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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 2020**

HIGHLIGHTS:

Historical Best Financial Performance: The Group's profitability kept uplifting. For the year ended 31 December 2020, the profit attributable to the owners of the Company recorded RMB770 million, representing a year-on-year ("yoy") growth of 126%. Excluding the one-off gains from current year and last year, profit for the year increased substantially by 277% yoy, marking a historical best record;

Significant Increase in Free Cash Flow: The cash flow of the Group was robust, with free cash flow increased significantly to RMB1,173 million during the year, representing a yoy growth of 15%. Excluding the one-off items from current year and last year, the free cash flow of the year increased substantially by 67% yoy;

Unit Yield and Total Production Breaking Record High: The main operating indicators of the Group exceeded historical record. During the year, the average annualized unit yield of each milkable cow reached 11.1 tons, representing a yoy increase of 5%; the total milk production during the year reached 1.49 million tons, an increase of 7% yoy. Both the unit yield and total production have outperformed and reached a record high;

Pragmatic Herd Expansion with Sound Scale: The Group adopted a pragmatic herd expansion strategy. At the end of current year, the Group had about 247.4 thousand dairy cows, a steady yoy increase of 6% (or 13.8 thousand dairy cows), and the herd achieved sustainable and healthy growth; and

Significant Reduction in Indebtedness: The Group has implemented the strategy of reducing debts in an orderly manner and has achieved remarkable results. The debt-to-asset ratio dropped from 54% as at 31 December 2019 to 48% as of 31 December 2020. The interest-bearing borrowings decreased by nearly RMB1 billion to RMB5.6 billion, or 14% yoy.

(All amounts in Renminbi (“RMB”) million unless otherwise stated)

FINANCIAL DATA	2020	2019	Change
Revenue	6,020.2	5,514.2	+9.2%
Gross profit before raw milk fair value adjustments	2,458.7	2,101.9	+17.0%
Earnings before tax	784.4	350.4	+123.9%
Cash EBITDA ⁽¹⁾	2,264.9	2,045.5	+10.7%
Net gearing ratio ⁽²⁾	53.4%	77.0%	-23.6 ppt
Profit attributable to owners of the Company	770.0	341.3	+125.6%
Free cash flow ⁽³⁾	1,172.9	1,023.2	+14.6%
KEY PERFORMANCE DATA			
Earnings per share (<i>RMB cents</i>)			
Basic	12.07	5.54	+117.9%
Diluted	12.04	5.52	+118.1%
Annualised milk yield in total (<i>ten thousand tons</i>)	149	139	+7.2%
Herd scale (<i>heads</i>)	247,371	233,618	+13,753

DIVIDEND

The Board recommended the payment of final dividend of RMB0.02 per ordinary share (2019: nil).

Notes:

- (1) Cash EBITDA is defined as earnings 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) other gains and losses, net; iii) impairment losses under expected credit loss model, net of reversal; and iv) 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 deposit assets as a percentage of the total equity.
- (3) Free cash flow is defined as net cash from operating activities less net cash used in investing activities.

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 2020 (the “**Reporting Year**”), together with comparative figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	5	6,020,247	5,514,210
Cost of sales before raw milk fair value adjustments	7	(3,561,559)	(3,412,330)
Raw milk fair value adjustments included in cost of sales	7	(2,277,414)	(1,938,360)
Loss arising from changes in fair value less costs to sell of dairy cows		(1,031,316)	(1,039,221)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		2,277,414	1,938,360
Other income	6	86,675	51,068
Impairment losses under expected credit loss model, net of reversal	9	(5)	161,335
Other gains and losses, net	7	142,514	(121,046)
Selling and distribution costs		(194,440)	(175,487)
Administrative expenses		(374,155)	(276,739)
Other expenses	6	(16,503)	(9,061)
Share of profits of associates		31,570	34,479
Profit before finance costs and tax	7	1,103,028	727,208
Finance costs	8	(318,624)	(376,795)
Profit before tax		784,404	350,413
Income tax expense	10	(639)	(556)
Profit for the year		783,765	349,857

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Other comprehensive income:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain on investments in equity instruments at fair value through other comprehensive income		<u>1,121</u>	<u>1,451</u>
Other comprehensive income for the year, net of income tax		<u>1,121</u>	<u>1,451</u>
Total comprehensive income for the year		<u>784,886</u>	<u>351,308</u>
Profit for the year attributable to:			
Owners of the Company		770,010	341,270
Non-controlling interests		<u>13,755</u>	<u>8,587</u>
		<u>783,765</u>	<u>349,857</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		771,110	342,695
Non-controlling interests		<u>13,776</u>	<u>8,613</u>
		<u>784,886</u>	<u>351,308</u>
Earnings per share (RMB)	<i>12</i>		
Basic		12.07 cents	5.54 cents
Diluted		<u>12.04 cents</u>	<u>5.52 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,317,719	3,455,068
Right-of-use assets		303,849	320,161
Goodwill		1,322,457	1,371,266
Interests in associates		289,860	215,392
Equity instruments at fair value through other comprehensive income		5,080	3,959
Biological assets		7,101,243	7,459,359
Pledged bank deposits		122,706	–
Bank balances		20,637	–
		<hr/>	<hr/>
Total non-current assets		12,483,551	12,825,205
CURRENT ASSETS			
Inventories	<i>13</i>	1,158,643	1,078,491
Trade and other receivables and advance payments	<i>14</i>	706,659	618,288
Derivative financial instruments		11,145	89,543
Other financial assets		50,000	–
Pledged bank deposits		34,503	80,122
Bank balances and cash		1,123,710	961,094
		<hr/>	<hr/>
		3,084,660	2,827,538
Assets of a disposal group classified as held for sale		<hr/>	<hr/>
		–	71,450
Total current assets		3,084,660	2,898,988
		<hr/>	<hr/>

