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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 2019

HIGHLIGHTS

FINANCIAL DATA	2019 RMB' million	2018 RMB' million	Change
Revenue	**5,514.2**	4,956.8	11.2%
Gross profit before raw milk fair value adjustments	**2,101.9**	1,546.1	35.9%
Earnings/(loss) before tax	**350.4**	(505.7)	856.1 million
Cash EBITDA[(1)]	**2,045.5**	1,528.4	33.8%
Earnings/(loss) attributable to equity holders of the Company	**341.3**	(496.1)	837.4 million
Net operating cash inflow	**2,049.1**	1,406.0	45.7%
KEY PERFORMANCE DATA			
Earnings/(loss) per share *(RMB cents)*			
Basic	**5.54**	(8.15)	13.69 cents
Diluted	**5.52**	(8.15)	13.67 cents
Annualised milk yield in total *(ten thousand tons)*	**139**	128	8.6%
Net gearing ratio[(2)]	**77.0%**	97.4%	-20.4 ppt

DIVIDEND

The Board did not recommend the payment of any dividend (for the year 2018: nil).

Notes:

(1) Cash EBITDA is defined as earnings/(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 under expected credit loss model, 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 the total 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 2019 (the "**Reporting Year**"), together with comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Revenue	*5*	**5,514,210**	4,956,811
Cost of sales before raw milk fair value adjustments	*7*	**(3,412,330)**	(3,410,670)
Raw milk fair value adjustments included in cost of sales	*7*	**(1,938,360)**	(1,371,468)
Loss arising from changes in fair value less costs to sell of dairy cows		**(1,039,221)**	(870,099)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		**1,938,360**	1,371,468
Other income	*6*	**51,068**	66,131
Impairment losses under expected credit loss model, net of reversal	*9*	**161,335**	(367,662)
Other gains and losses, net	*7*	**(121,046)**	(138,625)
Selling and distribution costs		**(175,487)**	(172,256)
Administrative expenses		**(276,739)**	(232,450)
Other expenses	*6*	**(9,061)**	(23,091)
Share of profits of associates		**34,479**	24,873
Profit/(loss) before finance costs and tax	*7*	**727,208**	(167,038)
Finance costs	*8*	**(376,795)**	(338,622)
Profit/(loss) before tax		**350,413**	(505,660)
Income tax expense	*10*	**(556)**	(513)
Profit/(loss) for the year		**349,857**	(506,173)

	Note	2019 RMB'000	2018 RMB'000
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**")		**1,451**	(11,526)
Other comprehensive income/(expense) for the year, net of income tax		**1,451**	(11,526)
Total comprehensive income/(expense) for the year		**351,308**	(517,699)
Profit/(loss) for the year attributable to:			
Owners of the Company		**341,270**	(496,088)
Non-controlling interests		**8,587**	(10,085)
		349,857	(506,173)
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**342,695**	(507,404)
Non-controlling interests		**8,613**	(10,295)
		351,308	(517,699)
Earnings/(loss) per share *(RMB)*	*12*		
Basic		**5.54 cents**	(8.15) cents
Diluted		**5.52 cents**	(8.15) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,455,068**	3,920,685
Right-of-use assets		**320,161**	–
Land use rights		**–**	117,220
Goodwill		**1,371,266**	1,398,589
Interests in associates		**215,392**	180,913
Equity instruments at FVTOCI		**3,959**	2,508
Biological assets		**7,459,359**	7,717,113
		12,825,205	13,337,028
CURRENT ASSETS			
Inventories		**1,078,491**	978,508
Trade and other receivables and advance payments	13	**618,288**	781,173
Land use rights		**–**	4,002
Derivative financial instruments		**89,543**	80,424
Pledged bank balances and non-pledged bank deposits		**147,775**	61,355
Bank balances and cash		**893,441**	703,039
		2,827,538	2,608,501
Assets of a disposal group classified as held for sale	14	**71,450**	–
		2,898,988	2,608,501
CURRENT LIABILITIES			
Trade and other payables	15	**1,521,688**	2,072,363
Tax payable		**233**	322
Bank borrowings		**3,822,643**	1,691,109
Medium-term notes		**–**	621,880
Corporate bonds		**–**	1,087,568
Other borrowings		**1,051,413**	1,001,111
Lease liabilities		**23,238**	–
Derivative financial instruments		**15,274**	17,729
Contract liabilities		**189**	232
		6,434,678	6,492,314
Liabilities of a disposal group classified as held for sale	14	**2,196**	–
		6,436,874	6,492,314
NET CURRENT LIABILITIES		**(3,537,886)**	(3,883,813)
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,287,319**	9,453,215

	2019	2018
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	**551,007**	526,058
Reserves	**6,530,510**	5,919,237
Equity attributable to owners of the Company	**7,081,517**	6,445,295
Non-controlling interests	**126,184**	108,838
TOTAL EQUITY	**7,207,701**	6,554,133
NON-CURRENT LIABILITIES		
Bank borrowings	**1,715,831**	2,746,393
Lease liabilities	**206,109**	–
Deferred income	**157,678**	152,689
	2,079,618	2,899,082
	9,287,319	9,453,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

China Modern Dairy Holdings Ltd. (the "**Company**") was incorporated and registered in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 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 2019, China Mengniu Dairy Co., Ltd. ("**Mengniu**") and its wholly-owned subsidiary together owned 58.15% 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 THE CONSOLIDATED FINANCIAL STATEMENTS

In preparation of the consolidated financial statements for the year ended 31 December 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 RMB3,537,886,000 (2018: RMB3,883,813,000). Taking into account, (i) the available credit facilities of approximately RMB3,753,402,000 which remain unutilised as at 31 December 2019 (These credit facilities included an amount of RMB300,000,000 from Inner Mongolia Mengniu Dairy (Group) Company Limited ("**Inner Mongolia Mengniu**"), a subsidiary of Mengniu, expiring in December 2021, and the remaining credit facilities of RMB3,453,402,000 are from banks); (ii) save as the credit facilities disclosed above, the Group acquired additional credit facilities of RMB2,650,000,000 from banks subsequent to the balance sheet date until the reporting date; and (iii) the expected net cash inflows generated from the Group's operations for the next twelve months, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future. 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 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 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.

