses from sales of milk powder amounted to RMB9.1 million (2016: RMB72.0 million), mainly because during early 2017, some of the raw milk was dehydrated into milk powder which was partly used for feeding calves, and the remaining was sold to third parties, resulting in a loss.

For the year ended 31 December 2017, expenditure of donations amounted to RMB1.7 million (2016: RMB8.5 million) mainly because we actively communicated with stakeholders around our farms and included their expectations and demands into our operation strategy. While devoting to the pursuit of our own development, we managed to win the trust, understanding and support of community residents. Besides, we proactively contributed to the local communities and devoted to public charity and volunteer activities for the benefit of the society.

Finance costs

Finance costs decreased from RMB368.6 million of last reporting year to RMB328.4 million for the year ended 31 December 2017, mainly due to fair value gains on interest rate swap of RMB31.7 million arising from the interest rate of a syndicated loan amounting to USD300 million locked for the period.

Profit attributable to owners of the Company

Taking into account of all the above factors, loss attributable to owners of the Company amounted to RMB975.1 million for the year ended 31 December 2017, compared with loss of RMB742.1 million for the corresponding period of last year.

Basic loss per share was RMB16.19 cents (2016: RMB13.99 cents).

Liquidity, Financial Resources and Gearing ration

For the year ended 31 December 2017, the amount of net cash generated from operating activities of the Group was RMB500.9 million, compared with RMB1,137.3 million for the corresponding period of last year.

The Group's total equity as at 31 December 2017 was RMB7,088.4 million (As at 31 December 2016: RMB7,122.9 million). Its debt-to-equity ratio (total amount of bank loans, bonds and notes over total equity) was 104.75% (As at 31 December 2016: 95.56%).

As at 31 December 2017, the Group's available and unutilized bank financing facilities were approximately RMB6,306.5 million (As at 31 December 2016: RMB6,709.3 million). In the opinion of the Group's management, the working capital available to the Group was sufficient to meet its present needs.

Interest-bearing borrowings

As at 31 December 2017, the total interest-bearing debt was RMB7,425.2 million.

Details are set out as below:

	As at	
	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Bank borrowings	**3,477,257**	3,885,825
Short-term debentures	**–**	799,425
Medium-term notes	**1,798,380**	1,796,605
Corporate bonds	**1,045,761**	249,020
Other borrowing	**1,103,799**	75,489
	7,425,197	6,806,364
Carrying value repayable:		
Within one year	**3,866,949**	4,116,277
Between one and five years	**3,558,248**	2,690,087
	7,425,197	6,806,364

Bank borrowings

For the year ended 31 December 2017, the effective annual interest rate of bank borrowings varied from 0.9% to 6.4% (2016: from 1.9% to 6.4%).

The table below sets forth the short-term and long-term bank borrowings as at 31 December 2017:

	As at	
	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Bank borrowings	**3,477,257**	3,885,825
Unsecured borrowings	**2,603,229**	2,000,736
Secured borrowings	**12,500**	404,589
Guaranteed borrowings	**861,528**	1,480,500
	3,477,257	3,885,825
Carrying amount repayable:		
Within one year	**1,564,228**	3,278,325
Between one to five years	**1,913,029**	607,500
	3,477,257	3,885,825

The guaranteed borrowings were guaranteed by group entities within the Group.

Other borrowing

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

In May 2017, the Group entered into two entrusted loan agreements with Mengniu Group and Agricultural Bank of China ("ABC"), pursuant to which, Mengniu Group agreed to offer borrowing facilities of RMB1,500,000,000 to the Group through ABC. The borrowing facilities will mature in May 2020 and bear interest at fixed rates determined with reference to the benchmark interest rate of People's Bank of China. During the current year, the Group drew down borrowings of RMB1,105,400,000 and repaid RMB40,000,000 under the agreements. The outstanding borrowings at 31 December 2017 will mature within one year and bear interest at rates ranged from 4.00% to 4.35% per annum. The principal amount breakdown is as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Principal amount payable:		
Within one year		
– Collateralised borrowing	**38,399**	38,527
– Borrowings from Mengniu Group	**1,065,400**	–
	1,103,799	38,527
Within a period of more than one year but not more than two years		
– Collateralised borrowing	**–**	36,962
	1,103,799	75,489
Less: Amounts due within one year (shown under current liabilities)	**1,103,799**	38,527
Amounts due after one year	**–**	36,962

BUSINESS STRATEGIES

Improve pure-bred's unit production output and raw milk quality by continuous adoption of modern and scientific breeding and feeding techniques

We keep improving our operations efficieny and average annual milk yield. At present, our average annual milk yield per milkable cow is among the highest of all dairy companies in the PRC. We believe that the unit production output and raw milk quality of our milkable cows will continue to rise as we improve the genetic mix of our herd across generations and increase the ratio of milkable cows to total herd size. In addition, we commit to research and development to reduce the heat damage of room-temperature milk and further reduce the content of furosine in milk, subject to eligibility of various indicators such as microorganisms in the products.

