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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 2018

HIGHLIGHTS

FINANCIAL DATA	**2018** *RMB' million*	2017 *RMB' million*	Increase/ (decrease)
Revenue	**4,956.8**	4,783.8	3.6%
Gross profit before raw milk fair value adjustments	**1,546.1**	1,430.8	8.1%
Loss before tax	**(505.7)**	(994.9)	(49.2%)
Cash EBITDA[1]	**1,528.4**	1,081.8	41.3%
Loss attributable to equity holders of the Company	**(496.1)**	(975.1)	(49.1%)
Net operating cash inflow	**1,406.0**	500.9	180.7%
KEY PERFORMANCE DATA			
Basic loss per share *(RMB cents)*	**(8.15)**	(16.19)	(49.7%)
Annual milk yield in total *(ten thousand ton)*	**127.9**	118.2	8.2%
Net gearing ratio[2]	**97.4%**	95.1%	

KEY AWARD

The Group's pure milk won the Gold Award for five consecutive years at Monde Selection.

DIVIDEND

The Board did not recommend the payment of any dividend (2017: nil).

Notes:

(1) Cash EBITDA is defined as loss before finance costs and tax having added back: i) depreciation for property, plant and equipment; ii) amortization; iii)other gains and losses, net; iv) impairment losses, net of reversal; and v) loss arising from changes in fair value less costs to sell of dairy cows.

(2) The net gearing ratio was calculated on the basis of the amount of total borrowings less cash and cash equivalents and restricted bank deposit as a percentage of equity.

* *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 2018 (the "**Reporting Year**"), together with comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** ***RMB'000***	2017 *RMB'000*
Revenue	*5*	**4,956,811**	4,783,801
Cost of sales before raw milk fair value adjustments	*8*	**(3,410,670)**	(3,352,957)
Raw milk fair value adjustments included in cost of sales	*8*	**(1,371,468)**	(1,228,046)
Loss arising from changes in fair value less costs to sell of dairy cows		**(870,099)**	(868,337)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		**1,371,468**	1,228,046
Other income	*7*	**66,131**	51,832
Selling and distribution costs		**(172,256)**	(372,602)
Administrative expenses		**(232,450)**	(356,486)
Share of profit (loss) of associates		**24,873**	(205)
Impairment losses, net of reversal	*10*	**(367,662)**	(495,381)
Other gains and losses, net	*8*	**(138,625)**	(35,716)
Other expenses	*7*	**(23,091)**	(20,428)
Loss before finance costs and tax	*8*	**(167,038)**	(666,479)
Finance costs	*9*	**(338,622)**	(328,395)
Loss before tax		**(505,660)**	(994,874)
Income tax (expense) credit	*11*	**(513)**	27
Loss for the year		**(506,173)**	(994,847)

	Note	**2018**	2017
		RMB'000	*RMB'000*
Other comprehensive expense:			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**")		**(11,526)**	–
Other comprehensive expense for the year, net of income tax		**(11,526)**	–
Total comprehensive expense for the year		**(517,699)**	(994,847)
Loss for the year attributable to:			
Owners of the Company		**(496,088)**	(975,116)
Non-controlling interests		**(10,085)**	(19,731)
		(506,173)	(994,847)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(507,404)**	(975,116)
Non-controlling interests		**(10,295)**	(19,731)
		(517,699)	(994,847)
Loss per share *(RMB)*	*13*		
Basic		**(8.15) cents**	(16.19) cents
Diluted		**(8.15) cents**	(16.19) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,920,685**	4,698,736
Land use rights		**117,220**	125,802
Goodwill		**1,398,589**	1,424,539
Interest in associates		**180,913**	–
Equity instruments at fair value through other comprehensive income		**2,508**	–
Available-for-sale equity investment		**–**	12,934
Biological assets		**7,717,113**	7,751,070
		13,337,028	14,013,081
CURRENT ASSETS			
Inventories		**978,508**	848,635
Trade and other receivables and advanced payments	*14*	**781,173**	1,022,069
Land use rights		**4,002**	4,106
Financial assets at fair value through profit or loss		**80,424**	–
Other financial assets		**–**	31,704
Pledged bank balances and non-pledged bank deposits		**61,355**	131,467
Bank balances and cash		**703,039**	666,519
		2,608,501	2,704,500
CURRENT LIABILITIES			
Trade and other payables	*15*	**2,072,363**	1,905,576
Tax payable		**322**	2
Bank borrowings – due within one year		**1,691,109**	1,568,181
Medium-term notes		**621,880**	1,267,437
Corporate bonds		**1,087,568**	39,106
Other borrowings – due within one year		**1,001,111**	1,106,115
Derivative financial instruments		**17,729**	–
Contract liabilities		**232**	–
		6,492,314	5,886,417
NET CURRENT LIABILITIES		**(3,883,813)**	(3,181,917)
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,453,215**	10,831,164

	2018	2017
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	**526,058**	526,058
Share premium and reserves	**5,919,237**	6,443,064
Equity attributable to owners of the Company	**6,445,295**	6,969,122
Non-controlling interests	**108,838**	119,307
TOTAL EQUITY	**6,554,133**	7,088,429
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	**2,746,393**	1,913,029
Medium-term notes	**–**	599,458
Corporate bonds	**–**	1,045,761
Deferred income	**152,689**	184,487
	2,899,082	3,742,735
	9,453,215	10,831,164

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

For the year ended 31 December 2018

1. GENERAL

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 2018, China Mengniu Dairy Co., Ltd. ("**Mengniu**") and its wholly owned 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 2018, 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 RMB506,173,000 for the year ended 31 December 2018 (2017: RMB994,847,000) and, as of that date, the Group's current liabilities exceeded its total current assets by RMB3,883,813,000 (2017: RMB3,181,917,000). Having considered the available credit facilities of approximately RMB4,954,736,000 which remains unutilised as at 31 December 2018, 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. These facilities include a facility of HK$1,500,000,000 (equivalent to RMB1,314,300,000) under a facility agreement with several banks expiring in September 2021 and a facility of RMB500,000,000 from Inner Mongolia Mengniu Dairy (Group) Company Limited ("**Inner Mongolia Mengniu**") expiring in May 2020. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

Except as described below, the application of the new and 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.

3.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Dairy farming – breeding dairy cows to produce and sell raw milk.

- Liquid milk products – producing and selling processed liquid milk.

Information about the Group's performance obligations resulting from application of IFRS 15 are disclosed in note 5.

