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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of China Modern Dairy Holdings Ltd. (the "**Company**") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with comparative figures for the corresponding period in 2018. The interim results have been reviewed by the audit committee of the Company (the "**Audit Committee**") and the Group's auditor Deloitte Touche Tohmatsu.

* *For identification purposes only*

HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE

	2019 (unaudited)	2018 (unaudited)	Change
(All amounts in Renminbi ("RMB") million unless otherwise stated)			
Highlights			
Revenue	**2,570.1**	2,468.3	4.1%
Gross profit before raw milk fair value adjustments	**898.1**	735.4	22.1%
Cash EBITDA *(Note 1)*	**865.4**	730.7	18.4%
Net gearing ratio *(Note 2)*	**96.4%**	95.0%	1.4 ppt
Profit/(Loss) attributable to owners of the Company	**124.9**	(140.3)	265.2
Net operating cash inflow	**855.6**	709.5	20.6%
Free cash flow *(Note 3)*	**351.1**	139.7	151.3%
Basic profit/(loss) per share *(RMB cents)*	**2.05**	(2.30)	4.35
Net asset value per share *(RMB) (Note 4)*	**1.09**	1.13	-3.5%
Proposed interim dividend	**Nil**	Nil	–
Annualized milk yield of milkable cow *(tons/head)*	**10.6**	10.3	2.9%
Period milk yield *(tons '0,000)*	**68.2**	63.6	7.2%
Herd scale *(heads)*	**226,861**	225,782	0.5%

- Modern Dairy's pure milk was for the sixth consecutive year awarded the Gold Prize of Monde Selection.
- The brand of Modern Dairy has been shortlisted as the "Strategic Partner of China's Aerospace Industry", marking our premium quality branded milk widely recognized by all sectors of the society.

Notes:

1. Cash EBITDA is defined as profit/(loss) before finance costs and tax having added back: i) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss; 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 is calculated as the net borrowings divided by the shareholders' equity, in which the net borrowings is the total borrowings minus cash and cash equivalents.
3. Free cash flow is defined as net cash from operating activities having added back net cash used in investing activities.
4. Net assets at year end divided by the number of ordinary shares in issue at the end of the Reporting Period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June **2019** ***RMB'000*** **(unaudited)**	 2018 *RMB'000* (unaudited)
Revenue	*4*	**2,570,133**	2,468,250
Cost of sales before raw milk fair value adjustments	*6*	**(1,672,018)**	(1,732,827)
Raw milk fair value adjustments included in cost of sales		**(816,632)**	(629,418)
Loss arising from changes in fair value less costs to sell of dairy cows		**(430,471)**	(434,716)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		**816,632**	629,418
Other income	*5*	**21,547**	34,321
Impairment losses under expected credit loss model, net of reversal	*14*	**108,021**	(74,168)
Selling and distribution costs		**(82,985)**	(93,560)
Administrative expenses		**(138,279)**	(106,762)
Share of profit of associates		**12,284**	6,335
Other gains and losses, net	*6*	**(26,715)**	(54,308)
Other expenses		**(3,264)**	(7,157)
Profit before finance costs and tax	*6*	**358,253**	5,408
Finance costs	*7*	**(224,375)**	(148,225)
Profit/(loss) before tax		**133,878**	(142,817)
Income tax expense	*8*	**(197)**	(194)
Profit/(loss) for the period		**133,681**	(143,011)

	Note	Six months ended 30 June **2019** *RMB'000* **(unaudited)**	2018 *RMB'000* (unaudited)
Other comprehensive income/(expense):			
Item that will not be reclassified to profit or loss:			
Fair value gain/(loss) on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**")		**131**	(8,870)
Other comprehensive income/(expense) for the period (net of tax)		**131**	(8,870)
Total comprehensive income/(expense) for the period		**133,812**	(151,881)
Profit/(loss) for the period attributable to:			
Owners of the Company		**124,859**	(140,250)
Non-controlling interests		**8,822**	(2,761)
		133,681	(143,011)
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		**124,988**	(148,958)
Non-controlling interests		**8,824**	(2,923)
		133,812	(151,881)
Earnings/(loss) per share *(RMB)*	*10*		
Basic		**2.05 cents**	(2.30) cents
Diluted		**2.05 cents**	(2.30) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 RMB'000 (unaudited)**	31 December 2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**3,720,800**	3,920,685
Right-of-use assets	*11*	**312,094**	–
Land use rights		**–**	117,220
Goodwill		**1,398,589**	1,398,589
Interest in associates		**192,060**	180,913
Equity instruments at FVTOCI		**2,639**	2,508
Biological assets	*12*	**7,650,739**	7,717,113
		13,276,921	13,337,028
CURRENT ASSETS			
Inventories		**573,517**	978,508
Trade and other receivables and advanced payments	*13*	**841,791**	781,173
Land use rights		**–**	4,002
Derivative financial instruments		**59,055**	80,424
Pledged bank balances and non-pledged bank deposits		**118,839**	61,355
Bank balances and cash		**604,310**	703,039
		2,197,512	2,608,501
CURRENT LIABILITIES			
Trade and other payables	*15*	**1,486,136**	2,072,363
Tax payable		**246**	322
Bank borrowings – due within one year		**1,621,007**	1,691,109
Other borrowings		**1,202,798**	1,001,111
Medium-term notes		**–**	621,880
Corporate bonds		**–**	1,087,568
Lease liabilities		**8,974**	–
Derivative financial instruments		**35,800**	17,729
Contract liabilities		**216**	232
		4,355,177	6,492,314
NET CURRENT LIABILITIES		**(2,157,665)**	(3,883,813)
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,119,256**	9,453,215