Continue to enhance feed nutrients and optimize the feed mix by persistent research on feed composition

We will continue to collaborate with local farmers and agricultural research institutions in pursuing research and planting high quality feed suitable for our milkable cows. Moreover, according to the locations of our farms, we will collaborate with local farmers of particular regions to jointly build a customized and efficient feed supply chain with the objective to reduce transportation cost of feed and to ensure the quality, nutrition content and stable supply of feed.

Measures to Tackle Heat Stress

Heat stress of dairy cow becomes a seasonal problem due to high temperature in summer. The yield of each milkable cow is generally slightly lowered by the heat stress. To alleviate the impact of heat stress, the Group has launched alleviation measures to tackle heat stress by deploying more resources on modification of cowshed and equipping cowshed with efficient ventilation system, such as powerful fans. The Group will keep improving and constantly review the effectiveness of heat stress alleviation measures.

GROUP STRUCTURE

Save for disclosed in this announcement, during the year under review, there was no material change in the structure of the Group.

CAPITAL STRUCTURE

On 25 January 2017, pursuant to the sale and purchase agreement dated 16 June 2016 and poll results of the general meeting held by the Company on 1 August 2016 in relation to the acquisition of Modern Farming (Anhui) Dairy Product Sales Co., Ltd ("Modern Farming (Anhui)"), the Group allotted and issued 338,602,205 shares of the Company as consideration shares ("Consideration Shares"). On 6 February 2017, pursuant to the supplemental agreement dated 12 December 2016 entered into by the Company and Success Dairy II Limited (the "Investor") and a conditional investor option notice received on 28 December 2016 from the Investor, the Group allotted and issued 488,036,618 shares as Consideration Shares accordingly.

As at 31 December 2017, the number of issued ordinary shares of the Company was 6,131,406,706 shares.

ACQUISITION OF 45% EQUITY INTEREST IN MODERN FARMING (ANHUI)

On 25 January 2017, the Group completed the acquisition of the remaining 45% equity interest in Modern Farming (Anhui) from five independent individuals, and Modern Farming (Anhui) is owned as to 45% by the Company and 55% by Modern Farming.

ACQUISITION BY MENGNIU

On 4 January 2017, Mengniu announced the acquisition of 965,465,750 additional shares of the Company, representing approximately 15.75% of the total issued share capital of the Company upon completion of the relevant share purchase agreement, for a consideration of approximately HK$1.9 billion. When the transaction was completed, Mengniu beneficially held approximately 37.7% of the total issued share capital of the Company, which then triggered a conditional mandatory cash offer (the "Offer") to acquire all the issued shares in the Company. Mengniu made the Offer to acquire the entire issued shares in the Company at HK$1.94 per share on 14 February 2017 (except the shares already owned or agreed to be acquired by Mengniu) and canceled all outstanding share options of the Company. Upon completion of the Offer on 21 March 2017, Mengniu held a total of 3,755,769,412 shares in the Company, equivalent to approximately 61.25% of the issued share capital of the Company by then.

As at 31 December 2017, Mengniu holds a total of 3,725,769,412 shares of the Company, equivalent to approximately 60.76% of the issued share capital of the Company.

JOINT VENTURE WITH MENGNIU

On 22 January 2018, Modern Farming and Inner Mongolia Mengniu entered into two share transfer agreements, pursuant to which Modern Farming agreed to sell, and Inner Mongolia Mengniu agreed to acquire 50% equity of Modern Farming (Feidong) Co., Ltd and Modern Farming (Bengbu) Co., Ltd at an aggregate cash consideration of RMB56.04 million ("Disposal") and an unaudited gain of approximately RMB7,126 is expected to be recorded. The Disposal was approved by the shareholders of the Company at the extraordinary general meeting held on 2 March 2018. The Company believe that Disposal did provide a good opportunity for the Group to focus on the operation of dairy farms and supply of raw milk in the PRC.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2017, buildings and equipment and biological assets with carrying value of RMB93.9 million (31 December 2016: RMB241.5 million) and RMB1,154.2 million (31 December 2016: RMB2,729.9 million) were pledged as security for the Group's borrowings.