IFRS 16 Leases

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

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

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. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the PRC was determined on a portfolio basis.

There is no practical expedient used for extention and termination options.

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:

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

Notes:

i. 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.

ii. Advance lease payments for leased lands in the PRC were classified as trade and other receivables and advance payments as at 31 December 2018. Upon application of IFRS 16, advance lease payments amounting to RMB193,000 was reclassified to right-of-use assets.

The following table summarises the impact of transition to IFRS 16 on retained earnings at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019 *RMB'000*
Retained earnings:	
Impact under modified retrospective approach at 1 January 2019	21,039

Note: The amounts represent the portion attributable to owners of the Company regarding the amount of RMB21,430,000, being the difference between RMB187,695,000, the right-of-use assets recognised relating to operating leases upon application of IFRS 16, and RMB209,125,000, lease liabilities recognised relating to operating leases upon application of IFRS 16.

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

	Notes	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	*i*	117,220	(117,220)	–
Right-of-use assets		–	309,110	309,110
Current Assets				
Land use rights	*i*	4,002	(4,002)	–
Trade and other receivables and advance payments	*ii*	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)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

(b) New and Amendments to IFRs 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 17	*Insurance Contracts*[1]
Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[5]
Amendments to IAS 1 and IAS 8	*Definition of Material*[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[4]

1. Effective for annual periods beginning on or after 1 January 2021.
2. 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.
3. Effective for annual periods beginning on or after a date to be determined.
4. Effective for annual periods beginning on or after 1 January 2020.
5. Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The Directors anticipate that the application of new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Fair value measurements of biological assets

The Group's biological assets are measured at fair value less costs to sell at the end of each reporting period. The Group uses valuation techniques that include inputs that are not based on market observable data to estimate the fair value of biological assets. For heifers and calves, the fair value is determined based on the 14 months old heifers' local market selling prices and adjusted by estimated feeding costs for heifers and calves older or younger than 14 months. For milkable cows, the fair value is determined by using the multi-period excess earning method with key inputs including the discount rate, the estimated feed costs per kilogram ("**kg**") of raw milk, estimated average daily milk yield at each lactation cycle and the estimated local future market price of raw milk. Any changes in the inputs may affect the fair value of the Group's biological assets significantly. The carrying amount of the Group's biological assets as at 31 December 2019 was RMB7,459,359,000 (2018: RMB7,717,113,000).

Estimated impairment of goodwill

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

As at 31 December 2019, the carrying amount of goodwill was RMB1,371,266,000 (2018: RMB1,398,589,000), net of accumulated impairment loss of RMB164,620,000 (2018: RMB137,297,000).

5. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue

	2019	2018
	RMB'000	*RMB'000*
Types of goods		
Raw milk	**5,514,210**	4,715,942
Liquid milk products	**–**	240,869
Total	**5,514,210**	4,956,811
Timing of revenue recognition		
A point in time	**5,514,210**	4,956,811

(ii) Performance obligations for contracts with customers

The Group sells raw milk directly to dairy product manufactures. For sales of raw milk 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 days upon invoice date.

(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.

(iv) Segment information

IFRS 8 *Operating Segments* ("**IFRS 8**") requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "**CODM**"), in order to allocate resources and to assess performance. During the two years ended 31 December 2019, the CODM assesses the operating performance and allocates resources of the Group as a whole, as all of the Group's activities are considered to be primarily the provision of raw milk in the PRC. Accordingly, the Directors consider there is only one operating segment under the requirements of IFRS 8. In addition, 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.

In this regard, no segment information is presented.

(v) Information about major customers

Included in revenue arising from sales of raw milk to external customers of approximately RMB4,702,150,000 (2018: RMB4,222,146,000) arose from sales to customer A. During the year ended 31 December 2018, the Group also sold liquid milk products of RMB239,995,000 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 2019.

6. OTHER INCOME AND OTHER EXPENSES

Other income

	2019 *RMB'000*	2018 *RMB'000*
Bank interest income	**11,169**	11,034
Government grants related to		
– Assets	**19,030**	19,067
– Others *(Note)*	**13,593**	24,606
	32,623	43,673
Others	**7,276**	11,424
	51,068	66,131

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

	2019 *RMB'000*	2018 *RMB'000*
Donation expenses	**545**	225
Loss from sales of milk powders *(Note i)*	**–**	321
Compensation for termination of a contract *(Note ii)*	**–**	12,000
Others	**8,516**	10,545
	9,061	23,091

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, 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.