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
CAPITAL AND RESERVES		
Share capital	**526,058**	526,058
Share premium and reserves	**6,028,153**	5,919,237
Equity attributable to owners of the Company	**6,554,211**	6,445,295
Non-controlling interests	**117,271**	108,838
TOTAL EQUITY	**6,671,482**	6,554,133
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	**4,095,707**	2,746,393
Lease liabilities	**200,892**	–
Deferred income	**151,175**	152,689
	4,447,774	2,899,082
	11,119,256	9,453,215

NOTES

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 30 June 2019, 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 condensed 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 THE CONSOLIDATED FINANCIAL STATEMENTS

In preparation of the condensed consolidated financial statements for the six months ended 30 June 2019, the directors of the Company (the "**Directors**") have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its total current assets by RMB2,157,665,000 (31 December 2018: RMB3,883,813,000). Having considered the available credit facilities of approximately RMB3,400,839,000 which remains unutilised as at 30 June 2019, 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 RMB500,000,000 from Inner Mongolia Mengniu Dairy (Group) Company Limited ("**Inner Mongolia Mengniu**") expiring in May 2020, and the remaining facilities are from banks. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("**IAS 34**") issued by the International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for: (i) the biological assets, which are measured at fair value less costs to sell; (ii) derivative financial instruments, which are measured at fair value; and (iii) equity instruments at FVTOCI, which are measured at fair value at the end of each Reporting Period.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("**IAS 17**"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("**IFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

As a lessee

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 5.13% to 5.20%.

	At 1 January 2019
	RMB'000
Lease liabilities	209,125
Analysed as	
Current	18,421
Non-current	190,704

Note: The lease liabilities as at 1 January 2019 have included the operating lease commitments disclosed as at 31 December 2018; included the leases for lands at variable lease payments that depend on index, measured using the index at the commencement date; and excluded short-term leases. They are discounted at relevant incremental borrowing rates.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	187,695
Reclassified from land use rights *(Note)*	121,222
Reclassified from trade and other receivables and advanced payments	193
	309,110
By class:	
Leasehold lands	265,178
Machinery and equipment	43,932
	309,110

Note: Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of land use rights amounting to RMB4,002,000 and RMB117,220,000 respectively were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Land use rights	117,220	(117,220)	–
Right-of-use assets	–	309,110	309,110
Current Assets			
Land use rights	4,002	(4,002)	–
Trade and other receivables and advanced payments	781,173	(193)	780,980
Capital and Reserves			
Retained earnings	(378,607)	21,039	(357,568)
Non-controlling interests	(108,838)	391	(108,447)
Current Liabilities			
Lease liabilities	–	(18,421)	(18,421)
Non-current liabilities			
Lease liabilities	–	(190,704)	(190,704)

4. REVENUE

Disaggregation of revenue

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Types of goods		
Raw milk	**2,570,133**	2,227,381
Liquid milk products	**–**	240,869
	2,570,133	2,468,250
Timing of revenue recognition		
A point in time	**2,570,133**	2,468,250

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 the Group is 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 is presented.

5. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**5,294**	6,501
Government grants related to		
– Other assets *(Note i)*	**9,414**	9,722
– Income *(Note ii)*	**3,088**	9,317
	12,502	19,039
Others	**3,751**	8,781
	21,547	34,321

Notes:

i. These government grants are in relation to the construction and acquisition of property, plant and equipment and are included in the condensed consolidated statement of financial position as deferred income and credited to the profit or loss on a straight-line basis over the useful lives of the related assets.

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

6. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of sales before raw milk fair value adjustments:		
Breeding costs to produce raw milk	**1,672,018**	1,565,928
Production costs for liquid milk products	**–**	166,899
	1,672,018	1,732,827
Raw milk fair value adjustments included in cost of sales	**816,632**	629,418
	2,488,650	2,362,245
Other gains and losses:		
Net foreign exchange loss	**27,128**	50,474
Loss from disposal of property, plant and equipment, net	**7,948**	3,225
Impairment loss on property, plant and equipment	**–**	16,876
Gains arising on disposal of subsidiaries	**–**	(18,193)
Fair value (gain) loss on derivative financial instruments:		
Foreign currency forward contracts	**(1,732)**	2,152
Foreign currency option contracts	**(5,942)**	–
Gains on derecognition of financial liabilities	**(687)**	(226)
	26,715	54,308
Depreciation of property, plant and equipment	**259,395**	274,389
Depreciation of right-of-use assets	**7,891**	–
Less: capitalised in biological assets	**(109,299)**	(114,321)
Depreciation charged to profit or loss	**157,987**	160,068
Equity-settled share award expense	**24,635**	2,795
Other employee benefits costs	**233,092**	212,370
Less: capitalised in biological assets	**(59,580)**	(57,554)
Employee benefits charged to profit or loss	**198,147**	157,611
Amortization of land use rights	**–**	2,031

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	**126,947**	90,146
Medium-term notes	**6,620**	27,960
Corporate bonds	**14,645**	29,132
Other borrowings from Mengniu	**27,022**	24,406
Other borrowings from financial institutions	**1,059**	–
Lease liabilities	**5,223**	–
Amount due to Mengniu	**4,354**	–
Total borrowing cost	**185,870**	171,644
Fair value loss (gain) on interest rates swaps	**38,505**	(23,419)
	224,375	148,225

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	**197**	194

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 periods. 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, the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

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

9. DIVIDENDS

No interim dividends (six months ended 30 June 2018: nil) were paid, declared or proposed for current period.

10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit/(loss)		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	**124,859**	(140,250)

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**6,086,773,027**	6,091,492,673
Effect of dilutive potential ordinary shares:		
Share options	**9,775,985**	–
Share awards	**5,325,000**	–
	6,101,874,012	6,091,492,673

The number of shares adopted in the calculation of the basic earnings/(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 period ended 30 June 2018 has not taken into account the effect of the share options and share awards of the Company since the assumed exercise and vesting would result in decrease in loss per share.