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade and other payables	15	1,410,786	1,521,688
Tax payable		364	233
Bank borrowings		3,471,314	3,822,643
Other borrowings		–	1,051,413
Lease liabilities		23,851	23,238
Derivative financial instruments		59,338	15,274
Contract liabilities		198	189
		4,965,851	6,434,678
Liabilities of a disposal group classified as held for sale		–	2,196
Total current liabilities		4,965,851	6,436,874
NET CURRENT LIABILITIES		(1,881,191)	(3,537,886)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,602,360	9,287,319

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
CAPITAL AND RESERVES		
Share capital	555,535	551,007
Reserves	<u>7,341,388</u>	<u>6,530,510</u>
Equity attributable to owners of the Company	7,896,923	7,081,517
Non-controlling interests	<u>141,521</u>	<u>126,184</u>
TOTAL EQUITY	<u>8,038,444</u>	<u>7,207,701</u>
NON-CURRENT LIABILITIES		
Bank borrowings	2,171,012	1,715,831
Derivative financial instruments	24,000	–
Lease liabilities	196,042	206,109
Deferred income	<u>172,862</u>	<u>157,678</u>
Total non-current liabilities	<u>2,563,916</u>	<u>2,079,618</u>
TOTAL EQUITY AND NON-CURRENT LIABILITIES	<u><u>10,602,360</u></u>	<u><u>9,287,319</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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 2020, China Mengniu Dairy Co., Ltd. (“**Mengniu**”) and its wholly-owned subsidiary together owned 57.69% 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. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

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

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board (“**IASB**”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

IFRS 17	<i>Insurance Contracts and the related Amendments¹</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions⁴</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform–Phase 2⁵</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current¹</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies¹</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates¹</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to IAS 37	<i>Onerous Contracts–Cost of Fulfilling a Contract²</i>
Amendments to IFRS Standards	<i>Annual Improvements to IFRS Standards 2018–2020²</i>

1. Effective for annual periods beginning on or after 1 January 2023.
2. Effective for annual periods beginning on or after 1 January 2022.
3. Effective for annual periods beginning on or after a date to be determined.
4. Effective for annual periods beginning on or after 1 June 2020.
5. Effective for annual periods beginning on or after 1 January 2021.

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.

3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

In preparation of the consolidated financial statements for the year ended 31 December 2020, 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 RMB1,881,191,000 (2019: RMB3,537,886,000). Taking into account, (i) the available credit facilities of approximately RMB4,597,896,000 which remain unutilised as at 31 December 2020 (These credit facilities included an amount of RMB1,300,000,000 from Inner Mongolia Mengniu Dairy (Group) Company Limited (“**Inner Mongolia Mengniu**”), a subsidiary of Mengniu, and the remaining credit facilities are from licensed banks); (ii) 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.

The consolidated financial statements have been prepared on the historical cost basis except for: (i) biological assets, which are measured at fair value less costs to sell; (ii) Equity instruments at fair value through other comprehensive income (“**FVTOCI**”); (iii) other financial assets, which are measured at fair values; and (iv) derivative financial instruments, which are measured at fair values at the end of each reporting period.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets* (“**IAS 36**”).

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 2020 was RMB7,101,243,000 (2019: RMB7,459,359,000).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units 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 cash-generating units 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 2020, the carrying amount of goodwill is RMB1,322,457,000 (2019: RMB1,371,266,000), net of accumulated impairment loss of RMB213,429,000 (2019: RMB164,620,000).

5. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Types of goods:		
Raw milk	<u>6,020,247</u>	<u>5,514,210</u>
Timing of revenue recognition:		
A point in time	<u>6,020,247</u>	<u>5,514,210</u>

(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 been 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 2020, 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 is an amount of RMB4,939,178,000 (2019: RMB4,702,150,000) arose from sales to a single customer (“**Customer A**”) and RMB629,078,000 arose from sales to another single customer (“**Customer B**”). No other single customer contributed 10% or more to the Group’s revenue for each of the two years ended 31 December 2020.