7. PROFIT/(LOSS) BEFORE FINANCE COSTS AND TAX

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

	2019	2018
	RMB'000	*RMB'000*
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	**3,412,330**	3,243,770
Production costs for liquid milk products	**–**	166,900
	3,412,330	3,410,670
Raw milk fair value adjustments included in cost of sales	**1,938,360**	1,371,468
	5,350,690	4,782,138
Other gains and losses, net:		
Net foreign exchange loss	**82,952**	126,957
Loss on disposal of property, plant and equipment	**16,879**	4,768
Gains on disposal of subsidiaries	**–**	(18,193)
Impairment loss on property, plant and equipment	**45,287**	36,444
Impairment loss on goodwill	**27,323**	25,950
Fair value (gain)/loss on financial assets at FVTPL		
Foreign currency forward contracts	**(17,971)**	(35,394)
Foreign currency option contracts	**(32,585)**	872
Bills receivable	**–**	(1,427)
	(50,556)	(35,949)
Gains on derecognition of financial liabilities	**(839)**	(1,352)
	121,046	138,625
Depreciation of property, plant and equipment	**516,954**	535,685
Less: capitalised in biological assets	**(208,171)**	(220,651)
Depreciation charged to profit or loss	**308,783**	315,034
Depreciation of right-of-use assets	**16,266**	–
Less: capitalised in biological assets	**(5,703)**	–
Depreciation charged to profit or loss	**10,563**	–
Short-term lease expense	**13,180**	–
Less: capitalised in biological assets	**(5,934)**	–
Short-term lease expense charged to profit or loss	**7,246**	–

	2019	2018
	RMB'000	*RMB'000*
Equity-settled share award expense	**25,553**	8,646
Other employee benefits costs	**490,961**	435,722
Less: capitalised in biological assets	**(122,538)**	(112,143)
Employee benefits charged to profit or loss	**393,976**	332,225
Auditors' remuneration	**2,950**	2,800
Release of land use rights	**–**	4,012

8. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest expenses on:		
Bank borrowings	**248,407**	187,625
Medium-term notes	**6,620**	41,485
Corporate bonds	**14,645**	59,871
Other borrowings from Mengniu	**47,842**	44,306
Other borrowings from financial institutions	**2,337**	–
Mengniu Bill (as defined in Note 13)	**6,952**	1,804
Lease liabilities	**11,010**	–
Total borrowing cost	**337,813**	335,091
Fair value loss on interest rates swaps	**38,982**	3,531
	376,795	338,622

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019	2018
	RMB'000	*RMB'000*
Impairment losses recognised on:		
– Trade receivables – liquid milk product (the Distributors) (as defined in Note 13)	**–**	358,891
– Trade receivables – liquid milk product (other customers)	**–**	5,365
– Other receivables	**953**	3,569
Impairment losses reversed on:		
– Trade receivables – liquid milk product (the Distributors)	**(160,451)**	–
– Trade receivables – liquid milk product (other customers)	**(1,837)**	(163)
	(161,335)	367,662

10. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	**556**	513

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 (2018: 16 subsidiaries) of the Group are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC for the year ended 31 December 2019.

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 RMB1,863,415,000 (31 December 2018: RMB1,372,185,000) 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:

	2019	2018
	RMB'000	*RMB'000*
Profit/(loss) before tax	**350,413**	(505,660)
Tax at applicable income tax rate at 25% (2018: 25%)	**87,603**	(126,415)
Effect of tax exemption granted to agricultural entities	**(150,311)**	(90,023)
Effect of non-utilised losses incurred from agricultural business and other non-deductible expenses	**57,486**	204,376
Effect of tax losses not recognised	**6,104**	12,575
Utilisation of tax losses previously not recognised	**(326)**	–
Income tax expense	**556**	513

As at 31 December 2019, the Group's PRC subsidiaries had unused tax losses of RMB179,043,000 (2018: RMB200,019,000) incurred by non-agricultural business in the PRC. These unused tax losses as at 31 December 2019 will expire in year 2020 to year 2024 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.

11. DIVIDEND

No dividend (2018: nil) was paid or proposed for ordinary shareholders of the Company during 2019, nor has any dividend been proposed since the end of the reporting period.

12. 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:

	2019	2018
	RMB'000	*RMB'000*
Profit/(loss)		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	**341,270**	(496,088)

	2019	2018
	Shares	*Shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**6,165,192,978**	6,083,399,210
Effect of dilutive potential ordinary shares:		
Share options	**11,637,831**	–
Share awards	**4,765,434**	–
	6,181,596,243	6,083,399,210

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 year ended 31 December 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.

13. TRADE AND OTHER RECEIVABLES AND ADVANCE PAYMENTS

	2019	2018
	RMB'000	*RMB'000*
Trade receivables *(Note i)*	**550,205**	1,555,495
Less: allowance for credit losses *(Note i)*	**(8,635)**	(857,739)
Bills receivable *(Note ii)*	**–**	–
	541,570	697,756
Advance payments for feeds and materials	**64,819**	74,876
Input value added tax recoverable	**2,591**	2,032
Receivables from disposal of property, plant and equipment	**4,015**	1,681
Advance lease payments	**–**	193
Others	**5,293**	4,635
	618,288	781,173

Notes:

i 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 in order 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 changes in distribution channel, the Distributors were engaged by Mengniu Group as its secondary distributors for distribution of the 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 receivables due from the Distributors may not be fully recovered. After taking into account the present value of expected future collection and the security of 318,697,354 ordinary shares of the Company (the "**Collaterals**") provided by five third-party companies incorporated in British Virgin Islands (the "**Pledgers**") who used to be 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 had been recognised in respect of the Group's trade receivables due from the Distributors as at 31 December 2018.

On 18 July 2019, the Company entered into a subscription agreement (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 shares of the Company (the "**Subscription Shares**") at a price of RMB1.1920 per share (total consideration of RMB329,264,000). Included in the Subscription Agreement, one of the condition precedent was to sign a tripartite agreement between New Hope, the Company and the Pledgers (the "**Tripartite Agreement**"), pursuant to which New Hope or its designated subsidiary would agree to purchase the Collaterals at a price of RMB1.1920 per share (total consideration of RMB379,887,000). On 6 August 2019, the Tripartite Agreement has been entered into among New Hope, the Company and the Pledgers.