11. MOVEMENTS IN RIGHT-OF-USE ASSETS

During the current interim period, the Group entered into several new lease agreements for the use of machineries, buildings and leasehold lands, and the lease terms were from 2 to 10 years. For some of the leased machineries, the Group is required to make fixed monthly payments and additional variable payments depending on the usage of the asset during the contract period. On lease commencement, the Group recognized RMB10,876,000 of right-of-use assets and RMB10,775,000 lease liabilities.

12. BIOLOGICAL ASSETS

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

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Milkable cows	**5,498,539**	5,636,013
Heifers and calves	**2,152,200**	2,081,100
Total dairy cows	**7,650,739**	7,717,113

The Group's dairy cows were fair valued by the Directors at 30 June 2019 while the fair value of the Group's dairy cows at 31 December 2018 has been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

13. TRADE AND OTHER RECEIVABLES AND ADVANCED PAYMENTS

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**1,509,869**	1,555,495
Less: allowance for credit losses *(Note)*	**(749,097)**	(857,739)
	760,772	697,756
Advanced payments for feeds and materials	**71,064**	75,069
Input value added tax recoverable	**2,701**	2,032
Receivables from Mengniu Group in respect of disposal of property, plant and equipment	**1,079**	1,681
Others	**6,175**	4,635
	841,791	781,173

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 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. ("**Modern Farming Anhui**") and were responsible for selecting distributors, an accumulated impairment loss of RMB847,069,000 was recognised in respect of the Group's trade receivables due from these Distributors as at 31 December 2018.

As at 30 June 2019, the Group performed the impairment test of the trade receivables from the Distributors under the expected credit losses ("**ECL**") model and an impairment allowance of RMB107,011,000 was reversed after considering the cash flows that the Group expects to receive from the Collaterals (for the six months ended 30 June 2018: impairment loss of RMB69,991,000). The movements of the impairment allowance are set out below.

	Gross Amount	**Provision**	**Carrying Amount**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	1,064,879	(847,069)	217,810
Impairment losses reversed	–	107,011	107,011
At 30 June 2019	1,064,879	(740,058)	324,821

The Group normally allows a credit period of 30 days to its customers.

The following is the aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice dates at the end of the Reporting Period, which approximated the respective revenue recognition dates at the end of the Reporting Period:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables		
– within 30 days	**434,848**	473,449
– beyond 30 days but within 60 days	**–**	5,996
– beyond 1 year but within 2 years	**13,793**	75,132
– beyond 2 year but within 3 years	**312,131**	143,179
	760,772	697,756

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Impairment loss/(reversed) recognised in respect of		
Trade receivables	**(108,642)**	74,168
Other receivables	**621**	–
	(108,021)	74,168

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

15. TRADE AND OTHER PAYABLES

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

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Trade payables		
– within 60 days	**806,462**	1,177,301
– beyond 60 days but within 120 days	**127,800**	230,043
– beyond 120 days but within 360 days	**45,944**	27,912
– beyond 360 days but within 720 days	**12,393**	19,117
Bills payable *(Note)*	**7,012**	550
	999,611	1,454,923
Payable for acquisition of property, plant and equipment	**151,677**	224,437
Accrued staff costs	**82,702**	84,582
Advance payments from disposal of dairy cows and others	**12,120**	56,869
Amounts due to Mengniu	**147,402**	143,048
Other payable to Mengniu	**18,000**	18,000
Others	**74,624**	90,504
	1,486,136	2,072,363

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

16. CAPITAL COMMITMENTS

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	**29,118**	7,812

BUSINESS REVIEW

INDUSTRY OVERVIEW

In the first half of 2019, the auction price of international milk powder remained stable, the average domestic milk price increased year-on-year, and the industry was expected to develop steadily. Domestic feed, especially soybean meal, was affected by the weakening demand after swine fever, and its price dropped significantly. The price of corn remained relatively stable, which was good for dairy farming industry as a whole. After several years of low milk price, small and medium farms gradually withdrew from the market, and the herd size dropped. According to the National Bureau of Statistics, both the growth in domestic raw milk production volume and the number of dairy cows had been decreasing in the past three years.

In recent years, the transformation speed of China's dairy industry has accelerated. The overall quality of dairy herds has improved significantly, unit milk yield has increased, raw milk production has been stablized, and the fundamental change lies in the significant increase of large-scale farming. With the increasing threshold of domestic large-scale farming, the traditional backyard farming and small and medium-sized farming have lost their competitive advantages. In the future, the incremental demand for raw milk will be met by the incremental production of large-scale farms. The oversupply of raw milk was only found in the past.

OPERATIONAL PERFORMANCE

For the Reporting Period, the Group was mainly engaged in dairy farming operations (mainly producing and selling raw milk for customers and processing it into dairy products) and developing its own branded liquid milk products through an associate with Mengniu. The Group is committed to concentrating its resources on the upstream dairy farming business, targeting clients' demand for high-quality raw milk, providing raw milk for diversified and high-quality products, including A2 milk and other high-end products.

During the Reporting Period, the Group achieved earnings of approximately RMB133.7 million and net free cash inflow of RMB351.1 million by increasing unit production and reducing costs. The operation and financial performances have improved, and the Group successfully turned losses into profits.

For the Reporting Period, the Group has achieved significant improvement in major operating targets. The external average selling price ("**ASP**") of raw milk stood at RMB3.85/kg (2018: RMB3.73/kg), representing year-on-year growth of 3.22%. During the Reporting Period, the annualized milk yield ("**AMY**") per head of milkable cow increased by 2.91% to 10.6 tons year-on-year (2018: 10.3 tons). With the uplift of unit milk yield and the increase in proportion of milkable cows to the number of dairy cows, the total milk production during the Reporting Period hit 682,000 tons (2018: 636,000 tons), representing year-on-year growth of 7.23%. The Group has achieved 15.40% external sales growth year-on-year of raw milk up to RMB2,570 million (2018: RMB2,227 million). Benefiting from an increase in ASP of raw milk and higher milk yield, the gross profit (before raw milk fair value adjustment, before eliminating cost of sales in relation to internal supply of raw milk) of the dairy farming business stood at RMB898.1 million with gross profit margin 34.94% (2018: 30.28%).