6. OTHER INCOME AND OTHER EXPENSES

Other income

	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
Bank interest income	18,308	11,169
Government grants related to		
– Assets	31,131	19,030
– Others (<i>Note</i>)	28,844	13,593
	59,975	32,623
Others	8,392	7,276
	86,675	51,068

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

	2020 <i>RMB’000</i>	2019 <i>RMB’000</i>
Donation expenses	11,222	545
Others	5,281	8,516
	16,503	9,061

7. PROFIT BEFORE FINANCE COSTS AND TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	3,561,559	3,412,330
Raw milk fair value adjustments included in cost of sales	<u>2,277,414</u>	<u>1,938,360</u>
	<u>5,838,973</u>	<u>5,350,690</u>
Other gains and losses, net:		
Net foreign exchange (gain) loss	(158,173)	82,952
Loss on disposal of property, plant and equipment, net	13,110	16,879
Gains on disposal of subsidiaries	(72,280)	–
Impairment loss on property, plant and equipment	–	45,287
Impairment loss on goodwill	48,809	27,323
Fair value gain on other financial assets	(1,012)	–
Fair value (gain) loss on derivative financial instruments:		
Foreign currency forward contracts	(26,381)	(17,971)
Foreign currency option contracts	<u>53,413</u>	<u>(32,585)</u>
	27,032	(50,556)
Gains on derecognition of financial liabilities	<u>–</u>	<u>(839)</u>
	<u>(142,514)</u>	<u>121,046</u>
Depreciation of property, plant and equipment	454,376	516,954
Less: capitalised in biological assets	<u>(191,851)</u>	<u>(208,171)</u>
Depreciation charged to profit or loss	<u>262,525</u>	<u>308,783</u>
Depreciation of right-of-use assets	16,904	16,266
Less: capitalised in biological assets	<u>(6,331)</u>	<u>(5,703)</u>
Depreciation charged to profit or loss	<u>10,573</u>	<u>10,563</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short-term lease expense	15,305	13,180
Less: capitalised in biological assets	<u>(6,607)</u>	<u>(5,934)</u>
Short-term lease expense charged to profit or loss	<u>8,698</u>	<u>7,246</u>
Equity-settled share award expense	26,806	25,553
Other employee benefits costs	585,618	490,961
Less: capitalised in biological assets	<u>(120,868)</u>	<u>(122,538)</u>
Employee benefits charged to profit or loss	<u>491,556</u>	<u>393,976</u>
Auditors' remuneration	<u>3,150</u>	<u>2,950</u>

8. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses on:		
Bank borrowings	258,883	248,407
Medium-term notes	–	6,620
Corporate bonds	–	14,645
Other borrowings from Mengniu	6,818	47,842
Other borrowings from financial institutions	403	2,337
Mengniu bill	–	6,952
Lease liabilities	<u>11,065</u>	<u>11,010</u>
Total borrowing cost	277,169	337,813
Fair value loss on interest rate swaps	<u>41,455</u>	<u>38,982</u>
	<u>318,624</u>	<u>376,795</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Impairment losses recognised on:		
– Other receivables	157	953
Impairment losses reversed on:		
– Trade receivables	<u>(152)</u>	<u>(162,288)</u>
	<u><u>5</u></u>	<u><u>(161,335)</u></u>

10. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Income tax recognised in profit or loss:		
Current tax:		
PRC Enterprise Income Tax	<u><u>639</u></u>	<u><u>556</u></u>

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 law of 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 EIT Law, 16 subsidiaries (2019: 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 2020.

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 to RMB2,836,473,000 (31 December 2019: RMB1,863,415,000) 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 profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before tax	<u>784,404</u>	<u>350,413</u>
Tax at applicable income tax rate at 25% (2019: 25%)	196,101	87,603
Effect of tax exemption granted to agricultural entities	(241,126)	(150,311)
Effect of non-utilised losses incurred from agricultural business and other non-deductible expenses	42,817	57,486
Effect of tax losses not recognised	2,916	6,104
Utilisation of tax losses previously not recognised	<u>(69)</u>	<u>(326)</u>
Income tax expense	<u>639</u>	<u>556</u>

11. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the two years ended 31 December 2020. Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of RMB2 cents (2019: nil) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

12. EARNINGS PER SHARE

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit for the year attributable to owners of the Company		
Earnings for the purpose of basic and diluted earnings per share	<u>770,010</u>	<u>341,270</u>
	2020 <i>Shares</i>	2019 <i>Shares</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,380,386,978	6,165,192,978
Effect of dilutive potential ordinary shares:		
Share options	3,543,748	11,637,831
Share awards	<u>11,709,826</u>	<u>4,765,434</u>
	<u>6,395,640,552</u>	<u>6,181,596,243</u>

The number of shares adopted in the calculation of the basic earnings per share has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme.

13. INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Feeds	1,108,020	1,032,634
Others	<u>50,623</u>	<u>45,857</u>
	<u>1,158,643</u>	<u>1,078,491</u>

14. TRADE AND OTHER RECEIVABLES AND ADVANCE PAYMENTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	639,768	550,205
Less: allowance for credit losses	<u>(8,483)</u>	<u>(8,635)</u>
	631,285	541,570
Advance payments for feeds, materials and others	47,736	64,819
Input value added tax recoverable	2,938	2,591
Receivables from disposal of property, plant and equipment	999	4,015
Receivables from disposal of subsidiaries	7,406	–
Short term loan receivables (<i>Note</i>)	8,092	–
Others	<u>8,203</u>	<u>5,293</u>
	<u><u>706,659</u></u>	<u><u>618,288</u></u>

Note: On 18 September 2020, Modern Farming (Chabei) Co., Ltd. (“Chabei”), a wholly-owned subsidiary of Modern Farming, entered into a loan agreement with a third party under the direction of local government, pursuant to which, Chabei provided a loan of RMB8,000,000 to the third party. The loan is unsecured and bears interest at 5.225% per annum and will mature in 8 months.

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB697,756,000.

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables		
– within 30 days	<u><u>631,285</u></u>	<u><u>541,570</u></u>

15. TRADE AND OTHER PAYABLES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables		
– within 60 days	610,589	905,457
– beyond 60 days but within 120 days	146,753	213,925
– beyond 120 days but within 360 days	44,539	18,536
– beyond 360 days but within 720 days	15,015	16,747
Bills payable (<i>Note</i>)	15,659	2,841
	832,555	1,157,506
Payable for acquisition of property, plant and equipment	217,521	140,350
Accrued staff costs	212,269	113,503
Advance payments from disposal of dairy cows	27,093	20,733
Others	121,348	89,596
	1,410,786	1,521,688

Note: Bills payable are with maturities 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:

- (a) On 27 January 2021, an aggregate of 650,000,000 new shares have been successfully placed to certain independent third parties at the placing price of HK\$2.40 per share and the net proceeds from the placing amounted to approximately HK\$1,552 million. The Company intends to apply the net proceeds from the placing on infrastructure development and herd expansion, potential mergers and acquisitions and general working capital. After completion of the placing, Mengniu directly and indirectly held 52.41% of the Company's issued share capital.
- (b) On 22 March 2021, the Company entered into a sale and purchase agreement with certain sellers (the "Sellers") and Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. (the "Fuyuan"), pursuant to which the Sellers agreed to sell, and the Company agreed to purchase, the entire equity interests in Fuyuan at a total consideration of RMB3,480,000,000, which shall be satisfied by a combination of cash and allotment and issue of shares of the Company under two settlement scenarios. The above transaction constituted a major and connected transaction of the Company under the Listing Rules and has been published in the Company's announcement dated 22 March 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “**Board**”) of China Modern Dairy Holdings Limited (“**Modern Dairy**” or the “**Company**”) is pleased to present the audited annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 (the “**Reporting Year**”).

INDUSTRY OVERVIEW

In 2020, the global economy was severely impacted by the COVID-19 pandemic (the “**Pandemic Outbreak**”). The trade flows between industry chains had been disrupted. In China, the economy realized relatively speedy and steady recovery due to proper control of the Pandemic Outbreak, with a 2.3% gross domestic product growth yoy, which was above expectations, and makes it the only country in the world with positive growth. China’s economy has begun to move towards a new “dual circulation”, gradually shifting to the domestic consumer market and driving strong growth in domestic demand. In 2020, residents’ income growth basically kept pace with the economic growth and urban-rural per-capita income disparities continued to decrease. The per-capita income of urban and rural residents in China has doubled comparing to 2010, and the increase of residents’ income is beneficial to the overall consumption market.

In the dairy sector, consumer demand for dairy products in China grew at its fastest pace for 15 years in 2020. The milk production in China was 34.4 million tonnes, representing an annual growth of 7.5%, and raw and fresh milk price continued to rise, with the average price for the year increasing by 3.8% yoy. The profitability of dairy farming improved significantly, with an average annual gross profit margin of the industry of 13.4%. Total dairy imports for the year was 3.281 million tonnes, an increase of 10.4% yoy. Net dairy imports equated to 18.872 million tonnes of raw milk and the milk sufficiency rate was 65.3%, and has been decreasing five consecutive years.

The medium- and small-scaled farms have been phasing out the market and the herd size has been shrinking since 2015 due to the strict environmental regulations. Although the herd size has bottomed out since 2019, the production capacity generated from the growth of herd in 2020 will not be released until a few years later. As such, the supply is still insufficient. On the contrary, stable growth of domestic resident income has driven the prosperity of the consumer market, and the consumption structure continues to upgrade. The sustained growth of dairy products in 2020 was benefited from the vigorous development of UHT and fresh milk products. Domestic demand for high quality raw milk has been growing, continuing to exceed supply for the next few years.

Corn, soybean and soybean meal prices are all on an upward trend due to strong growth in feed demand with the recovery of domestic breeding industry. According to monitoring data from the Ministry of Agriculture and Rural Affairs, corn price rose from RMB2.09/kg to RMB2.62/kg during the year, an increase of 25.4%, while soybean meal price rose from RMB3.25/kg to RMB3.46/kg, an increase of 6.5%.

BUSINESS REVIEW

2020 marked the Company's 15th anniversary since its founding. By increasing unit milk yield, reducing production cost to uplift operation efficiency, the financial indicators of the Group have been improved continuously during the Reporting Year, and the financial performance was the best in history.