The total cash consideration of RMB329,264,000 for the Subscription Shares and total cash consideration of RMB379,887,000 for the Collaterals were settled on 17 September 2019. Impairment allowance for the Distributors in the amount of RMB160,451,000 was reversed in 2019, being the excess of the above cash consideration of RMB378,261,000, net of costs of selling Collaterals of RMB1,626,000, over the carrying amount of trade receivables from the Distributors of RMB217,810,000 as at 31 December 2018 as disclosed below.

On 20 September 2019, all the conditions precedent for the Subscription Agreement had been fulfilled or waived and the issue of the Subscription Shares to the subsidiary of New Hope has been completed. The total cash consideration of RMB329,264,000 for the Subscription Shares was recorded in share capital and share premium.

Due to the above transactions, New Hope and its subsidiary together acquired a total of 9.28% equity interests in the Company.

The movements of the gross amount of trade receivables from the Distributors and relevant impairment allowance are set out below.

	Gross amount	**Impairment allowance**	**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
Impairment losses reversed	**–**	**160,451**	**160,451**
Amounts received	**(378,261)**	**–**	**(378,261)**
Amounts written off as uncollectible	**(686,618)**	**686,618**	**–**
At 31 December 2019	**–**	**–**	**–**

ii In October 2018, Inner Mongolia Mengniu issued an one year commercial bill of RMB150,000,000 (the "**Mengniu Bill**") to Modern Farming, a subsidiary of the Company. The Mengniu Bill was classified as financial asset at FVTPL because the Mengniu Bill was considered as neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell business model. Modern Farming subsequently endorsed RMB64,452,000 of the Mengniu Bill to its suppliers to settle trade payables and discounted the remaining RMB85,548,000 of the Mengniu Bill. As the endorsements and the discount were without recourse, Modern Farming derecognised the Mengniu Bill and has recognised a fair value gain of RMB1,427,000 during the year ended 31 December 2018.

Advance lease payment were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in Note 3.

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB897,880,000.

Trade receivables at the end of the reporting period principally represent receivables from sales of raw milk. The Group 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:

	2019	2018
	RMB'000	*RMB'000*
Trade receivables		
– within 30 days	**541,570**	473,449
– beyond 30 days but within 60 days	**–**	5,996
– beyond 1 year but within 2 years	**–**	75,132
– beyond 2 years but within 3 years	**–**	143,179
	541,570	697,756

14. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 23 August 2019, Modern Farming and Jiangsu Agriculture Environment Energy Technology Co., Ltd., an entity designated by CITIC Environment Investment Group Co., Ltd., entered into an agreement in relation to the formation of Jiangyin Dairy Energy Environment Technology Co., Ltd. ("**Jiangyin Dairy Energy**"), pursuant to which Modern Farming holds 30% equity interest of Jiangyin Dairy Energy, being an associate of the Group.

On 31 December 2019, Modern Farming entered into two share transfer agreements with Jiangyin Dairy Energy, pursuant to which Modern Farming agrees to sell, and the Jiangyin Dairy Energy conditionally agrees to acquire the entire equity interests in Modern Energy (Wuhe) Co., Ltd. ("**Wuhe Energy**") and Modern Energy (Hefei) Co., Ltd. ("**Hefei Energy**"), the then wholly-owned subsidiaries of Modern Farming, which were spun off in July 2019. The assets and liabilities attributable to Wuhe Energy and Hefei Energy, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position. The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised. The transactions (the "**Disposal Transactions**") were completed in February 2020.

The major classes of assets and liabilities classified as held for sale are as follows:

	Wuhe Energy	**Hefei Energy**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	49,723	20,477	70,200
Inventories	21	74	95
Trade and other receivables	324	68	392
Bank balances and cash	365	398	763
	50,433	21,017	71,450
Trade and other payables	(1,007)	(1,189)	(2,196)

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:

	2019	2018
	RMB'000	*RMB'000*
Trade payables		
– within 60 days	**905,457**	1,177,301
– beyond 60 days but within 120 days	**213,925**	230,043
– beyond 120 days but within 360 days	**18,536**	27,912
– beyond 360 days but within 720 days	**16,747**	19,117
Bills payable *(Note)*	**2,841**	550
	1,157,506	1,454,923
Payable for acquisition of property, plant and equipment	**140,350**	224,437
Accrued staff costs	**113,503**	84,582
Advance payments from disposal of dairy cows and others	**27,067**	56,869
Amounts due to Mengniu	**–**	143,048
Other payable to Mengniu	**–**	18,000
Others	**83,262**	90,504
	1,521,688	2,072,363

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

16. EVENTS AFTER THE REPORTING PERIOD

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

i As disclosed in Note 14, the Disposal Transactions were completed in February 2020. In assessing whether the Group has lost the control on Wuhe Energy and Hefei Energy, two former wholly-owned subsidiaries of Modern Farming, the management considered all facts and circumstances, including but not limited to the Group's voting rights and representation in the board of directors of Jiangyin Dairy Energy (an associate of the Group now holding the entire equity interests of Wuhe Energy and Hefei Energy). Taking into account the above factors, the management considered that upon completion of the Disposal Transactions, the Group lost control but retained significant influence over Wuhe Energy and Hefei Energy indirectly through its holding in Jiangyin Dairy Energy. Accordingly, Jiangyin Dairy Energy will be accounted for using the equity method in the Group's consolidated financial statements.

ii The outbreak of a respiratory illness caused by Novel Coronavirus, or known as the COVID-19 (the "**COVID-19**"), in China including Hong Kong, has affected many businesses to different extent. Up to the date of approval of these consolidated financial statements, the Group has maintained the normal level of production and sales volume amid the outbreak of the COVID-19 and the Directors considered that the COVID-19 would not have significant impact to the Group's going concern and liquidity. However, due to the inherent unpredictable nature and rapid development relating to the COVID-19 and its pervasive impact, the Group will closely monitor in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2019 marked the Company's 15th anniversary since its foundation. By increasing unit milk yield, reducing production cost and uplift of operation efficiency, the overall financial indicators have improved and recorded a strong free cash flow, heralding to profitability.