In order to tackle the possible impact arising from the Sino-US trade war to our feed cost, the Group has specifically established a forage roughage department last year to integrate the surrounding forage roughage resources to cope with the demand from each farm. In addition, by leveraging on the online integrated procurement platform "Aiyangniu" of Mengniu, the overall procurement bargaining power was raised during the period.

During the Reporting Period, the Group still successfully kept the unit cost (excluding depreciation) of raw milk at RMB2.31/kg (2018: RMB2.42/kg), representing year-on-year decrease of 4.55%, even though the feed prices had significantly increased globally and domestically as a result of the Sino-US trade war. This was achieved by continuous improvement in the health of cows, optimization in the formula mix of feed, increase in the usage of silage, enhancement in the absorbance conversion rate of dairy cows and the usage of the unified procurement platforms and other measures. Out of which, the direct feed cost decreased to RMB1.78/kg during the Reporting Period from RMB1.89/kg for the same period of last year, representing year-on-year decrease of 5.82%.

During the Reporting Period, the Company's management adjusted operation strategies in time and allocated resources flexibly when facing external uncertainties. While reducing operating costs and improving efficiency, we were able to enhance the purity, genuineness, freshness and vitality of our raw milk, and have achieved significant improvement in each of the main operating indices.

As the first listed company engaged in dairy farming, Modern Dairy's premium quality dairy products lead the average standard of imported milk products in terms of milk fat, milk protein, somatic cells count, total colony count and other fresh milk key indicators, and the quality is among the top rankings internationally. Modern Dairy is the first and only company in China that both passed the "Quality Milk Project" for both of its pasteurized milk and UHT milk. The Company's "Premium Pure Milk" was for the sixth consecutive year awarded the Gold Prize of Monde Selection 2019 and was also granted "The International High Quality Trophy", and our products were all awarded the Gold Prize in the event. The Company adopts the unique production mode of integration of "planting, breeding and processing" recognized by Swiss SGS certification, with two-hour milking to processing time with zero distance and seamless connection to maintain the active substances in the milk as much as possible, bringing healthy, fresh, nutritional, safe and high-quality dairy products to consumers.

Modern Dairy's business strategy in the next 3 to 5 years will focus on moderately increasing herd size, maintaining reasonable herd structure, increasing unit milk yield and achieving stable production growth. Through continuous uplift in the milk yield of dairy cows and increase in the proportion of core herds, we achieved a steady growth of production.

The Group's associate factories which operate branded liquid milk business were formally established jointly with China Mengniu Dairy Company Limited ("**Mengniu**") in April 2018. With Mengniu team's mature market strategy and channel advantages, "Modern Farming" branded milk was re-launched to the market with the orientation of "15 years insisting on only producing pasture milk". The Company's new high-calcium pure milk was officially launched in early 2019, and another new walnut milk was also introduced in July 2019. During the Reporting Period, the share of profit from associate factories was RMB12.3 million. With the maturing business and continuous sales growth, the downstream business is expected to become another business growth engine for the Group.

DAIRY FARMS

Leveraging on the world's first model of "integration of forage planting, dairy farming and milk processing", Modern Dairy is currently 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 regions with fine climate and ample supply of feed, and are adjacent to various processing plants of dairy products.

Each farm is equipped with modern cowshed equipment, logistics systems, environmental protection facilities, 24/7 monitoring system, and veterinarians stationed in farms to make sure that each cow is living under a comfortable environment, producing high quality and healthy raw milk.

Herd Scale

	30 June 2019	30 June 2018
	Heads	*Heads*
Dairy cows		
Milkable cows	**131,658**	126,314
Heifers and calves	**95,203**	99,468
Total number of dairy cows	**226,861**	225,782

As at 30 June 2019, the Group operated a total of 26 dairy farms (within herd size each close to or over 10,000 dairy cows) spreading across seven provinces in mainland China. The breeds of milkable cows are Holstein dairy cows or their offspring, with good physical health and high milk yield. In terms of herd size, we are the largest dairy farming company as well as the largest raw milk supplier in mainland China. During the Reporting Period, our herd size was 226,861 head of dairy cows (2018: 225,782 heads).

Milk Yield

Milk yield is affected by a number of factors, like the number of lactation, breed, comfort level, cow health, genetics and feed mix. Under an effective herd management, during the Reporting Period, we recorded AMY of 10.6 tons per milkable cow (2018: 10.3 tons), up by 2.91% year-on-year. The total milk yield for the Reporting Period grew 7.23% to 682,000 tons (2018: 636,000 tons).

Environmental Protection and Epidemic Prevention

With the mission of "creating the world's most advanced farms, producing the highest quality milk, and achieving harmonious development of people and nature", the Group actively fulfills its social responsibilities. The Group continuously improves on various aspects such as product quality, dairy cow disease control and environmentally friendly production to maximize social benefits.

Currently, the Company's various milk quality indicators are better than the EU standards. Food safety indicators are set in the raw milk production process, and the whole process is strictly monitored to ensure that the raw milk quality meets the standards. Since Mengniu increased its stake in the Company, the Group and Mengniu have enhanced cooperation in product testing, unified inspection standards and processes, improved testing efficiency and product quality. The Group strictly complies with relevant laws and regulations for epidemic prevention management, conducts health rating management for dairy cows, cautiously controls the environment of farms, refines the access management of farms, provides epidemic prevention and protection for dairy cows, and establishes quarantine and health check plans for cows, to ensure the health of cows.