The Group did not have any significant contingent liabilities as at 31 December 2017 and 2016.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

As at 31 December 2017, the Group's capital commitments amounted to RMB41.9 million (as at 31 December 2016: RMB134.3 million) related to the acquisition of property, plant and equipment.

As at 31 December 2017, the Group has operating lease commitments of RMB11.9 million (as at 31 December 2016: RMB20.7 million) related to the operating leased property, plant and equipment and leased land.

FINANCIAL MANAGEMENT POLICIES

The Group continued to closely manage financial risks to safeguard the interest of the shareholders of the Company. The Group applied its cash flows generated from operations and bank loans to satisfy its operational and investment needs.

The Group's management considered that the Group had limited foreign currency exposure in respect of its operations since our business was mainly conducted in the PRC. Sales and purchases were mainly denominated in Renminbi and the foreign currency risk associated with concentrated feed and livestock farming facilities was not material. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure. During the year, a interest rate swap had been made by the Group to mitigate the foreign currency risk of the Group's bank loan denominated in US$.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2017, the Group had approximately 5,097 employees (as at 31 December 2016: 6,051) in mainland China and Hong Kong. Total staff costs for the year ended 31 December 2017 (including staff compensation capitalized to biological assets) were approximately RMB478.8 million (for the year ended 31 December 2016: RMB449.4 million).

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

PROSPECTS

The quality of China's dairy products has been upgraded up to international standard, coupled with the increasing per capita income of retail consumers and the enhanced demand for food quality, it is optimistic to expect that huge opportunities arising in the PRC's high-end dairy market. In addition, the "National Development Play for Dairy Industry (2016-2020)" issued by the central government of China affirms the strategic positioning of the development of the dairy industry and highlights that the dairy industry is indispensable for a healthy China and a strong nation. The play aims to achieve substantial results in the supply-side structural reform of the dairy industry by 2020.

Dairy industry in the PRC is constantly improving, the industrial transformation, consumption and production upgrade have speeded up. The oversupply of raw milk had been almost shaken off worldwide while the supply-demand approached equilibrium. In general, global dairy herd size has scaled down as result of low milk price in the past three years. It provides a solid base for a healthy recovery of dairy industry.

Stepping into 2018, with the supply and demand of raw milk reaching equilibrium, the prices of raw milk is expected to pick up at a modest pace, and the Group's profit margin can be improved. In the future, the Group will continue to adhere to the principle of providing high quality raw milk and maintain its competitive advantages in each category index, so as to strengthen its leading position in the industry.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has, throughout the year ended 31 December 2017 and up to the date of this report, complied with the code provisions set out in the CG Code except for the deviation from code provisions A.6.7.

Code provision A.6.7 of the CG Code provides that non-executive Directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. One non-executive Directors and one independent non-executive Director were not able to attend the annual general meeting of the Company held on 30 June 2017 due to other business engagements.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (For the year ended 31 December 2016: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

During the year under review, Mr. Lu Minfang is an executive director and chief executive officer of Mengniu. Mr. ZHANG Ping is a chief financial officer of Mengniu. Mr. WEN Yongping is the assistant vice president of Mengniu and the general manager of the milk sources business department of Mengniu. Mengniu is a substantial shareholder of the Company and is engaged in the dairy industry.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The Group's auditors, Messrs. Deloitte Touche Tohmatsu, have agreed that the figures contained in the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the same year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements as issued by the Hong Kong Institute of Certified Public Accountants. Consequently, no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee of the Company (the "Audit Committee") comprises two independent non-executive directors, Mr. Lee Kong Way Conway and Mr. Kang Yan, as well as a non-executive director, Mr. WOLHARD Julian Juul. The chairman of Audit Committee is Mr. Lee Kong Wai Conway. The Audit Committee met with the management to review the accounting standards and practices adopted by the Group and to discuss matters regarding risk management, internal control and financial reporting, including the review of the Group's annual results for the year ended 31 December 2017 before submission to the Board for approval.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2017 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

On behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO Lina
Deputy Chairman, Chief Executive Officer
and Executive Director

Hong Kong, 26 March 2018

As of the date of this announcement, the executive directors are Ms. GAO Lina and Mr. HAN Chunlin, the non-executive directors are Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr.ZHANG Ping and Mr. WEN Yongping, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.