Summary of effects arising from initial application of IFRS 15

The transition to IFRS 15 does not have impact on the Group's retained earnings at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying Amounts previously reported at 31 December 2017	Reclassification	Carrying Amounts under IFRS 15at 1 January 2018
		RMB'000	*RMB'000*	*RMB'000*
Current Liabilities				
Trade and other payables	*15*	1,905,576	(348)	1,905,228
Contract liabilities		–	348	348

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the year then ended for each of the line items affected. There is no impact of applying IFRS 15 on the consolidated statement of profit and loss and other comprehensive income for the current year. Line items that were not affected by the changes have not been included.

Impacts on the consolidated statement of financial position

	Note	As reported	Adjustments	Amount without application of IFRS 15
		RMB'000	*RMB'000*	*RMB'000*
Current Liabilities				
Trade and other payables	*15*	2,072,363	232	2,072,595
Contract liabilities		232	(232)	–

Impacts on the consolidated statement of cash flows

	As reported *RMB'000*	Adjustments *RMB'000*	Amount without application of IFRS 15 *RMB'000*
OPERATING ACTIVITIES			
Increase in trade and other payables	283,300	(116)	283,184
Decrease in contract liabilities	(116)	116	–

3.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement.*

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

		Available-for-sale investment	Equity instruments at FVTOCI	Financial asset at amortised cost (previously classified as loans and receivables)	FVTOCI reserve	Retained earnings	Non-controlling interests
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 – IAS 39		12,934	–	–	–	(864,379)	(119,307)
Reclassification							
From available-for-sale (“**AFS**”)	*(i)*	(12,934)	12,934	–	11,802	(11,802)	–
From loans and receivables		–	–	1,701,003	–	–	–
Remeasurement							
Impairment under ECL model	*(ii)*	–	–	(1,660)	–	1,486	174
Opening balance at 1 January 2018		–	12,934	1,699,343	11,802	(874,695)	(119,133)

(i) Available-for-sale (“**AFS**”) investment

From AFS equity investment to FVTOCI

The Group elected to present in other comprehensive income (“**OCI**”) for the fair value changes of all its equity investment previously classified as AFS. The investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB12,934,000 were reclassified from AFS investment to equity instrument at FVTOCI, which related to unquoted equity investment previously measured at cost less impairment under IAS 39. At 1 January 2018, the fair value of the equity investment approximate its carrying amount at 31 December 2017 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. In addition, impairment losses previously recognised of RMB11,802,000 were transferred from retained earnings to FVTOCI reserve as at 1 January 2018.

(ii) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which use lifetime ECL for all trade receivables. To measure ECL, trade receivables are assessed individually for debtors of dairy farming and debtors of liquid milk products with significant balances or collectively using a provision matrix with groupings based on aging.

Loss allowance for other financial assets at amortised cost mainly comprised of pledged bank balances, non-pledged bank deposits, cash and bank balances and other receivables, are measured on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance for trade receivables of RMB1,660,000 has been recognised against retained earnings. The additional loss allowance is charged against the respective asset.

3.3 *Impacts on opening consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	**IFRS 15**	**IFRS 9**	**1 January 2018 (Restated)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets				
AFS investments	12,934	–	(12,934)	–
Equity instruments at FVTOCI	–	–	12,934	12,934
Current Assets				
Trade and other receivables	1,022,069	–	(1,660)	1,020,409
Current Liabilities				
Contract liabilities	–	(348)	–	(348)
Trade and other payables	(1,905,576)	348	–	(1,905,228)
Capital and Reserves				
Retained earnings	(864,379)	–	(10,316)	(874,695)
FVTOCI reserve	–	–	11,802	11,802
Non-controlling interests	(119,307)	–	174	(119,133)

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

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

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRSs 2015–2017 Cycle*[1]

1. Effective for annual periods beginning on or after 1 January 2019
2. Effective for annual periods beginning on or after a date to be determined
3. Effective for annual periods beginning on or after 1 January 2021
4. Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5. Effective for annual periods beginning on or after 1 January 2020

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

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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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 as investing cash flows in relation to land use rights for owned use 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 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.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB57,763,000 as disclosed in note 16. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

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 on the historical cost basis except for: (i) biological assets, which are measured at fair value less costs to sell, (ii) equity instruments at FVTOCI, and (iii) financial instruments at fair value through profit or loss ("**FVTPL**"), which are measured at fair value at the end of each reporting period.

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

5. REVENUE

(i) Disaggregation of revenue

	For the year ended 31 December 2018		
Segments	**Dairy farming**	**Liquid milk products**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Types of goods			
Raw milk	**4,715,942**	**–**	**4,715,942**
Liquid milk products	**–**	**240,869**	**240,869**
Total	**4,715,942**	**240,869**	**4,956,811**
Timing of revenue recognition			
A point in time	**4,715,942**	**240,869**	**4,956,811**

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December 2018		
	Segment revenue	**Eliminations**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*
Dairy farming	**4,832,729**	**(116,787)**	**4,715,942**
Liquid milk products	**240,869**	**–**	**240,869**
Total revenue	**5,073,598**	**(116,787)**	**4,956,811**

(ii) Performance obligations for contracts with customers

The Group sells raw milk directly to dairy product manufacturers and liquid milk products to its distributors.

For sales of raw milk and liquid milk products to its customers, revenue is recognised when control of the goods has transferred, being at the point the customer received the goods and accepted the quality. Payment of the transaction price is determined based on market price. The normal credit term is 30 to 120 days upon delivery.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Sales of raw milk are for periods of one year or less. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. 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 operating and reportable segments of the Group.

Specifically, the Group's operating and 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 2018					
Segment revenue	**4,832,729**	**240,869**	**5,073,598**	**(116,787)**	**4,956,811**
Segment cost of sales before raw milk fair value adjustments	**3,312,151**	**220,961**	**3,533,112**	**(122,442)**	**3,410,670**
Reportable segment profit (loss)	**812,215**	**(429,212)**	**383,003**	**5,655**	**388,658**
Loss arising from changes in fair value less costs to sell of dairy cows					**(870,099)**
Share of profit of associates					**24,873**
Unallocated other income					**3,135**
Unallocated other gains and losses					**21,493**
Unallocated expenses					**(73,720)**
Loss before tax					**(505,660)**
As at 31 December 2018					
Segment assets	**14,993,079**	**112,096**	**15,105,175**	**(997)**	**15,104,178**
Unallocated assets					**841,351**
Consolidated assets					**15,945,529**
Segment liabilities	**9,327,717**	**26,412**	**9,354,129**	**(997)**	**9,353,132**
Unallocated liabilities					**38,264**
Consolidated liabilities					**9,391,396**

* During the current year, the liquid milk products business became a non-core business, and this segment does not meet the quantitative thresholds for the reportable segment. However, it is presented above to conform with prior year's presentation.