Based on resource recycling, the Group has built a green recycling industrial chain of "forage planting – dairy farming – fertilizer treatment – biogas power generation – fertilizer back to the field". Each farm is equipped with large-scale biogas power generation facilities and comprehensive utilization facilities for biogas fertilizer, which absorb, digest and indiscriminately treat the manure. For sustainable development, the Group will continue to implement high-standard environmental protection policies and implement rigorous epidemic prevention measures in our farms. The Group expects, through co-operation with CITIC Environment, it could enhance industrial efficiency and expand the scale of green production.

Cooperation with CITIC Environment

The Company and CITIC Environment Investment Group Co., Ltd. and one of its subsidiaries (together "**CITIC Environment**") 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.

The Company will make announcement on the development of the project as and when appropriate.

ASSOCIATE FACTORIES

The associate factories of the Company's downstream and Mengniu were officially established in the second quarter of last year. Riding on the marketing strategies and competitive advantage of the sales channels of Mengniu, "Modern Farming", the branded liquid milk was launched in the market with the positioning and new packaging of "Good Milk from Good Farms" last year and recorded share of earnings during the Reporting Period. The branded milk of "Modern Farming" was relaunched in the market with the positioning of "fifteen-year persistence on exclusively producing pasture milk" and leveraging on Mengniu's strategic marketing in aerospace plans to do rebranding. We adopt differentiation strategies, focusing on the blue ocean market in the third and fourth tier cities in China. With the market's increasing knowledge and experience of the Company's high-quality milk source and milk products, the associate factories is expected to contribute more earnings to the Group.

SYNERGIES WITH MENGNIU

Since Mengniu increased its stake in the Company's shareholdings, the Group and Mengniu have achieved satisfactory synergy in terms of purchasing, sales, cost control, resource utilization and even corporate management. During the Reporting Period, the Group reduced its operating cost through the integrated procurement platform "Aiyangniu".

In early 2019, the Company entered into a cooperation agreement with Yashili International Holdings Ltd, a subsidiary of Mengniu, to provide premium raw milk for its high-end new dairy products. With the increase in the demand of diversified high-end raw milk, the high-end raw milk is expected to become the Company's high value-added business.

AWARDS AND RECOGNITIONS

The Group's raw milk is comparable to the standard of imported milk products in terms of milk fat, milk protein, somatic cells count, total colony count and other key indicators, and the quality is among the top rankings in the world.

The Company is the first and only company in China that passed the "Quality Milk Project" for both its pasteurized milk and UHT milk. During the Reporting Period, four of our Group's products were all awarded the Gold Prize of Monde Selection 2019. The pure milk was consecutively awarded the Gold Prize for the sixth time.

In early 2019, the brand of Modern Dairy has been shortlisted as the "Strategic Partner of China's Aerospace Industry", marking our premium quality branded milk widely recognized by all sectors of the society.

STRATEGIC SHAREHOLDER INTRODUCTION

On 18 July 2019, the Company entered into the subscription agreement with New Hope Dairy Co., Ltd ("**New Hope**") pursuant to which the Company has conditionally agreed to allot and issue, and New Hope or its designated subsidiary has conditionally agreed to subscribe for 276,228,409 subscription shares (the "**Subscription Share(s)**") at the subscription price of HK$1.3535 per Subscription Share. The Subscription Shares will be allotted and issued under the general mandate granted to the Directors by the shareholders of the Company at the annual general meeting of the Company held on 6 June 2019. In addition, as disclosed in note 26 of the Company's 2018 Annual Report, certain pledgors have pledged a total of 318,697,354 shares of the Company (the "**Collateral Share(s)**") in favour of the Company. New Hope or its designated subsidiary has agreed to purchase the Collateral Shares at the purchase price of HK$1.3535 per Collateral Share from the Company.

The issue and allotment of the Subscription Shares and the sale of the Collateral Shares by the Company will be completed at the same time, and the total proceeds resulting from the transactions will be approximately RMB709 million. Upon completion of the above transactions, New Hope will hold 9.28% equity interests in the Company and become the second largest strategic shareholder of the Company.

The Board considers that the transactions above enable the Company to achieve the following synergies: (i) raise capitals to enable the Company to appropriately increase its herd size, maintain reasonable cattle herd structure, increase yield per unit and maintain a stable growth of raw milk yield; (ii) strengthen the cooperation between New Hope and the Company so as to maintain a stable customer base of the raw milk of the Company; (iii) decrease the amount of liabilities borne by the Company and control the Company's financial risks; and (iv) realize the value of the pledged Collateral Shares.

Such transactions have not been completed as at the date of this announcement. For details, please refer to the Company's announcement dated 18 July 2019.

FINANCIAL OVERVIEW

Total Revenue

Business segment analysis

	Six months ended 30 June					
	2019			2018		
	External Sales	**Internal Sales**	**Subtotal**	External Sales	Internal Sales	Subtotal
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Segment						
Sales of dairy farming business	**2,570,133**	**–**	**2,570,133**	2,227,381	116,787	2,344,168
Sales of liquid milk products business	**–**	**–**	**–**	240,869	–	240,869
Consolidated revenue	**2,570,133**	**–**	**2,570,133**	2,468,250	116,787	2,585,037

The Group recorded total revenue of RMB2,570 million for the Reporting Period (2018: RMB2,468 million), representing an increase of 4.13% year-on-year. The increase was primarily due to the increase in sales of raw milk and ASP of raw milk.

- *Dairy farming business*

  Dairy farming business is the production and sales of raw milk to customers for processing into dairy products. Revenue from our dairy farming business increased by 9.64% as compared to the corresponding period last year, in which raw milk sales volume increased by 7.09% as compared to the corresponding period last year.

  ASP of raw milk slightly grew by 2.39% year-on-year to RMB3.85/kg (2018: RMB3.76/kg). Sales volume increased by 7.09% year-on-year to 667.7 thousand tons (2018: 623.5 thousand tons). It was mainly due to the rise in AMY per cow and number of milkable cows.