During the Reporting Year, the Company was mainly engaged in the dairy farming (primarily the production and sales 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 China Mengniu Dairy Co., Ltd. (“**Mengniu**”). The Company has all along focused on the upstream dairy farming business, and is devoted to producing high quality raw milk products for consumers.

During the Reporting Year, the Group has achieved significant improvement in major operating indicators. The average selling price (“**ASP**”) of raw milk stood at RMB4.13/kg (2019: RMB4.04/kg), representing a yoy growth of 2.2%. The annual milk yield (“**AMY**”) per milkable cow amounted to 11.1 tons (2019: 10.6 tons), representing a yoy growth of 4.7%. With the uplift of milk yield and the number of milkable cows, the total annual milk production hit 1.49 million tons (2019: 1.39 million tons), representing yoy growth of 7.2%. The Group has achieved 9.2% revenue growth yoy up to RMB6,020 million (2019: RMB5,514 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 2.7 percentage points (“**ppt**”) to 40.8% in 2020 (2019: 38.1%) yoy.

The feed prices had significantly increased, globally and domestically as a result of a basket of factors, including the Pandemic Outbreak, the recovery of the domestic farming industry and the Sino-US trade war. During the Reporting Year, the Group was dedicated to the fulfillment of the objectives of “increase output, reduce cost and upgrade quality”, and implemented various measures to enhance and streamline the procurement process so as to reduce purchasing costs. The Company has lowered operating costs through improving the formula, adjusting the feed mix, enhancing the health of cows, raising unit production, broadening sources of income and reducing expenditure. During the Reporting Year, the Group successfully kept the unit cost of (excluding depreciation of property, plant and equipment) one kilogram of raw milk (“**UCM**”) at RMB2.29/kg (2019: RMB2.32/kg), representing a yoy decrease of 1.2%. Out of which, the feed cost per kg of raw milk amounted to RMB1.77/kg (2019: RMB1.77/kg), the same with last year.

During the Pandemic Outbreak, the Group stringently adopted various response measures to minimize the potential impact of the Pandemic Outbreak. Since the Pandemic Outbreak, except for a mild impact inflicted on transportation and logistics during the early stage thereof, the overall operation of the Group's farms has remained normal and production and sales volume of raw milk have been stable, and neither of the Group's cows nor employees have been substantially affected. During the Reporting Year, the Company's management adjusted operation strategies in time and allocated resources flexibly when facing external uncertainties. While increasing AMY, reducing operating costs, improving efficiency and conducting appropriate herd expansion, we were able to enhance the quality of our raw milk. The Group will continue to adhere to the fundamental principles of safe and quality production, provide each of its dairy cows with the best living environment, utilize the most natural scientific breeding methods and feeding techniques to allow our dairy cows to produce the highest quality pasture milk, and give back to consumers.

DAIRY FARMS

As at 31 December 2020, the Group operated a total of 26 dairy farms (herd size of each close to or over 10,000 dairy cows) with contracted forage planting land amounting to 1.07 million mu and 247,371 dairy cows (2019: 233,618 heads) spreading across seven provinces in mainland China. The proportion of milkable cows to the total number of dairy cows decreased by 2.8 ppt to 55.1% in 2020 (2019: 57.9%) yoy, mainly due to the increase in the number of the Group's heifers and calves, resulting in the decrease of the proportion of milkable cows. Total sales volume of raw milk amounted to approximately 1.46 million tons (2019: 1.37 million tons) for the downstream dairy enterprises to produce high-end milk products, representing a yoy growth of 6.6%. Leveraging on the world's first model of "integration of forage planting, cow breeding and milk processing", Modern Dairy is the largest leading dairy farming company in the world in terms of the herd scale. As a nationwide farm, the Group are endowed with unique geographical advantages that most of our farms are located in regions with fine climate and ample supply of feed, in the proximity of processing plants of dairy products.

Herd Scale

	As at 31 December 2020 Head	As at 31 December 2019 Head
Dairy cows		
Milkable cows	136,203	135,185
Heifers and calves	<u>111,168</u>	<u>98,433</u>
Total number of dairy cows	<u><u>247,371</u></u>	<u><u>233,618</u></u>

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 and domestic 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, the Group recorded AMY of 11.1 tons per milkable cow (2019: 10.6 tons), up by 4.7% yoy. The total annual milk production of the Group grew 7.2% yoy to 1.49 million tons (2019: 1.39 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.

FINANCIAL OVERVIEW

Revenue

Business Analysis

The Group's revenue was contributed totally by the sales of raw milk business.

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

	2020			2019		
	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/ton</i>	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/ton</i>
Raw milk	<u>6,020,247</u>	<u>1,456,962</u>	<u>4,132</u>	<u>5,514,210</u>	<u>1,365,739</u>	<u>4,038</u>

During the Reporting Year, the Group's total revenue of the sales of raw milk increased by 9.2% yoy to RMB6,020.2 million (2019: RMB5,514.2 million). The increase was mainly due to the increase in sales volume of raw milk and increase in ASP of raw milk.