During the Reporting Year, the Company mainly engaged in the dairy farming (primarily the production and sale of raw milk to clients for processing into dairy products) and also profit sharing initiatives by the associates established for the business of our self-branded liquid milk products with Mengniu. The Company focused on the upstream dairy farming business, producing high quality raw milk products for consumers.

OPERATIONAL PERFORMANCE

For the Reporting Year, the Group has achieved significant improvement in major operating targets. The external average selling price ("**ASP**") of raw milk stood at RMB4.04/kg (2018: RMB3.85/kg), representing a year-on-year growth of 4.9%. The annual milk yield ("**AMY**") per milkable cow amounted to 10.6 tons (2018: 10.1 tons), representing a year-on-year growth of 5.0%. With the uplift of milk yield and the number of milkable cows, the total annual milk production hit 1.39 million tons (2018: 1.28 million tons), representing year-on-year growth of 8.6%. In 2019, the Group has achieved 11.2% income growth year-on-year up to RMB5,514 million (2018: RMB4,957 million). Benefiting from an increase in ASP of raw milk and higher milk yield, the gross profit margin (before raw milk fair value adjustment) increased by 6.6 percentage points ("**ppt**") to 38.1% in 2019 (2018: 31.5%) year-on-year.

The Group still successfully kept the unit cost of (excluding depreciation of property, plant and equipment) one kilogram of raw milk ("**UCM**") at RMB2.32/kg (2018: RMB2.45/kg), even though the feed prices had significantly increased, globally and domestically as a result of the Sino-US trade war. This was the results achieved by continuous improvement in the health of cows and increase in the using of silage as feed. Out of which, the feed cost amounted to RMB1.77/kg (2018: RMB1.89/kg), representing year-on-year decrease of 6.3%. 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 achieve continuous drop in feed cost and secure the health of dairy cows.

During the Reporting Year, the Group dedicated to the objectives of "production maximization, costs mitigation, and stopping losses". The Company has lowered operating costs through improving the formula, adjusting the feed mix, broadening sources of income and adopting disciplined expenditure. Through the modern management, the Company has optimized the herd- size structure, raised unit production for each milkable cow.

DAIRY FARMS

As at 31 December 2019, the Group operated a total of 26 dairy farms (within herd size each close to or over 10,000 dairy cows) with 233,618 dairy cows (2018: 231,530 heads) spread across seven provinces in mainland China. The proportion of milkable cows to the total number of dairy cows was approximately the same as last year at 57.9% (2018: 58.0%). Total sales volume of raw milk amounted to approximately 1.37 million tons (2018: 1.25 million 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 in regions with fine climate, ample supply of feed, and in the proximity of various processing plants of dairy products.

Herd Scale

	As at 31 December 2019 *Head*	As at 31 December 2018 *Head*
Dairy cows		
Milkable cows	**135,185**	134,315
Heifers and calves	**98,433**	97,215
Total number of dairy cows	**233,618**	231,530

The Company's financial performance is highly correlated with market prices and costs of raw milk and also affected by the milk yield of each milkable cow. In general, when milk prices increase, the Company's profitability will increase correspondingly under normal operation condition. When milk yield improves, the UCM will correspondingly decrease relatively. Milk yield is affected by a number of factors, including the frequency of lactation, breed, comfort level, genetics and feed mix. The Company has continuously been conducting research on each factor, inviting foreign cow experts to regularly station and give guidance at the farms, and, through exchange amongst industry experts and staff training, improving milk yield and cow health.

Milk Yield

During the Reporting Year, we recorded annual milk yield of 10.6 tons per milkable cow (2018: 10.1 tons), up by 5.0% year-on- year. The annual milk production of the Group grew 8.6% year-on-year to 1.39 million tons (2018: 1.28 million tons). The increase in milk yield was attributable to effective herd management, genetic improvement over generations and generations, and increase in the number of cows reaching peak stage of lactation.

Quality Management

The overall execution of the quality management of Modern Dairy is based on the principle of "Four Don't": don't cooperate with unqualified suppliers, don't stock unqualified raw feed materials, don't feed unqualified inventory of raw feed materials, don't release raw milk from farms that fail inspection.

For the quality control of raw feed materials, the Group ensures the source control by inspecting suppliers on-site and establishing a database of suppliers; ensures feed arrival control by having a stricter standard of testing than that of the national standard; ensures the process control by sampling the inventory of raw feed materials and control indicators on daily basis; ensures that the feeds in cows' mouth are of the right mix consistent with the relevant formula by conducting real-time sampling during the production process with reference to formula data at close to infrared calibration. For the process control, Modern Dairy establishes a process-oriented quality management system, establishes CCP point on key production stages, and set process food safety indicators for monitoring, and timely rectify and track the potential risks discovered. For the delivery quality control, there are various quality inspections to comprehensively control the quality of raw milk. For the whole chain quality tracking system, the quality information platform is traced by quick response code, to achieve the traceability of whole chain quality information for stocking up arriving raw feed materials, delivering and feeding, milking on the milking parlor and delivering raw milk.

The safe and high quality milk of Modern Dairy is ensured by source control, process monitoring and terminal control.