The following table sets out the sales amount, sales volume and ASP of our raw milk for the periods indicated:

	Six months ended 30 June					
	2019			2018		
	Sales amount *RMB'000*	**Sales volume** *tons*	**ASP** *RMB/KG*	Sales amount *RMB'000*	Sales volume *tons*	ASP *RMB/KG*
Raw milk						
External sales	**2,570,133**	**667,651**	**3.85**	2,227,381	597,578	3.73
Internal sales	**–**	**–**	**–**	116,787	25,891	4.51
Subtotal	**2,570,133**	**667,651**	**3.85**	2,344,168	623,469	3.76

- *Liquid milk products business*

Due to the handover of liquid milk products business to Mengniu in the second quarter of 2018, the Group no longer consolidated the associates into the financial statement but accounted by equity accounting method.

Therefore, no revenue was recorded during the Reporting Period.

The analysis of the sales of liquid milk products is as follows:

	Six months ended 30 June					
	2019			2018		
	Sales amount *RMB'000*	**Sales volume** *tons*	**ASP** *RMB/KG*	Sales amount *RMB'000*	Sales volume *tons*	ASP *RMB/KG*
Liquid milk products	**–**	**–**	**–**	240,869	29,132	8.27

COST OF SALES BEFORE RAW MILK FAIR VALUE ADJUSTMENT

The Group's cost of sales before raw milk fair value adjustment primarily consisted of dairy farming cost for the Reporting Period as shown below:

Cost of sales before raw milk fair value adjustments

- ***Dairy farming business***

	Six months ended 30 June			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Feed cost	**1,224,853**	**73.26**	1,220,762	74.70
Labor cost	**136,072**	**8.14**	116,875	7.15
Utilities	**46,204**	**2.76**	45,734	2.80
Depreciation	**128,811**	**7.70**	124,163	7.60
Other costs of farms	**136,078**	**8.14**	126,774	7.75
Subtotal of cost of sales before raw milk fair value adjustment of dairy farming business	**1,672,018**	**100**	1,634,308	100
Inter-segment cost	**–**	**–**	(68,380)	
Cost of sales before raw milk fair value adjustment of dairy farming business	**1,672,018**		1,565,928	

Total feed cost (before eliminating cost of sales in relation to internal supply of raw milk) for the Reporting Period amounted to RMB1,225 million (2018: RMB1,221 million), approximately the same year-on-year, which was a result of effective cost control during the Reporting Period.

Despite the impact of the Sino-US trade war, we lowered the use of alfalfa by regulating the formula of the feed, and effectively managed to control the forage costs. During the Reporting Period, the cash cost (excluding depreciation) of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) amounted to RMB2,311/ton (2018: RMB2,422/ton), representing a drop of 4.58% year-on-year.

- ***Liquid milk product business***

	Six months ended 30 June			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials	–	–	196,850	89.09
Labor cost	–	–	6,530	2.96
Depreciation	–	–	6,152	2.78
Utilities	–	–	6,834	3.09
Other processing costs	–	–	4,595	2.08
Subtotal of cost of sales before raw milk fair value adjustment of liquid milk product business	–	–	220,961	100
Inter-segment cost	–		(54,062)	
Cost of external sales before raw milk fair value adjustment of liquid milk product business	–		166,899	

Due to the handover of the associate factories to Mengniu, no related expense was recorded during the Reporting Period.

Gross Profit and Profitability

The following table sets out the analysis of gross profit and gross profit margin for the periods indicated:

	Six months ended 30 June			
	2019		2018	
Business Segment	**Gross profit**	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*
Dairy farming business				
Before elimination	**898,115**	**34.94**	709,860	30.28
After elimination	**898,115**	**34.94**	661,453	29.70
Liquid milk products business				
Before elimination	–	–	19,908	8.27
After elimination	–	–	73,970	30.71

- ***Dairy farming business***

  Gross profit of the dairy farming business (before eliminating cost of sales in relation to internal supply of raw milk) (before raw milk fair value adjustment) increased by 26.51% year-on-year to RMB898.1 million during the Reporting Period (2018: RMB709.9 million). The growth was primarily due to the increase in ASP of raw milk, unit production output and reduction in unit cost of production during the Reporting Period.

  Gross profit margin of the dairy farming business (before eliminating cost of sales in relation to internal supply of raw milk) (before raw milk fair value adjustment) increased by 4.66 percentage points year-on-year to 34.94% (2018: 30.28%).

- ***Liquid milk products business***

  Since the financial results of the associate factories ceased to be consolidated into the consolidated financial statement of the Group starting from the second quarter of 2018, no related gross profit was recorded.

Losses arising from changes in the dairy cow fair value less cost of sales of dairy cows

The fair value of the Group's dairy cows as at 30 June 2019 was determined by the Directors with reference to the value as at 31 December 2018 that had been arrived at based on the independent valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. As at 30 June 2019, the biological assets of the Group were valued at RMB7,650.7 million (as at 31 December 2018: RMB7,717.1 million). Losses arising from changes in the dairy cow fair value less cost of sales of dairy cows were RMB430.5 million for the Reporting Period (2018: RMB434.7 million), mainly due to the fact that there was no significant change in the herd scale and the market price of culled dairy cows year-on-year.

Gains arising from initial recognition at fair value less cost of sales at the point of raw milk harvest

During the Reporting Period, gains arising from initial recognition at fair value less cost of sales at the point of raw milk harvest increased by 29.74% year-on-year to RMB816.6 million (2018: RMB629.4 million), mainly due to the increase in ASP of raw milk as well as an increase in unit production output.

International Financial Reporting Standards (IFRS) requires that raw milk harvested should be initially measured at fair value less cost of sales, and the difference between the fair value less cost of sales and the actual costs incurred should be charged to profit or loss.

OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Selling and distribution costs	**82,985**	93,560
Administrative expenses	**138,279**	106,762
Total operating expenses	**221,264**	200,322

During the Reporting Period, the overall operating expenses of the Group approximately amounted to RMB221.3 million (2018: RMB200.3 million). The analysis is as follows:

- **Selling and distribution costs**

  The analysis of the selling and distribution costs is set forth below:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dairy farming business		
Transportation costs and others	**82,985**	86,105
Liquid milk segment		
Transportation, loading and unloading costs	**–**	982
Staff remuneration	**–**	1,712
Publicity expenses	**–**	585
Others	**–**	2,748
Business tax and surcharge	**–**	1,428
Total selling and distribution costs	**82,985**	93,560

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

The amount of raw milk transportation costs included in selling and distribution costs decreased to RMB83.0 million for the Reporting Period from RMB86.1 million for the corresponding period of last year. This was mainly due to the decrease in the transportation distance for sales of raw milk.

No marketing and promotion expenses was recorded (2018: RMB0.6 million) during the Reporting Period, as the liquid milk business was handed over to Mengniu for operation in April 2018.

- **Administrative expenses**

  During the Reporting Period, the administrative expenses were RMB138.3 million, which increased by RMB31.5 million as compared to the corresponding period of last year in the amount of RMB106.8 million, representing an increase of 29.5%.

  Administrative expenses mainly consisted of, among other things, remuneration of management (including equity-based share award expenses) and depreciation of office buildings, staff quarters and facilities, of which remuneration of management (including equity-based share award expenses) was RMB84.59 million during the Reporting Period (2018: RMB52.05 million). The increase was mainly due to the recognisation of expense arising from the vesting of restricted shares during the Reporting Period.

PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

During the Reporting Period, the earnings attributable to owners of the Company amounted to RMB124.9 million (2018: loss of RMB140.3 million), representing an increase of RMB265.2 million year-on-year. Adhering to Group's strategies of cost-reduction and efficiency enhancement, the Group has implemented the principle of "increasing, reducing, replacing and stopping" in terms of technology, equipment, procurement and silage, resulting in significant improvement in the overall operating indices.

Basic earnings per share was approximately RMB2.05 cents (2018: basic loss of RMB2.30 cents) for the Reporting Period.

LIQUIDITY AND FINANCIAL RESOURCES

During the Reporting Period, the Group's net cash inflow used in operating activities amounted to RMB855.6 million (2018: RMB709.5 million), representing an increase of 20.6% year-on-year.

The Group's shareholders' equity as at 30 June 2019 was RMB6,554.2 million (as at 31 December 2018: RMB6,445.3 million). As at 30 June 2019, the Group's net gearing ratio (calculated as the net borrowings divided by the shareholders' equity, in which the net borrowings is the total borrowings minus cash and cash equivalents) was 96.4% (as at 30 June 2018: 95.0%).

As at 30 June 2019, the Group's available and unutilized credit facilities amounted to approximately RMB3,400.8 million (31 December 2018: RMB4,954.7 million). In the opinion of the Group's management, the Group is able to repay the relevant amount in full as the financial obligations fall due for the next twelve months.

Interest-bearing borrowings

As at 30 June 2019, the total interest-bearing debt was RMB6,919.5 million.

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Borrowings		
Bank borrowings	**5,716,714**	4,437,502
Medium-term notes	**–**	621,880
Other borrowing	**1,202,798**	1,001,111
Corporate bonds	**–**	1,087,568
	6,919,512	7,148,061
Carrying value repayable:		
Within one year	**2,823,805**	4,401,668
Between one and two years	**2,294,842**	2,316,393
Between two and five years	**1,800,865**	430,000
	6,919,512	7,148,061

Bank borrowings

The annual interest rate of the bank borrowings for the six months ended 30 June 2019 varied from 0.45% to 5.0% (for the six months ended 30 June 2018: 0.45% to 4.8%).

The table below sets forth our short-term and long-term bank borrowings for the dates indicated below:

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Type of borrowings		
Unsecured borrowings	**5,406,298**	3,972,022
Secured borrowings	**310,416**	465,480
	5,716,714	4,437,502
Carrying amount repayable:		
Within one year	**1,621,007**	1,691,109
Between one and two years	**2,294,842**	2,316,393
Between two and five years	**1,800,865**	430,000
	5,716,714	4,437,502

Other borrowings

Details as shown below:

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Carrying amounts payable:		
Within one year		
– Borrowings from a financial institution	**50,076**	–
– Borrowings from Mengniu Group	**1,152,722**	1,001,111
	1,202,798	1,001,111

On 26 February 2019, the Group entered into a loan contract with a financial institution, pursuant to which the Group borrowed RMB50,000,000 from the institution which will mature on 28 February 2020. The loan is unsecured and bears a fixed interest rate of 5.00% per annum.

In May 2017, the Group entered into two entrusted loan agreements with Mengniu Group and Agricultural Bank of China, 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. In September 2017, pursuant to the letter of comfort to certain US$ loan, borrowing facilities of RMB1,000,000,000 was extended to September 2020, and then further extended to September 2021 pursuant to the letter of comfort to certain HK$ loan in September 2018, and the extension had no effect on the outstanding loan from Mengniu Group. The outstanding borrowings of RMB1,001,128,000 at 30 June 2019 will mature within one year and bear interest at fixed rates from 4.002% to 4.785% per annum. The Group recognised interest expense of RMB24,151,000 for the Reporting Period (2018: RMB24,406,000).

During the Reporting Period, the Group entered into several advance payment agreements with Mengniu Group, pursuant to which, Mengniu Group agreed to pay in advance RMB150,000,000 to the Group and the advance payment is limited to be used in the Group's dairy cow raising business. The outstanding balance of RMB151,594,000 at 30 June 2019 will mature within one year and bear interest at fixed rate 4.800% per annum. The Group recognised interest expenses of RMB2,871,000 for the Reporting Period (2018: nil).

GROUP STRUCTURE AND CAPITAL STRUCTURE

Save for as disclosed in this interim report, during the period under review, there was no material change in the structure of the Group.