During the Reporting Year, ASP of raw milk grew by 2.2% yoy to RMB4.13/kg (2019: RMB4.04/kg).

During the Reporting Year, total sales volume of raw milk increased by 6.6% yoy to approximately 1.46 million tons (2019: 1.37 million tons), mainly due to the rise in AMY per milkable 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 business. The following table sets forth the breakdown of the cost of sales of our products for the years indicated:

- ***Dairy farming business:***

	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Direct materials	2,664,608	74.8%	2,492,360	73.0%
Labor cost	266,325	7.5%	276,311	8.1%
Utilities	111,689	3.1%	102,526	3.0%
Depreciation of property, plant and equipment	227,366	6.4%	249,817	7.3%
Other costs of farms	<u>291,571</u>	<u>8.2%</u>	<u>291,316</u>	<u>8.6%</u>
Cost of sales before raw milk fair value adjustments of the dairy farming business	<u>3,561,559</u>	<u>100.0%</u>	<u>3,412,330</u>	<u>100.0%</u>

During the Reporting Year, direct materials (mainly forage) cost amounted to RMB2,664.6 million (2019: RMB2,492.4 million), representing a yoy growth of 6.9% due to the increase of volume of milkable cows.

The feed prices had significantly increased, globally and domestically as a result of the Pandemic Outbreak, the recovery of the domestic farming industry and the Sino-US trade war, etc. The Group implemented various measures to enhance and streamline the procurement process so as to reduce purchasing costs. The Company has lowered operating costs through improving the formula, adjusting the feed mix, enhancing the health of cows, raising unit production, broadening sources of income and reducing expenditure. During the Reporting Year, the Group successfully kept UCM at RMB2.29/kg (2019: RMB2.32/kg), representing a yoy decrease of 1.2%. Out of which, the feed cost per kg of raw milk amounted to RMB1.77/kg (2019: RMB1.77/kg), the same with last year.

Gross Profit and Profitability

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

	2020		2019	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	margin	<i>RMB'000</i>	margin
Dairy farming business	<u>2,458,688</u>	<u>40.84%</u>	<u>2,101,880</u>	<u>38.12%</u>

- ***Dairy farming business***

During the Reporting Year, gross profit of the Group's dairy farming business before raw milk fair value adjustments amounted to RMB2,458.7 million (2019: RMB2,101.9 million), representing an increase of 17.0% yoy, which was mainly due to the increase in price and sales volume of raw milk. Gross profit margin of the Group's dairy farming business before raw milk fair value adjustments stood at 40.8% (2019: 38.1%), representing an increase of 2.7 ppt yoy.

Losses Arising from Changes in Fair Value Less Costs to Sell of Dairy Cows

As at 31 December 2020, the biological assets of the Group were valued at RMB7,101.2 million (31 December 2019: RMB7,459.4 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, representing a slight decrease of 4.8% yoy.

Losses arising from changes in the fair value of dairy cows less costs to sell dairy cows were RMB1,031.3 million as at 31 December 2020 (31 December 2019: RMB1,039.2 million), approximately the same as last year.

Gains Arising on Initial Recognition of Raw Milk at Fair Value Less Costs to Sell at the Point of Harvest

During the Reporting Year, the gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest amounted to RMB2,277.4 million (2019: RMB1,938.4 million), representing an increase of 17.5% yoy, 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 RMB86.7 million (2019: RMB51.1 million) which mainly consisted of government grants and interest income, of which interest income accounted for RMB18.3 million (2019: RMB11.2 million), while the government grants amounted to RMB60.0 million (2019: RMB32.6 million). Government grants mainly consisted of subsidies for agricultural projects such as “Grain to Fodder”.

Operating Expenses

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Selling and distribution costs	194,440	175,487
Administrative expenses	374,155	276,739
Total operating expenses	<u>568,595</u>	<u>452,226</u>

During the Reporting Year, the total operating expenses was RMB568.6 million (2019: RMB452.2 million), representing an increase of 25.7% yoy.

- ***Selling and distribution costs***

The following is an analysis of the selling and distribution costs:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Dairy farming business		
Transportation costs and others	191,112	172,057
Business tax and surcharge	<u>3,328</u>	<u>3,430</u>
Total selling and distribution costs	<u><u>194,440</u></u>	<u><u>175,487</u></u>

Selling and distribution costs mainly consisted of transportation costs for sales of raw milk. During the Reporting Year, selling and distribution costs stood as RMB194.4 million (2019: RMB175.5 million).

Transportation costs for sales of raw milk recorded at RMB191.1 million (2019: RMB172.1 million), representing an increase of 11.0% yoy, mainly attributable to an increase in the sales volume of raw milk.

- ***Administrative expenses***

Administrative expenses mainly included remuneration of management staff (including equity-based share award expenses) and depreciation charges of office building, staff quarters and facilities. During the Reporting Year, administrative expenses amounted to RMB374.2 million (2019: RMB276.7 million), representing an increase of 35.2% yoy. The increase was mainly due to the Group's provision of rewards and continuous incentives for staff to boost good performance for the Company and the increase in the management's remuneration.