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

Segment revenue of dairy farming segment included inter-segment revenue of RMB116,787,000, 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 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 balances of 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.

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 2018					
Additions to non-current assets *(note)*	**1,636,551**	**17,742**	**1,654,293**	**1,043**	**1,655,336**
Depreciation and release of land use rights charged to profit or loss	**283,034**	**34,414**	**317,448**	**1,598**	**319,046**
Impairment loss of trade and other receivables recognised in profit or loss	**–**	**367,662**	**367,662**	**–**	**367,662**
Impairment loss of property, plant and equipment recognised in profit or loss	**–**	**36,444**	**36,444**	**–**	**36,444**
Impairment loss of goodwill recognised in profit or loss	**25,950**	**–**	**25,950**	**–**	**25,950**
Loss (gain) on disposal of property, plant and equipment	**4,786**	**(39)**	**4,747**	**21**	**4,768**
Interest income	**(1,504)**	**(180)**	**(1,684)**	**(9,350)**	**(11,034)**
Finance costs	**335,658**	**2,964**	**338,622**	**–**	**338,622**
For the year ended 31 December 2017					
Additions to non-current assets *(note)*	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
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

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit or loss represents the profit earned by or loss incurred from each segment without changes in fair value less costs to sell of dairy cows, share of (profit) loss of associates, 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, equity investment at FVTOCI, interest in associates, corporate cash and bank balances, other financial assets and other head office and corporate assets; and

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

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 approximately RMB4,222,146,000 (2017: RMB3,304,833,000) and nil (2017: RMB572,271,000) arose from sales to customer A and customer B, respectively. During the current year, the Group also sold liquid milk products of RMB239,995,000 (2017: RMB239,307,000) to customer A. No other single customer contributed 10% or more to the Group's revenue for each of the two years ended 31 December 2018.

7. OTHER INCOME AND OTHER EXPENSES

Other income

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**11,034**	8,166
Government grants related to		
– Assets	**19,067**	17,844
– Others *(note)*	**24,606**	19,714
	43,673	37,558
Others	**11,424**	6,108
	66,131	51,832

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

Other expenses

	2018	2017
	RMB'000	*RMB'000*
Loss from sales of milk powders *(note i)*	**321**	9,081
Donation expenses	**225**	1,733
Compensation for termination of a contract *(note ii)*	**12,000**	–
Others	**10,545**	9,614
	23,091	20,428

Notes:

i. During the year ended 31 December 2018, the Group dehydrated some of its raw milk into milk powders which were intended for feeding calves. The Group sold the milk powders to third parties, resulting in a loss of RMB321,000 for the year ended 31 December 2018 (2017: RMB9,081,000), being the excess of the carrying value of the milk powders over the proceeds received.

ii. In June 2016, Modern Farming (Saibei) Co., Ltd. ("**Saibei**"), a subsidiary of the Company, entered into a consigned processing contract with Bengbu Heping Dairy Co., Ltd ("**Heping**") to consign Heping to process liquid milk product. As the Directors predicted the process of liquid milk production would not be resumed in the foreseeable future, Saibei terminated the contract with a compensation of RMB12,000,000 to Heping in December 2018.

8. LOSS BEFORE FINANCE COSTS AND TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	**3,243,770**	2,828,951
Production costs for liquid milk products	**166,900**	524,006
	3,410,670	3,352,957
Raw milk fair value adjustments included in cost of sales	**1,371,468**	1,228,046
	4,782,138	4,581,003
Other gains and losses:		
Loss from settlement of modified considerations	**–**	15,361
Loss from disposal of an associate	**–**	239
Net foreign exchange loss (gain)	**126,957**	(10,199)
Loss from disposal of inventories	**–**	5,134
Loss from disposal of property, plant and equipment	**4,768**	11,268
Gains arising on disposal of subsidiaries	**(18,193)**	–
Impairment loss on AFS equity investment	**–**	12,021
Impairment loss on property, plant and equipment	**36,444**	–
Impairment loss on goodwill	**25,950**	–
Fair value (gain) loss on financial assets at FVTPL		
Foreign currency forward contracts	**(35,394)**	1,949
Foreign currency option contracts	**872**	–
Bills receivable	**(1,427)**	–
	(35,949)	1,949
Gains on derecognition of financial liabilities	**(1,352)**	(57)
	138,625	35,716
Depreciation of property, plant and equipment	**535,685**	586,283
Less: capitalised in biological assets	**(220,651)**	(241,561)
Depreciation charged to profit or loss	**315,034**	344,722
Equity-settled share option expense	**–**	92,623
Share award expense	**8,646**	14,517
Other employee benefits costs	**435,722**	478,750
Less: capitalised in biological assets	**(112,143)**	(113,903)
Employee benefits charged to profit or loss	**332,225**	471,987
Auditors' remuneration	**2,800**	2,700
Release of land use rights	**4,012**	4,106

9. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest expenses on:		
Bank borrowings	**187,625**	162,453
Short-term debentures	**–**	28,496
Medium-term notes	**41,485**	93,675
Other borrowings	**44,306**	25,588
Corporate bonds	**59,871**	47,508
Amounts due to Mengniu	**1,804**	–
Total borrowing cost	**335,091**	357,720
Less: amounts capitalised for construction of property, plant and equipment	**–**	(537)
Cost of discount of bills receivable	**–**	2,965
Fair value loss (gain) on interest rates swaps	**3,531**	(31,753)
	338,622	328,395

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 for the year ended 31 December 2017.

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018	2017
	RMB'000	*RMB'000*
Impairment losses recognised on:		
– Trade receivables – liquid milk product (the Distributors)	**358,891**	488,489
– Trade receivables – liquid milk product (other customers)	**5,365**	6,782
– Other receivables	**3,569**	110
Impairment losses reversed on:		
– Trade receivables – liquid milk product (other customers)	**(163)**	–
	367,662	495,381

11. INCOME TAX EXPENSE (CREDIT)

	2018	2017
	RMB'000	*RMB'000*
Income tax recognised in profit or loss:		
Current tax:		
The PRC Enterprise Income Tax	**513**	156
Over provision in prior years:		
The PRC Enterprise Income Tax	**–**	(183)
	513	(27)

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.

The PRC subsidiaries are subject to the PRC Enterprise Income Tax (the "**EIT Law**") at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. According to the prevailing tax rules and regulation of the PRC, 16 subsidiaries (2017: 18 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 2018.