Herd Management

Modern Dairy adopts the means of lean management in managing herd, values scientific breeding and precise formula. With the innovation of a comprehensive herd management system, the Group overcomes the "information isolation" of farms, establishes an efficient information collection system, improves the system integration of cows from individual, breeding, feeding, health to milk-producing module. All barns of farms are covered of wireless communication, the information of herd can be inquired and undated anytime and anywhere through the handset equipment and APP; by using the low frequency scanners, which show timely and accurate reminders of cow breeding process, to raise the conception rate to cows, simplify and improve cow breeding; with pedometers and yield sensors (ie. low frequency ear tags), which record and analyse milk yield of cows automatically, to identify and alert diseases among cows in advance. The comprehensive utilisation of advanced data analysis systems enables us to achieve scientific decision-making, improve the level of production management, and achieve sustainable consolidated profitability. Regard "high standard, high positioning and high starting point" as the principles, the Group achieves the objectives of "increase unit production output, reduce operation cost, optimise herd structure" in herd breeding.

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. For details, please refer to the Company's announcement dated 28 September 2018.

On August 23, 2019, Modern Farming and Jiangsu Agriculture Environment Energy Technology Co.,Ltd.* (江蘇農環能源科技有限公司) ("**Jiangsu Agriculture**"), an entity designated by CITIC Environment, entered into a joint venture agreement in relation to the formation of a joint venture (the "**JV Company**"). The JV Company is held as to 30% by Modern Farming and 70% by Jiangsu Agriculture and is established with the total registered capital of RMB560,000,000.

On December 31, 2019, Modern Farming entered into two share transfer agreements with the JV Company in relation to the disposal of Modern Energy (Wuhe) Co., Ltd.* (現代能源（五河）有限公司) and Modern Energy (Hefei) Co., Ltd.* (現代能源（合肥）有限公司), both of which were indirectly non wholly-owned subsidiary of the Company holding energy assets of Bengbu and Feidong farms, at an aggregate consideration of RMB148,124,000. For details, please refer to the Company's announcement dated 31 December 2019. The disposal have been completed in February 2020.

STRATEGIC SHAREHOLDER INTRODUCTION

On 18 July 2019, the Company entered into the subscription agreement with 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 RMB1.1920 (HK$1.3535) per Subscription Share. The Subscription Shares were 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 RMB1.1920 (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 completed in September 2019, and the total proceeds resulting from the transactions were approximately RMB709 million. As at 31 December 2019, the Company has fully utilised such net proceeds for the following purposes: (i) approximately 50% for the expenditure of farm and expansion of herd size; (ii) approximately 30% for repayment of borrowings; (iii) the remaining balance of approximately 20% for the Group's general working capital and for other general corporate purposes. Upon completion of the above transactions, New Hope holds approximately 9.28% of the entire issued share capital of the Company and becomes 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 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.

FINANCIAL OVERVIEW

Revenue

Business Analysis

The following table sets forth the breakdown of the consolidated revenue for the years ended:

	2019			2018		
	External Sales	**Internal Sales**	**Subtotal**	External Sales	Internal Sales	Subtotal
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Sales of raw milk business	**5,514,210**	**–**	**5,514,210**	4,715,942	116,787	4,832,729
Sales of liquid milk products business	**–**	**–**	**–**	240,869	–	240,869
Consolidated revenue	**5,514,210**	**–**	**5,514,210**	4,956,811	116,787	5,073,598

The Group's revenue increased by 11.2% to RMB5,514.2 million (2018: RMB4,956.8 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:

	2019			2018		
	Sales revenue	**Sales volume**	**ASP**	Sales revenue	Sales volume	ASP
	RMB'000	***tons***	***RMB/ton***	*RMB'000*	*tons*	*RMB/ton*
Raw milk						
External sales	**5,514,210**	**1,365,739**	**4,038**	4,715,942	1,225,441	3,848
Internal sales	**–**	**–**	**–**	116,787	25,891	4,511
Subtotal	**5,514,210**	**1,365,739**	**4,038**	4,832,729	1,251,332	3,862

- *Dairy farming business*

  Total sales revenue of raw milk (as an aggregate of external and internal sale) grew by 14.1% year-on-year to RMB5,514.2 million (2018: RMB4,832.7 million).

ASP of raw milk grew by 4.9% year-on-year to RMB4.04/kg during the Reporting Year (2018: RMB3.85/kg).

Total sales volume of raw milk increased by 9.6% year-on-year to approximately 1.37 million tons (2018: 1.25 million tons), mainly due to the rise in AMY per cow and number of milkable cows.

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:***

	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Direct materials	**2,492,360**	**73.0%**	2,449,233	73.9%
Labor cost	**276,311**	**8.1%**	243,406	7.4%
Utilities	**102,526**	**3.0%**	96,414	2.9%
Depreciation of property, plant and equipment	**249,817**	**7.3%**	250,422	7.6%
Other costs of farms	**291,316**	**8.6%**	272,676	8.2%
Subtotal of cost of sales before raw milk fair value adjustments of the dairy farming business	**3,412,330**	**100%**	3,312,151	100%
Internal cost elimination	**–**		(68,381)	
Cost of sales before raw milk fair value adjustments of the dairy farming business	**3,412,330**		3,243,770	

Direct materials (mainly forage) cost (before eliminating cost of sales in relation to internal supply of raw milk) during the Reporting Year amounted to RMB2,492.4 million (2018: RMB2,449.2 million), approximately the same as last year.

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 Year, the cost (excluding depreciation of property, plant and equipment) of raw milk sold (before eliminating cost of sales in relation to internal supply of raw milk) amounted to RMB2,316/ton (2018: RMB2,447/ton), representing a decrease of 5.4%.