Other Gains and Losses, Net

During the Reporting Year, net gains arising from other gains and losses amounted to RMB142.5 million (2019: net losses of RMB121.0 million) mainly consisting of net amount of foreign exchange (gains) losses, impairment provision for fixed assets and impairment loss on goodwill. The breakdown of other gains and losses is as follows:

	2020 RMB'000	2019 RMB'000
Other gains and losses:		
Net foreign exchange (gains)/loss	(158,173)	82,952
Loss on disposal of property, plant and equipment	13,110	16,879
Gains on disposal of subsidiaries	(72,280)	–
Impairment loss on property, plant and equipment	–	45,287
Impairment loss on goodwill	48,809	27,323
Fair value gain on other financial assets	(1,012)	–
Fair value (gain)/loss on derivative financial instruments		
Foreign currency forward contracts	(26,381)	(17,971)
Foreign currency option contracts	53,413	(32,585)
	27,032	(50,556)
Gains on derecognition of financial liabilities	–	(839)
	(142,514)	121,046

Other Expenses

During the Reporting Year, other expenses amounted to RMB16.5 million (2019: RMB9.1 million), representing an increase of 81.3% mainly due to the increase of donation expenses.

Finance Costs

During the Reporting Year, finance costs amounted to RMB318.6 million (2019: RMB376.8 million), representing a decrease of 15.4% yoy. Among the finance cost, borrowing costs amounted to RMB277.2 million (2019: RMB337.8 million), representing a decrease of 17.9% yoy mainly due to the decrease of borrowings and the financing interest rate.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's cash EBITDA amounted to RMB2,264.9 million during the Reporting Year (2019: RMB2,045.5 million), grew by 10.7% yoy. The cash EBITDA margin increased to 37.6% (2019: 37.1%), up by 0.5 ppt.

Taking into account the above factors, profit attributable to owners of the Company amounted to RMB770.0 million during the Reporting Year (2019: RMB341.3 million), grew by 125.6% yoy.

During the Reporting Year, basic earnings per Share of the Company (the "Share") was RMB12.07 cents (2019: RMB5.54 cents per Share). Diluted earnings per Share was RMB12.04 cents (2019: RMB5.52 cents per Share).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2020, the net gearing ratio, which was calculated on the basis of the amount of total borrowings less cash and deposit assets as a percentage of the total equity, was 53.4% (31 December 2019: 77.0%) with a drop of 23.6 ppt yoy.

As at 31 December 2020, the Group's available and unutilized credit facilities were approximately RMB4,597.9 million (31 December 2019: RMB3,753.4 million). Having considered the (i) forecast cash flow from operating activities of continuing operation; (ii) existing financial resources and gearing level of the Group, the Directors believe that the Group's financial resources are sufficient to meet its debt repayment, day-to-day operations, contracted capital expenditures as at 31 December 2020.

Operating Activities

During the Reporting Year, the net cash inflow from operating activities of the Group was RMB1,938.6 million (2019: RMB2,049.1 million), representing a decrease of 5.4% yoy. Excluding the effect of the realization of pledged collateral shares in 2019, the net cash inflow from operating activities increased by 16.1% yoy.

Investing Activities

During the Reporting Year, the Group's net cash outflow from investing activities was RMB765.7 million (2019: net cash outflow of RMB1,025.9 million), representing a decrease of 25.4% yoy, which was mainly due to the disposal of subsidiaries and the increase in revenue from the sales of cows during the Reporting Year.

Financing Activities

During the Reporting Year, the Group's net cash outflow from financing activities was RMB964.0 million (2019: net cash outflow of RMB832.1 million), representing an increase of 15.9% yoy, mainly due to the increase in debt repayment during the Reporting Year.

INTEREST-BEARING BORROWINGS

As at 31 December 2020, the total interest-bearing borrowings of the Group was RMB5,642.3 million (2019: RMB6,589.9 million), representing a yoy decrease of 14.4 %.

Details are set out as below:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Borrowings:		
Bank borrowings	5,642,326	5,538,474
Other borrowings	<u>–</u>	<u>1,051,413</u>
	<u>5,642,326</u>	<u>6,589,887</u>
Carrying value repayable:		
Within one year	3,471,314	4,874,056
Between one to two years	703,519	1,525,831
Between two to five years	<u>1,467,493</u>	<u>190,000</u>
	<u>5,642,326</u>	<u>6,589,887</u>

The following is an analysis of the respective borrowings:

- **Bank borrowings**

During the Reporting Year, the annual interest rate of bank borrowings varied from 0.66% to 5.17% (2019: from 3.2% to 5.17%).