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

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. Deferred taxation has not been provided for in the consolidated financial statements in respect of the accumulated profits of the PRC subsidiaries amounting RMB2,059,807,000 (31 December 2017: RMB1,961,503,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

	2018	2017
	RMB'000	*RMB'000*
Loss before tax	**(505,660)**	(994,874)
Tax at applicable income tax rate at 25% (2017: 25%)	**(126,415)**	(248,719)
Effect of tax exemption granted to agricultural entities	**(90,023)**	(40,689)
Effect of non-utilised losses incurred from agricultural business and other non-deductible expenses	**204,376**	249,422
Tax effect of tax losses not recognised	**12,575**	40,190
Utilisation of tax losses previously not recognised	**–**	(48)
Over provision in respect of prior years	**–**	(183)
Income tax expense (credit)	**513**	(27)

As at 31 December 2018, the Group's PRC subsidiaries had unused tax losses of RMB200,019,000 (31 December 2017: RMB314,496,000) incurred by non-agricultural business in the PRC. These unused tax losses as at 31 December 2018 will expire in year 2019 to year 2023 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.

12. DIVIDENDS

No dividend (2017: nil) was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the reporting period.

13. 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:

	2018	2017
	RMB'000	*RMB'000*
Loss		
Loss for the purposes of basic and diluted loss per share	**(496,088)**	(975,116)

	2018	2017
	Shares	*Shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,083,399,210**	6,022,884,528

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 years ended 31 December 2018 and 2017 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.

14. TRADE AND OTHER RECEIVABLES AND ADVANCED PAYMENTS

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,555,495**	1,392,547
Bills receivable	**–**	500
Less: allowance for doubtful debts *(note)*	**–**	(495,167)
allowance for credit losses *(note)*	**(857,739)**	–
	697,756	897,880
Advanced payments for feeds and materials	**75,069**	97,178
Input value added tax recoverable	**2,032**	21,457
Receivables from Mengniu Group in respect of disposal of property, plant and equipment	**1,681**	–
Others	**4,635**	5,554
	781,173	1,022,069

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**"). Following the above change in distribution channel, 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 as at 31 December 2017 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 (the "**Collaterals**") provided by certain individuals who used to be the non-controlling equity holders of Modern Farming (Anhui) Dairy Product Sales Co., Ltd. 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 for the year ended 31 December 2017.

During the current year, the Group performed the impairment test of the trade receivables from the Distributors under the ECL model and an additional impairment loss of RMB358,891,000 was recognised after considering the cash flows that the Group expects to receive from the Collaterals. The movements are set out below.

	Gross Amount	**Provision**	**Carrying Amount**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	1,069,543	(488,489)	581,054
Settlement during the current year	(4,353)	–	(4,353)
Amounts written off as uncollectible	(311)	311	–
Impairment losses recognised	–	(358,891)	(358,891)
At 31 December 2018	**1,064,879**	**(847,069)**	**217,810**

Trade receivables at the end of the reporting period principally represent receivables from sales of raw milk and liquid milk products. The Group allows credit periods of 30 to 120 days to its customers.

The following is the aged analysis of trade receivables, net of allowance for credit losses (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:

	2018	2017
	RMB'000	*RMB'000*
Trade receivables		
– within 120 days	**479,445**	314,426
– beyond 120 days but within 1 year	**–**	77,583
– beyond 1 year but within 2 years	**75,132**	505,371
– beyond 2 years but within 3 years	**143,179**	–
Bills receivable		
– within 120 days	**–**	500
	697,756	897,880

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% 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
	RMB'000
1–90 days past due	201,975
91–180 days past due	165,443
181–270 days past due	99,327
271–360 days past due	61,931
Over 360 days past due	4,828
Total	533,504

Movements in the allowance for doubtful debts:

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

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB495,167,000.

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with trade receivables from the Distributors is mitigated because they are secured over ordinary shares of the Company held by five third-party companies incorporated in British Virgin Islands.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risks on bank balances are limited because the counterparties are authorised banks in the PRC.

The Group has concentration of credit risk as approximately 60% of total trade receivables as at 31 December 2018 (2017: 25%) was receivable due from the Mengniu Group, the Group's largest customer and a related party of the Company.

The Group's internal credit risk grading assessment comprised the following categories:

Internal credit rating	**Description**	**Trade receivables**	**Other financial assets**
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Note	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount As at 31 December 2018**	
				RMB'000	*RMB'000*
Financial assets at amortised costs					
Pledged bank balances		N/A	12-month ECL		61,355
Bank balances		N/A	12-month ECL		703,039
Other receivables -amount due from Mengniu	*14*	Low risk	12-month ECL	1,681	
Other receivables others		Low risk	12-month ECL	4,315	
Other receivables others		Loss	Lifetime ECL (credit-impaired)	3,569	9,565
Trade receivables – raw milk *(note)*	*14*	Low risk	Lifetime ECL (not credit-impaired)	479,445	
Trade receivables – liquid milk product (Distributors) *(note)*	*14*	Loss	Lifetime ECL (credit-impaired)	1,064,879	
Trade receivables – liquid milk product (others) *(note)*	*14*	Loss	Lifetime ECL (credit-impaired)	11,171	1,555,495

Note: For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. As at 1 January 2018, except for debtors of dairy farming and debtors of liquid milk products with significant balances, the Group determines the expected credit losses on other debtors of liquid milk products by using a provision matrix, grouped by aging analysis since there was large number of liquid milk products customers. As at 31 December 2018, the Group determines the expected credit losses for all items individually since there are few numbers of customers for trade receivables.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) *RMB'000*	**Lifetime ECL (credit-impaired)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2017 under IAS 39	–	495,167	495,167
Adjustment upon application of IFRS 9	1,660	–	1,660
As at 1 January 2018 – As restated	1,660	495,167	496,827
Changes due to financial instruments recognised as at 1 January:			
– Transfer to credit-impaired	(1,660)	1,660	–
– Impairment losses recognised (Distributors)	–	358,891	358,891
– Impairment losses recognised (Others)	–	5,365	5,365
– Impairment losses reversed	–	(163)	(163)
– Write-offs (Distributors)	–	(311)	(311)
– Write-offs (others)	–	(2,870)	(2,870)
As at 31 December 2018	–	857,739	857,739

15. 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:

	2018	2017
	RMB'000	*RMB'000*
Trade payables		
– within 60 days	**1,177,301**	926,757
– beyond 60 days but within 120 days	**230,043**	296,373
– beyond 120 days but within 360 days	**27,912**	44,959
– beyond 360 days but within 720 days	**19,117**	10,483
Bills payable *(note)*	**550**	61,458
	1,454,923	1,340,030
Payable for acquisition of property, plant and equipment	**224,437**	393,745
Accrued staff costs	**84,582**	84,548
Advance payments from disposal of dairy cows and others	**56,869**	17,791
Amounts due to Mengniu	**143,048**	–
Other payable to Mengniu	**18,000**	–
Others	**90,504**	69,462
	2,072,363	1,905,576

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

16. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments under operating leases recognised during the year is RMB11,109,000 (2017: RMB10,978,000).