Gross profit and profitability

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

	2019		2018	
	Gross profit	**Gross Profit margin**	Gross profit	Gross Profit margin
	RMB'000		*RMB'000*	
Dairy farming business				
Before elimination	**2,101,880**	**38.12%**	1,520,578	31.46%
After elimination	**2,101,880**	**38.12%**	1,472,172	31.22%
Liquid milk products business				
Before elimination	–	–	19,908	8.27%
After elimination	–	–	73,969	30.71%

- ***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 RMB2,101.9 million during the Reporting Year (2018: RMB1,520.6 million), representing an increase of 38.2% year-on-year, which was mainly due to the increase in price and 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 38.1% during the Reporting Year (2018: 31.5%), representing an increase of 6.6 ppt year-on-year.

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

As at 31 December 2019, the biological assets of the Group were valued at RMB7,459.4 million (31 December 2018: RMB7,717.1 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, representing a slight decrease of 3.3% year-on-year.

Losses arising from changes in the fair value of dairy cows less costs to sell dairy cows were RMB1,039.2 million as at 31 December 2019 (31 December 2018: RMB870.1 million), representing an increase of 19.4% year-on-year which was mainly due to the change in herd internal structure and market factors.

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 RMB1,938.4 million (2018: RMB1,371.5 million), representing an increase of 41.3% year-on-year, mainly due to the increase in sales volume of raw milk and its market price.

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 RMB51.1 million (2018: RMB66.1 million) which mainly consisted of government grants and interest income, of which interest income accounted for RMB11.2 million (2018: RMB11.0 million), while the government grants amounted to RMB32.6 million (2018: RMB43.7 million). Government grants mainly consisted of subsidies for agricultural projects such as "Grain to Fodder".

Operating expenses

	2019	2018
	RMB'000	*RMB'000*
Selling and distribution costs	**175,487**	172,256
Administrative expenses	**276,739**	232,450
Total operating expenses	**452,226**	404,706

The total operating expenses was RMB452.2 million (2018: RMB404.7 million), representing an increase of 11.7% year-on-year.

Administrative expenses mainly included remuneration of management staff (including equity-based share award expenses) and depreciation charges of office building, staff quarters and facilities. The Company recorded administrative expenses of RMB276.7 million during the Reporting Year (2018: RMB232.5 million), representing an increase of 19.0% year-on-year. The increase was mainly due to the Company's rewards and continuous incentives for staff to create good performance for the Company and the increase in the management's remuneration.

Finance costs

Finance costs amounted to RMB376.8 million (2018: RMB338.6 million), representing an increase of 11.3% year-on-year.

Among the finance cost, borrowing costs amounted to RMB337.8 million (2018: RMB335.1 million), approximately the same as last year.

The fair value loss on interest rates swaps incurred by the Company amounted to RMB39.0million (2018: 3.5 million). In view of the large finance costs, the Company will adopt various feasible measures to reduce interest bearing liabilities.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's cash EBITDA amounted to RMB2,045.5 million during the Reporting Year (2018: RMB1,528.4 million), grew by 33.8% year-on-year. The cash EBITDA margin increased to 37.1% (2018: 30.8%), up by 6.3 ppt.

Taking into account the above factors, profit attributable to owners of the Company amounted to RMB341.3 million (2018: loss of RMB496.1 million).

Basic earnings per Share of the Company (the "**Share**") was RMB5.54 cents (2018: loss RMB8.15 cents per Share).

Diluted earnings per Share was RMB5.52 cents (2018: loss RMB8.15 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 RMB2,049.1 million (2018: RMB1,406.0 million), representing a 45.7 % increase year-on-year, as a result of the decrease in cost, the uplift in total milk production and increase in raw milk price.

As at 31 December 2019, the net gearing ratio, which was calculated on the basis of the amount of total borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the total equity, was 77.0% (31 December 2018: 97.4%).

As at 31 December 2019, the Group's available and unutilized credit facilities were approximately RMB3,753.4 million (31 December 2018: RMB4,954.7 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) save for the above disclosed credit facilities, subsequent to the balance sheet date up to the reporting date, the Group obtained additional credit facilities from banks of approximately RMB2,650.0 million, 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 2019.

INTEREST-BEARING BORROWINGS

As at 31 December 2019, the total interest-bearing borrowings was RMB6,589.9 million (2018: RMB7,148.1 million).

Details are set out as below:

	2019	2018
	RMB'000	*RMB'000*
Borrowings:		
Bank borrowings	**5,538,474**	4,437,502
Medium-term notes	**–**	621,880
Corporate bonds	**–**	1,087,568
Other borrowing	**1,051,413**	1,001,111
	6,589,887	7,148,061
Carrying value repayable:		
Within one year	**4,874,056**	4,401,668
Between one and two years	**1,525,831**	2,316,393
Between two and five years	**190,000**	430,000
	6,589,887	7,148,061

The following is an analysis of the respective borrowings:

- **Bank borrowings**

During the Reporting Year, the annual interest rate of bank borrowings varied from 3.2% to 5.17% (2018: from 0.45% to 5.00%).

The table below sets forth the short-term and long-term bank borrowings as at 31 December 2019:

	2019	2018
	RMB'000	*RMB'000*
Bank borrowings:		
Unsecured borrowings	**5,320,114**	3,972,022
Secured borrowings	**218,360**	465,480
	5,538,474	4,437,502
Carrying amount repayable:		
Within one year	**3,822,643**	1,691,109
Between one and two years	**1,525,831**	2,316,393
Between two and five years	**190,000**	430,000
	5,538,474	4,437,502

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

On 23 March 2016, Modern Farming (Group) Co., Ltd., a subsidiary of the Company ("**Modern Farming**") issued medium-term notes with an aggregate principal amount of RMB600,000,000 which would 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. The medium-term notes has been repaid during the Reporting Year.