As at 30 June 2019, the number of issued ordinary shares of the Company was 6,131,406,706 shares.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2019, biological assets with carrying value of RMB885.8 million (as at 31 December 2018: RMB875.5 million) were pledged to secure the Group's borrowings.

The Group did not have any significant contingent liabilities as at 30 June 2019.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had a capital commitment of RMB29.1 million related to acquisition of property, plant and equipment (as at 31 December 2018: RMB7.8 million).

MATERIAL ACQUISITIONS AND DISPOSALS

For the Reporting Period, the Group had no material acquisitions or disposal of subsidiaries or associates.

SIGNIFICANT INVESTMENTS

For the Reporting Period, the Group had no significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group from time to time is exploring investment opportunities that would benefit the shareholders of the Company as a whole. Except for those disclosed elsewhere in this announcement, the Group does not have any concrete plans for material investments and capital assets.

EVENTS AFTER THE REPORTING PERIOD

Except for those disclosed elsewhere in this announcement, no other material events occurred after the end of the Reporting Period and up to the date of this announcement.

FINANCIAL MANAGEMENT POLICIES

The Group will continue to closely monitor its financial risks so as to safeguard the interests of the shareholders of the Company. The Group applies its cash flows generated from operation and bank loans to its operational and investment needs.

Except for the bank borrowings that are denominated in currencies other than Renminbi, the Group's management considers that the Group has limited foreign currency exposure in respect of its operations since its operations are mainly conducted in mainland China. Sales and purchases are mainly denominated in Renminbi and the foreign currency risks associated with refined feeds and farm facilities are not material. In view of the foreign currency exchange and interest rate risks related to its borrowings, the Group cautiously uses derivative contracts to hedge against its exposure to foreign currency and interest rate risks. The management strictly complies with relevant hedging policy, reviews and assesses relevant risks from time to time, and takes necessary measures when appropriate.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had 4,959 employees (31 December 2018: 4,735) in mainland China and Hong Kong as at 30 June 2019. Total staff costs (including staff compensation capitalised to immature dairy cows) for the Reporting Period were approximately RMB233.1 million (2018: RMB212.4 million).

The Group values recruiting, training and retaining quality personnel. We recruit talented 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.

SOCIAL RESPONSIBILITY

The Group has been proactively fulfilling its social responsibility and adheres to the principle of safety and quality come first, proactively develops and implements modern scientific breeding and feeding know-how. The Group puts great effort to strike a balance between business growth and social responsibility, so as to convey the Group's care and blessing to all stakeholders.

The Group is committed to improving the quality of its products by providing consumers with a commitment to provide healthy, safe, nutritious and high-quality dairy products. Meanwhile, adhering to the principle of energy conservation and environmental protection, due to the improvement of raw milk quality and processing technology, the Group's heat treatment temperature of pasteurized milk decreased by 5˚C and heat treatment temperature of UHT milk decreased by 1˚C, achieving cost savings.

The Group's social responsibility efforts have widely spread from dairy cow breeding, accountable quality, green development to employee development and social care. The Group has always adhered to the concept of "people-oriented", and taken the responsibility for promoting sustainable development of the dairy industry, giving back to the nature and serving the society.

OUTLOOK

2019 is the fifteenth year since the establishment of Modern Dairy. The Group will, as always, continue to "take cattle as its foundation", adhere to the three lifelines of food safety, environmental protection and epidemic prevention, and create advanced farms and produce high-quality raw milk. We always stick to the development trend of farming technology and management, make timely business adjustments, streamline the production model of zero-distance integration, maintain the leading position in the industry, and strive to build a leading brand of raw milk production in China.

The Group strives to reduce financial leverage and financial costs by optimizing asset structure and increasing production capacity. Through participation in Mengniu's procurement platform and overall synergy effect, procurement costs will be effectively reduced. The Company also expands more high-end products through its associate companies. With New Hope's equity participation in July this year, New Hope will become the second largest strategic shareholder of the Company after Mengniu, which will help further realize the strong combination of upstream and downstream sectors and enhance the right to speak of the market.

The Group will adhere to improving milk yield, lowering costs, enhancing efficiency, promoting synergies and creating brands. The Group will promote the development of the industry, help the revitalization of the dairy industry, continue to provide consumers with milk of the most nutritional value, contribute the most solid strength to revitalize the national dairy industry, and create the greatest value for shareholders of the Group.

CORPORATE GOVERNANCE

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 ("**Listing Rules**"). The Company has, throughout the six months ended 30 June 2019 complied with the code provisions set out in the CG Code, except for the deviations from code provision A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides, among other things, that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. Two non-executive Directors were not able to attend the annual general meeting of the Company held on 6 June 2019 due to other business engagements.

Save as disclosed above, the Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions of the CG Code.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Reporting Period (2018: Nil).

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding securities transactions by the Directors. Following specific enquiries by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Reporting Period.

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, except that the trustee of the Share Award Scheme II, pursuant to the rules of the Share Award Scheme II, purchased on the open market a total of 9,026,000 shares of the Company at a consideration of approximately HK$10,169,000 (equivalent to RMB8,946,000) for the six months ended 30 June 2019. During the Reporting Period, a total of 40,973,000 restricted Shares have been vested among which 10,592,774 shares were retained by the trustee as a consideration for settlement of individual income tax in mainland China on behalf of those grantees of vesting shares, and as at 30 June 2019, the trustee of the Share Award Scheme I and Share Award Scheme II has outstanding restricted shares of 34,614,774 shares, representing approximately 0.56% of the issued share capital of the Company.

REVIEW OF INTERIM RESULTS

The condensed interim financial statements have been reviewed by the Group's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, and the Audit Committee.

PUBLICATION OF THE INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.moderndairyir.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

The interim report of the Group will be published on the aforesaid websites and will be dispatched to the shareholders of the Company in due course.

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
LU Minfang
Chairman

Hong Kong, 26 August 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.