At the end of the reporting period, the Group had 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 are as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**12,924**	9,485
In the second to fifth year inclusive	**44,596**	2,225
Over five years	**243**	183
	57,763	11,893

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.

17. EVENTS AFTER THE REPORTING PERIOD

There is no significant events after the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Despite the backdrop of soaring raw material cost, forex pressure and the effect of supply-side reform in China, we were able to deliver a satisfactory financial results in the Reporting Year, with total revenue up 3.6% to RMB4,956.8 million, cash EBITDA increased by 41.3% to RMB1,528.4 million and net operating cash inflow escalated by 180.7% to RMB1,406.0 million, as compared to 2017. This is the result of a series of actions taken by the management team. Firstly, we have scrutinized our feed cost structure thoroughly and relentlessly implemented the cost-saving strategies across 26 farms. Secondly, we maximized the synergies effect with Mengniu Group in the areas of purchase, sales network and financing. Thirdly, we facilitated the launch of new products through associate factories with Mengniu. Fourthly, we lowered our financial gearing by proceeds from disposal of idle asset and leveraging on Mengniu's backup for fresh financing. Fifth, we invested over RMB88 million to tackle the heat stress. Yet, Modern Dairy never makes any concession to the quality and safety of milk products as they are lives of our business.

OPERATIONAL PERFORMANCE

For the Reporting Year, the Group has achieved significant improvement in major operating targets. The average selling price ("**ASP**") of raw milk stood at RMB3.85/kg (2017: RMB3.83/kg), representing an annual growth of 0.52%. The annual milk yield per head of milkable cow increased by 3.1% to 10.1 tons compared to 2017. With the uplift of milk yield and the increase of proportion of milkable cows to the total number of dairy cows, the total annual milk production hit 1.28 million tons (2017: 1.18 million tons), representing year-over-year growth of 8.20%. In 2018, the Group has achieved 14.49% sales growth year-over-year of raw milk up to RMB4.716 billion (2017: RMB4.119 billion). Benefiting from an increase in ASP of raw milk and higher milk yield, the gross profit margin (before raw milk fair value adjustment) of the dairy farming business increased by 0.36 ppt to 31.46% in 2018 year-over-year.

The Group still successfully kept the cost of one kilogram of raw milk at RMB2.45/kg, even though the feed prices have significantly increased, globally and domestically as a result of the Sino-US trade war. Out of which, the feed cost amounted to RMB1.89/kg, same as 2017. In order to integrate the surrounding resources to cope with the demand from each farm, the Group has established a forage department. The Company also consolidated and streamlined procurement process so as to reduce purchasing costs. Additionally, the Company also increased the use of silage feed and adjusted the feed mix so as to secure the health and comfort of dairy cows.

DAIRY FARMS IN BRIEF

As at 31 December 2018, the Group operated a total of 26 dairy farms (within herd size each close to or over 10,000 dairy cows) with 231,530 dairy cows (2017: 233,058) spread across seven provinces in mainland China. The proportion of milkable cows to the total number of dairy cows increased by 3.61 ppts to 58.01% (2017: 54.4%). Total external sales volume of raw milk amounted to 1,225,441 tons (2017: 1,075,538 tons) contributing to the production of high-end milk among the downstream dairy enterprises. Leveraging on the world's first model of "integration of forage planting, dairy farming and milk processing", Modern Dairy has become the largest leading dairy farming company and the largest producer of raw fresh milk in mainland China in terms of the herd scale and volume of annual production. As a nationwide farm, we are endowed with unique geographical advantages that our farms are mostly located at region with fine climate, environment, and ample supply of feed, adjacent to various processing plants of dairy products.

Herd Scale

	As at 31 December 2018 *Head*	As at 31 December 2017 *Head*
Dairy cows		
Milkable cows	**134,315**	126,839
Heifers and calves	**97,215**	106,219
Total number of dairy cows	**231,530**	233,058

The Company's financial performance is highly corelated with market milk prices and also affected by the milk yield of each milkable cow. In general, when the milk price increase, the profitability of the Company will increase concurrently. When milk yield improves, the unit cost of raw milk will decrease relatively. Yet, milk yield is affected by a number of factors, like the number of lactation, breed, comfort level, genetics and feed mix. Nevertheless the Company continues to conduct research on each factor, invite foreign cow experts to regularly visit and instruct the farms, exchange of experts, staff training, etc., so as to improve milk yield and cow health.

Milk Yield

During the Reporting Year, we recorded annual milk yield of 10.1 tons per milkable cow (2017: 9.8 tons), up 3.06% year-over-year. Such results are attributable to effective herd management, genetic improvement by generations inheritance, and increase in the number of cows reaching peak stage of lactation. The annual total milk production slightly grew 8.2% to 1.28 million tons (2017: 1.18 million tons).

Cooperation with CITIC Environment

The Company and CITIC Environment Investment Group Co., Ltd. and one of its subsidiaries entered into a letter of intent on cooperation framework in September 2018, to jointly establish a joint venture on the transformation and operation of manure anaerobic fermentation system and other assets of farms under the Group, which involved the treatment of plug flow reactor for anaerobic fermentation being the principal manure treatment. Biogas produced during fermentation can be deployed for power generation and steam production; biogas residues after drying can be used as beds in cowsheds, while biogas slurry is partially returned to cowsheds and the remaining biogas slurry will be reused as organic fertilizers. For details, please refer to the Company's announcement dated 28 September 2018.

Heat Stress Alleviation Measures

Heat stress as a result of high temperature in summer has become a seasonal problem for milkable cows. The yield of each milkable cow is generally slightly reduced to the impact caused by heat stress. To minimize the impact, the Group has adopted alleviation plans. In the Reporting Year, the Group deployed over RMB88 million on modification of cowshed, and equipped cowshed with efficient ventilation system, such as powerful fans. After the implementation of the plan, there were obvious improvement in the milk yield per cow. The Company will keep close monitor to the effect of heat stress and upgrade the facilities in barns and enhance the health of each dairy cow.