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 with terms of 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. The corporate bonds have been repaid during the Reporting Year.

On 28 March 2017, Modern Farming issued the second tranche of corporate bonds of an aggregate principal amount of RMB800,000,000 with three years terms. 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. The corporate bonds have been repaid prior to its maturity during the Reporting Year.

- **Other borrowing**

	2019	2018
	RMB'000	*RMB'000*
Carrying amounts payable:		
Within one year		
– Mengniu entrusted loan	**1,001,330**	1,001,111
– Borrowing from a financial institution *(note)*	**50,083**	–
	1,051,413	1,001,111
Less: Amounts due within one year (shown under current liabilities)	**1,051,413**	1,001,111
Amounts due after one year	**–**	–

Note: 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. The borrowing was repaid upon expiry subsequent to the balance sheet date.

CAPITAL STRUCTURE

As at 31 December 2019, the total number of ordinary shares in issue of the Company was 6,407,635,115 shares (2018: 6,131,406,706 shares).

The Group had interest bearing borrowings of approximately RMB6,589.9 million as at 31 December 2019 (31 December 2018: approximately RMB7,148.1 million), of which the current interest bearing borrowings amounted to RMB4,874.1 million (31 December 2018: RMB4,401.7 million), non-current interest bearing borrowings amounted to RMB1,715.8 million (31 December 2018: RMB2,746.4 million).

As at 31 December 2019, the net assets attributable to owners of the Company amounted to approximately RMB7,081.5 million (31 December 2018: approximately RMB6,445.3 million), the net borrowings of the Group (interest bearing bank borrowings and other borrowings, net cash and cash equivalents restricted bank deposit) amounted to approximately RMB5,547.9 million (31 December 2018: approximately RMB6,383.7million).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2019, no buildings and equipment of the Company (31 December 2018: Nil) were pledged as security for the Group's borrowings.

As at 31 December 2019, biological assets with carrying value of RMB838.7 million (31 December 2018: RMB875.5 million) were pledged as security for the Group's borrowings.

The Group did not have any significant contingent liabilities as at 31 December 2019 and 2018.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB21.5 million (31 December 2018: RMB7.8 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 bonds and ordinary shares of the Company to satisfy its operational and investment needs.

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 COVID-19 erupted in China in January 2020. As China's largest raw milk producer, The Company concerns about the spread of the epidemic and proactively take up our social responsibility. During the epidemic, the Company has maintained normal production and sales, thereby guaranteeing a supply that meets consumer needs. The Company also felt close to the outbreak center of the epidemic, and donated "Modern Dairy" branded dairy products worth up to a total value of RMB10 million in order to assist frontline facilities such as local hospitals, disease prevention control centers and public security posts. Our Company prioritizes safe production and sterilize production zones, continues to monitor the health of our employees, has adopted remote online working procedures, pays great attention to employee health and has implemented rigorous disease prevention and control measures.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2019, the Group had approximately 5,053 employees (31 December 2018: 4,735) in mainland China and Hong Kong. Total staff costs during the Reporting Year (including staff compensation capitalized to biological assets) were approximately RMB491.0 million (2018: RMB435.7 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

In the past two years, the central government has supported the development of the dairy industry, fostered the local dairy industry, and successively introduced a number of policies to strengthen dairy industry support. In February 2020, the No. 1 Central Document stressed the need to ensure the effective supply of important agricultural products, support the production of dairy, poultry, cattle and sheep, and guide the optimization of meat consumption structure.

Currently, raw milk market is short in supply and it is expected that the shortage of raw milk will continue. With the withdrawal of small and medium-sized dairy farms from the market, the cyclicity of the dairy farming industry has weakened, and raw milk will be mainly provided by large-scale dairy farms in the future. The industry entry barriers of large-scale farming are high, and the Company will fully enjoy the benefits of the industry cycle and the advantages as industry leader.

In 2020, the Company enters its 15th year of establishment and 10th year of listing. In the new dairy industry cycle, the Company adheres to its own base, continuously improves unit production, reduces costs and improves operational efficiency. Facing the market, it grasps the cyclical trend, keeps abreast of market developments, moderately increases its production and expansion and improves the Group's market competitiveness. The Company will continue to strengthen the coordination and integration of upstream and downstream, create a full-chain layout of raw milk production, enhance the market competitiveness of the first domestic brand of raw milk production, create greater value for shareholders, and provide consumers with nutritious raw milk, so as to make unremitting contributions to the upgrading and transformation of the dairy industry in China.

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 2019 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 Director was not able to attend the annual general meeting of the Company held on 6 June 2019 due to other business engagements.

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

Save as disclose in this announcement, 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 of the Company adopted on 26 March 2018, pursuant to the rules of this scheme, purchased on the open market a total of 19,962,000 ordinary shares of the Company as restricted shares at a consideration of approximately HK$22,924,000 (equivalent to RMB20,405,000). The Group retained a total number of 10,592,744 vesting shares as a consideration of approximately HK$12,499,000 (equivalent to RMB10,722,000) for paying the individual income tax on behalf of those selected participants under the share award schemes of the Company.

RESULTS AND DIVIDENDS

No interim dividend was paid during the Reporting Year (2018: nil), and the Directors do not recommend the payment of a final dividend (2018: nil) in respect of the Reporting Year.

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.

As mentioned above, each of Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping, Mr. WEN Yongping (resigned on 15 January 2019) and Mr. ZHAO Jiejun, held offices in Mengniu during the Reporting Year. 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.

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 2019 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 Company, 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 2019.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2019 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, 23 March 2020

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.