Associate Factories

In March 2018, the Group completed the disposal of 50% equity interest each in Modern Dairy (Feidong) Co., Ltd. ("**Feidong**") (現代牧業(肥東)有限公司) and Modern Dairy (Bengbu) Co., Ltd. ("**Bengbu**") (現代牧業(蚌埠)有限公司) (both of which operate milk process plant) to Mengniu Group and formed two associate factories (the "**Associate Factories**"). Pursuant to the articles of association of Feidong and Bengbu, Mengniu Group has 51% of voting power at the shareholder's meetings and three out of a total of five directors of each Feidong and Bengbu, and thus Mengniu Group has control over the Associate Factories. Accordingly, Mengniu will consolidate the Associate Factories, while Modern Dairy shall pick up the operating results of the Associates Factories through equity accounting. The share of profit of Associates Factories recorded as RMB24.87 million in the Reporting Year.

FINANCIAL OVERVIEW

Revenue

Business Segmentation Analysis

The following table sets forth the breakdown of the consolidated revenue of our two operating segments for the years ended:

	2018 External Sales *RMB'000*	**2018** Internal Sales *RMB'000*	**2018** Subtotal *RMB'000*	2017 External Sales *RMB'000*	2017 Internal Sales *RMB'000*	2017 Subtotal *RMB'000*
Sales of raw milk business	**4,715,942**	**116,787**	**4,832,729**	4,119,192	280,166	4,399,358
Sales of liquid milk products business	**240,869**	**–**	**240,869**	664,609	–	664,609
Consolidated revenue	**4,956,811**	**116,787**	**5,073,598**	4,783,801	280,166	5,063,967

The Group's revenue slightly increased by 3.62% to RMB4,956.8 million (2017: RMB4,783.8 million). The increase was mainly due to the increase in sales volume of raw milk and increase in ASP of raw milk.

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

	2018 Sales revenue *RMB'000*	**2018** Sales volume *tons*	**2018** ASP *RMB/ton*	2017 Sales revenue *RMB'000*	2017 Sales volume *tons*	2017 ASP *RMB/ton*
Raw milk						
External sales	**4,715,942**	**1,225,441**	**3,848**	4,119,192	1,075,538	3,830
Internal sales	**116,787**	**25,891**	**4,511**	280,166	73,235	3,826
Subtotal	**4,832,729**	**1,251,332**	**3,862**	4,399,358	1,148,773	3,830

- *Dairy farming business*

  Total revenue of raw milk (as an aggregate of external and internal sale) slightly grew by 9.85% year-over-year to RMB4,832.7 million (2017: RMB4,399.4 million).

  External sales revenue of raw milk recorded an 14.49% increase to RMB4,715.9 million (2017: RMB4,119.2 million) as compared to 2017.

  ASP of raw milk slightly grew by 0.52% year-over-year to RMB3.85/kg during the Reporting Year (2017: RMB3.83/kg), sales volume increased by 8.88% year-over-year to 1.251 million tons (2017: 1.149 million tons), mainly due to the rise in annual milk yield per cow and number of milkable cows.

- *Liquid milk products business*

  Since April of 2018, Mengniu started the operation of two associate factories. The Company changed adopted the equity accounting method to account Associate Factories since then. The revenue from our liquid milk products business recorded RMB240.9 million during the Reporting Year (2017: RMB664.6 million), accounted for 4.86% of the combined revenue (2017: 13.89%).

  Total sales volume of liquid milk slided by 60.94% year-to-year to 29,132 tons for the Reporting Year (2017: 74,584 tons). The significant drop in sales volume is a result of the handover of liquid milk business to Mengniu in April 2018.

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 2018		For the year ended 31 December 2017	
	RMB'000	*%*	*RMB'000*	*%*
Direct materials	**2,449,233**	**73.9%**	2,262,827	74.7%
Labor cost	**243,406**	**7.4%**	206,420	6.8%
Utilities	**96,414**	**2.9%**	70,257	2.3%
Depreciation	**250,422**	**7.6%**	239,264	7.9%
Other costs of farms	**272,676**	**8.2%**	252,440	8.3%
Subtotal of cost of sales before raw milk fair value adjustments of the dairy farming business	**3,312,151**	**100%**	3,031,208	100%
Inter-segment cost	**(68,381)**		(202,257)	
Cost of sales before raw milk fair value adjustments of the dairy farming business	**3,243,770**		2,828,951	

Total feed cost (before eliminating cost of sales in relation to internal supply of raw milk) during the Reporting Year amounted to RMB2,449.2 million (2017: RMB2,262.8 million), representing an increase of 8.24%, which was mainly due to the increase in number of milkable cows.

Despite the impact of the Sino-US trade war, we lowered the use of alfalfa by regulating the formulation structure of the feed, and effectively managed to control the forage costs. During the Reporting Year, the cash cost of (excluding depreciation) raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) amounted to RMB2,447/ton (2017: RMB2,430/ton), approximately the same as 2017.

- ***Liquid milk products business***

  The raw material cost in respect of the brand milk business during the Reporting Year (before eliminating cost of sales in relation to internal supply of raw milk) slided by 60.24% year-over-year to RMB191.6 million (2017: RMB481.9 million) as the brand liquid milk business has been handover to Mengniu since April 2018.

  Cash cost (excluding depreciation) per ton of brand liquid milk sold (before eliminating cost of sales in relation to internal supply of raw milk) amounted to RMB7,253 million (2017: RMB7,553 million), representing a decrease of 3.97% on a year-over-year basis.

Gross profit and profitability

The following table sets forth the breakdown of gross profit and gross profit margin before raw milk fair value adjustments:

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Gross profit *RMB'000*	**Gross Profit margin**	Gross profit *RMB'000*	Gross Profit margin
Dairy farming business				
Before elimination	**1,520,578**	**31.46%**	1,368,150	31.10%
After elimination	**1,472,172**	**31.22%**	1,290,241	31.32%
Liquid milk products business				
Before elimination	**19,908**	**8.27%**	59,980	9.02%
After elimination	**73,970**	**30.71%**	140,603	21.16%

- ***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) amounted to RMB1,520.6 million during the Reporting Year (2017: RMB1,368.2 million), representing an increase of 11.14% year-over-year, which was 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) stood at 31.46% during the Reporting Year (2017: 31.10%), representing an increase of 0.36 ppt year-over-year, which was mainly 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) amounted to RMB19.9 million during the Reporting Year (2017: RMB60.0 million), representing a decrease of 66.83% year-over-year. The significant slide was due to the handover of liquid milk products business to Mengniu in April 2018.

  Gross profit margin of our liquid milk products business (before eliminating cost of sales in relation to internal supply of raw milk) was 8.27% (2017: 9.02%), the decrease was mainly due to the change of pricing model to "cost-plus".

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

As at 31 December 2018, the biological assets of the Group were valued at RMB7,717.1 million (31 December 2017: RMB7,751.1 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 RMB870.1 million as at 31 December 2018 (31 December 2017: RMB868.3 million). Both were approximately the same as 2017 on year-over-year basis.

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

The gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest amounted to RMB1,371.5 million (2017: RMB1,228.0), representing an increase of 11.69% year-over-year, mainly due to the increase in sales volume of 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

During the Reporting Year, other income amounted to RMB66.1 million (2017: RMB51.8 million) which mainly consisted of government grants and interest income, of which interest income accounted for RMB11.0 million (2017: RMB8.2 million), while the government grants amounted to RMB43.7 million (2017: RMB37.6 million). Government grants mainly consisted of subsidies for agricultural projects such as "Grain to Fodder".

Operating expenses

Operating expenses decreased from the prior year of RMB729.1 million to the Reporting Year RMB404.7 million, representing a reduction of 44.5% year-over-year, of which:

- ***Selling and distribution costs ("S&D")***

  S&D costs stood as RMB172.3 million for the Reporting Year (2017: RMB372.6 million) 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.

  Transportation costs recorded at RMB163.1 million (2017: RMB149.8 million), representing an increase of 8.9% year-over-year, mainly attributable to an increase in the sales volume of raw milk.

  The amount of S&D cost of brand liquid milk segment amounted to RMB5.69 million (2017: RMB210.9 million), accounted for 3.3% (2017: 56.6%) of the overall S&D costs. The significant decrease was mainly due to the handover of downstream business to Mengniu. Mengniu took account for the marketing and promotion expense.

- ***Administrative expenses***

  The Company recorded RMB232.5 million during the Reporting Year (2017: RMB356.5 million), representing a decrease of 34.78% year-over-year.

  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) amounted to RMB113.4 million of the Reporting Year (2017: RMB127.5 million). Since the Associate Factories taken by Mengniu, the marketing and related management personnel of the Company decreased resulting in lower administrative expenses.

  The equity-based share option and share award expenses included in administrative expenses amounted to RMB8.6 million of the Reporting Year (2017: RMB96.3 million), representing a decrease of 91.07% year-over-year. 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 2017.

Other expenses

Other expenses amounted to RMB23.1 million (2017: RMB20.4 million), mainly consisting of, among other things, contract compensation and losses from sales of milk powder.

In June 2016, Modern Farming (Saibei) Co., Ltd. ("**Saibei**"), a subsidiary of the Company, entered into a consigned processing contract with Bengbu Heping Dairy Co., Ltd ("**Heping**") to process liquid milk product for Heping. As the Directors predicted the contract would not be fulfilled, Saibei cancelled the contract with a compensation of RMB12 million to Heping in December 2018.

Finance costs

Finance costs amounted to RMB338.6 million (2017: RMB328.4 million), representing an increase of 3.1% year-over-year.

Among which, borrowing costs, down 6.3% to RMB335.1 million (2017: RMB357.7 million), mainly due to the decrease in interest bearing borrowings.

The fair value loss of interest rate swaps incurred by the Company amounted to RMB3.5 million during the Reporting Year, compared with a gain of RMB31.8 million in 2017. In view of the large finance costs, the Company will adopt various feasible measures to reduce interest bearing liabilities, including, among others, the disposal of idle assets and integration of resources.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's cash EBITDA amounted to RMB1,528.4 million during the Reporting Year (2017: RMB1,081.8 million), grew by 41.28% year-over-year. The cash EBITDA margin increased to 30.83% (2017: 22.61%), up by 8.22 ppt.

Taking into account of the above factors, loss attributable to owners of the Company amounted to RMB496.1 million (2017: loss of RMB975.1 million), representing a reduction of 49.1% year-over-year.

Basic loss per Share was RMB8.15 cents (2017: RMB16.19 cents per Share).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the Reporting Year, the amount of net cash generated from operating activities of the Group was RMB1,406.0 million (2017: RMB500.9 million), representing a 180.69% increase year-over-year, demonstrating a robust recovery in overall operation.

As at 31 December 2018, the net gearing ratio, which was calculated on the basis of the amount of total borrowing less cash and cash equivalents and restricted bank deposits as a percentage of the total equity, was 97.4% (31 December 2017: 95.1%).

As at 31 December 2018, the Group's available and unutilized bank financing facilities were approximately RMB4,954.7 million (31 December 2017: RMB6,306.5 million). Having considered the (i) forecast cash flow from operating activities of continuing operation, (ii) existing financial resources and gearing level of the Group, and (iii) existing banking facilities available to the Group, the Directors believe that the Group's financial resources are sufficient to meet its debt repayment, day-to-day operations, contracted capital expenditures as at 31 December 2018.

INTEREST-BEARING BORROWINGS

As at 31 December 2018, the total interest-bearing debt was RMB7,148.1 million.

Details are set out as below:

	As at	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Borrowings:		
Bank borrowings	**4,437,502**	3,481,210
Medium-term notes	**621,880**	1,866,895
Corporate bonds	**1,087,568**	1,084,867
Other borrowing	**1,001,111**	1,106,115
	7,148,061	7,539,087
Carrying value repayable:		
Within one year	**4,401,668**	3,980,839
Between one and two years	**2,316,393**	1,364,676
Between two and five years	**430,000**	2,193,572
	7,148,061	7,539,087

The following is an analysis of the respective borrowings:

- **Bank borrowings**

During the Reporting Year, the effective annual interest rate of bank borrowings varied from 0.45% to 5.0% (2017: from 0.9% to 6.4%).

The table below sets forth the short-term and long-term bank borrowings as at 31 December 2018:

	As at	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Bank borrowings:		
Unsecured borrowings	**3,972,022**	3,468,694
Secured borrowings	**465,480**	12,516
	4,437,502	3,481,210
Carrying amount repayable:		
Within one year	**1,691,109**	1,568,181
Between one and two years	**2,316,393**	516,000
Between two and five years	**430,000**	1,397,029
	4,437,502	3,481,210

- **Medium-term notes and corporate bonds**

On 23 March 2016, Modern Farming issued medium-term notes with an aggregate principal amount of RMB600,000,000 which will mature in three years. The medium-term notes bear a fixed interest rate of 4.75% per annum. Related transaction costs amounted to RMB1,800,000. The effective interest rate is 4.86% per annum.

In June 2016, Modern Farming obtained approval from China Securities Regulatory Commission to issue corporate bonds in the PRC of an aggregate principal amount up to RMB2,000,000,000 within 24 months from the approval. On 12 August 2016, Modern Farming issued the first tranche of the corporate bonds of an aggregate principal amount of RMB250,000,000 which will mature in three years. The corporate bonds bear a fixed interest rate of 5.30% per annum. Related transaction costs amounted to RMB1,125,000. The effective interest rate is 5.47% per annum.

On 28 March 2017, Modern Farming issued the second tranche of corporate bonds of an aggregate principal amount of RMB800,000,000 which will mature in three years. The corporate bonds bear a fixed interest rate of 5.49% per annum. Related transaction costs amounted to RMB3,600,000. The effective interest rate is 5.66% per annum.

- **Other borrowing**

	2018	2017
	RMB'000	*RMB'000*
Principal amount payable:		
Within one year		
– Collateralised borrowing	**–**	39,604
– Borrowings from Mengniu Group *(Note)*	**1,001,111**	1,066,511
	1,001,111	1,106,115
Less: Amounts due within one year (shown under current liabilities)	**1,001,111**	1,106,115
Amounts due after one year	**–**	–

Note: 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 RMB1.5 billion 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. In September 2017, pursuant to the letter of comfort to certain US$ loan, borrowing facilities of RMB1.0 billion was extended to September 2020, and then further extended to September 2021 pursuant to the letter of comfort to the HK$ Loan in September 2018. The outstanding borrowings at 31 December 2018 will mature within one year and bear interest at fixed rate of 4.00% per annum.

GROUP STRUCTURE

Save for disclosed in this announcement, during the Reporting Year, there was no material change in the structure of the Group.

CAPITAL STRUCTURE

As at 31 December 2018 and 2017, the total number of shares in issue remains unchanged, stands as 6,131,406,706 shares.

The Group had interest bearing borrowings of approximately RMB7.15 billion of the consolidated statement of financial position as at 31 December 2018 (31 December 2017: approximately RMB7.54 billion), of which the current interest bearing borrowings amounted to RMB4.40 billion (31 December 2017: RMB3.98 billion), non-current interest bearing borrowings amounted to RMB2.75 billion (31 December 2017: RMB3.56 billion). RMB and foreign currency borrowings amounted to RMB4.87 billion and US$312 million respectively, and EUR20 million (31 December 2017: RMB and foreign currency borrowings amounted to RMB6.29 billion and US$180 million and EUR13 million).

As at 31 December 2018, the total current assets and net amounts of financial assets of the Group amounted to approximately RMB15.94 billion (31 December 2017: approximately RMB16.72 billion) and RMB6.55 billion (31 December 2017: approximately RMB7.09 billion).

As at 31 December 2018, the net assets attributable to owners of the Company amounted to approximately RMB6.45 billion (31 December 2017: approximately RMB6.97 billion), the net borrowings of the Group (interest bank borrowings and other borrowings, net unsecured cash and cash equivalents items) amounted to approximately RMB6.38 billion (31 December 2017: approximately RMB6.74 billion).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2018, there was no buildings and equipment of the Company (31 December 2017: RMB93.9 million) were pledged as security for the Group's borrowings.

As at 31 December 2018, biological assets with carrying value of RMB875.5 million (31 December 2017: RMB1,154.2 million) were pledged as security for the Group's borrowings.

The Group did not have any significant contingent liabilities as at 31 December 2018 and 2017.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENTS

As at 31 December 2018, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB7.8 million (31 December 2017: RMB41.9 million).

As at 31 December 2018, the Group has operating lease commitments in relation to the operating leased property, plant and equipment and leased land of RMB57.8 million (31 December 2017: RMB11.9 million).

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, bank loans and proceeds from the issuance of the bonds to satisfy its operational and investment needs.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2018, the Group had approximately 4,735 employees (31 December 2017: 5,097) in mainland China and Hong Kong. Total staff costs during the Reporting Year (including staff compensation capitalized to biological assets) were approximately RMB435.7 million (2017: RMB478.8 million).

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

PROSPECTS

Currently, domestic consumption in the first and second tier cities continues to increase, and consumption power in the third and fourth tier cities and rural areas has gradually released, brought a huge consumption potential to high-quality dairy products. Large-scale upstream enterprises model with intensive and detailed operation can fulfil the demand for high-quality raw milk and has become the trend of China's dairy industry.

Entering 2019, the Group will enter the ninth year of listing. The Group will continue to adhere to the three lifelines of food safety, environmental protection safety and epidemic prevention safety to creating advanced farms and produce high-quality raw milk.

The Group will adhere to improving the milk yield, lowering costs, enhancing efficiency, promoting synergies and creating brands. The Group strive to reduce finance cost by lowering financial gearing, disposal of non-core assets, uplift of asset utilization. On the other hand, the Group will deepen the synergies with Mengniu, diversify the categories of raw milk products high-end products with premium and so to create an engine of growth for the Group. The Group will adjust the milk production in response to seasonal effect so as to optimize the raw milk dispatching.

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 2018 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 1 June 2018 due to other business engagements.

DIVIDEND

The Board did not recommend the payment of a final dividend for the Reporting Year (2017: 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 2018.

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 reporting year.

During the year under review, Mr. LU Minfang is an executive director and chief executive officer of Mengniu. Mr. WOLHARDT Julian Juul is an independent non-executive director of Mengniu. Mr. ZHANG Ping is a chief financial officer of Mengniu. Mr. WEN Yongping is the vice president of Mengniu and the general manager of the chilled product business department of Mengniu. Mengniu is a substantial shareholder of the Company and is engaged in the dairy industry.

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

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Reporting Year, except that the trustee of the share award scheme adopted on 9 September 2016 and amended on 26 March 2018, pursuant to the rules of the scheme, purchased on the open market a total of 20,000,000 ordinary shares of the Company as restricted shares at a consideration of approximately HK$28,835,000 (equivalent to RMB23,583,000). As at 13 December 2018, the trustee of the share award scheme has purchased from the open market with aggregate 55,969,000 shares of the Company as restricted shares under the scheme, representing approximately 0.91% of the issued share capital of the Company. Amongst the restricted shares, a total of 35,969,000 of which had been granted and awarded to selected participants in April 2017 and not yet vested as at the date of this announcement.

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 2018 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 comprises two independent non-executive Directors, namely Mr. LEE Kong Wai, Conway and Mr. KANG Yan and one non-executive Director, Mr. WOLHARDT Julian Juul. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group, and discussed the risk management and internal control systems and financial reporting matters including the review of the audited results for the year ended 31 December 2018.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2018 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.
Mr. LU Minfang
Chairman

Hong Kong, 25 March 2019

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 (chairman), Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. ZHAO Jiejun, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.