The table below sets forth the details of the bank borrowings as at 31 December 2020:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings:		
Unsecured borrowings	5,281,002	5,320,114
Secured borrowings	<u>361,324</u>	<u>218,360</u>
	<u><u>5,642,326</u></u>	<u><u>5,538,474</u></u>
Carrying amounts repayable:		
Within one year	3,471,314	3,822,643
Between one to two years	703,519	1,525,831
Between two to five years	<u>1,467,493</u>	<u>190,000</u>
	<u><u>5,642,326</u></u>	<u><u>5,538,474</u></u>

- **Other borrowing**

	2020	2019
	RMB'000	RMB'000
Carrying amounts payable:		
Within one year		
– Mengniu entrusted loan	–	1,001,330
– Borrowing from a financial institution	–	50,083
	<u>–</u>	<u>1,051,413</u>
Less: Amounts due within one year (shown under current liabilities)	–	1,051,413
	<u>–</u>	<u>–</u>
Amounts due after one year	<u>–</u>	<u>–</u>

GROUP STRUCTURE

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

CAPITAL STRUCTURE

As at 31 December 2020, the total number of ordinary shares in issue of the Company was 6,458,565,947 shares (31 December 2019: 6,407,635,115 shares). On 27 August, 2020, the management exercised 50,930,832 shares granted by the Company on 31 October 2010 under the management share options, thereby increasing the number of ordinary shares issued by the Company.

As at 31 December 2020, the net assets attributable to owners of the Company amounted to approximately RMB7,896.9 million (31 December 2019: approximately RMB7,081.5 million), the net borrowings of the Group (total borrowings less cash and deposit assets) amounted to approximately RMB4,290.8 million (31 December 2019: approximately RMB5,547.9 million).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2020, no buildings and equipment of the Company (31 December 2019: nil) were pledged as security for the Group's borrowings.

As at 31 December 2020, biological assets with carrying value of RMB754.0 million (31 December 2019: RMB838.7 million) and time deposits of RMB122.7 million (31 December 2019: nil) were pledged as security for the Group's borrowings.

The Group did not have any significant contingent liabilities as at 31 December 2020 and 2019.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB20.2 million (31 December 2019: RMB21.5 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 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 production in terms of energy conservation and environmental protection. The Group actively promotes the economic development of farms in the surrounding areas and increases the income of local residents. The Group actively implements the precise poverty alleviation policy, responds to the call of poverty alleviation, and is devoted to poverty alleviation within the industry and society. Firstly, the contract of silage planting was signed with local farmers in farm areas to reduce the impact of natural disasters on crop harvest. At the same time, to solve the local employment problem, the Group's farms provide multiple jobs throughout the country, effectively alleviating the pressure of surplus rural labor force and increasing the income of local farmers. The Group also undertakes social responsibility and promotes local economic development through measures such as making direct donation of materials, money and paying visits to nursing homes. The Group's social responsibility efforts have widely proliferated from dairy cow breeding, product quality, green development to employee development and social care. The Group has always adhered to the concept of "people-oriented", and taken the responsibility of promoting sustainable development of the dairy industry, giving back to the nature and serving the society.

To better illustrate the Group's social responsibilities, environmental protection and social and corporate governance, a report on the environment, social and governance (the ESG Report) will be separately released in due course.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2020, the Group had approximately 4,455 employees (31 December 2019: 5,053) in mainland China and Hong Kong. Total staff costs during the Reporting Year (including staff compensation capitalized to biological assets) were approximately RMB585.6 million (2019: RMB491.0 million).

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

PROSPECTS

Currently, raw milk market is still short in supply and it is expected that the shortage of raw milk will continue, driving an increase in milk prices. With the withdrawal of small- and medium-sized dairy farms from the market, the cyclicality 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 could benefit from the industry cycle and take the advantages of being an industry leader.

With the active advocacy of authoritative medical professionals and the issuance of a document by the National Health Commission encouraging people to improve their immunity by drinking milk, not only has the awareness of milk consumption been raised, but new opportunities have been brought to companies and the industry. General Secretary Xi Jinping proposed at the Fifth Plenary Session of the 19th Central Committee that “China’s economy has the hope, potential to maintain long-term stable development, and it is completely possible for China to meet the current standards for high-income countries by the end of the 14th Five-Year Plan and to double the total economic volume or per capita income by 2035”, which further provides a wide scope for the development of the dairy industry in mainland China.

The year of 2021 will be a critical year for Modern Dairy to draw up a development blueprint. During the year, the Group has embarked on a “five-year leading plan” to focus on increasing the herd size and production in an attempt to further strengthen the Group’s overall competitiveness. In 5 years, the Company will strive to double both herd and milk yield through organic growth and external acquisition, being further increase the number of cows to more than 500,000 by 2025 with annual fresh milk yield of 3.6 million tons to achieve the goals of the Group.

The Group will continue to adhere to high standards, stick to the principles, focus on implementation, pay attention to details, improve efficiency, and put the “high standard modernization” pasture plan into practice, striving to turn Modern Dairy into a smart, green, branded, integrated farm. We will not only be the leader the industry but also a pioneer of industry integration to build a No. 1 brand of raw milk in the PRC, providing consumers with the most nutritious raw milk and making unremitting contributions to the upgrade and transformation of the dairy industry in the PRC.

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 2020 and up to the date of this announcement, 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 of the Company. One non-executive Director was not able to attend the annual general meeting of the Company held on 3 June 2020 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.

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

Save as disclosed 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 20,000,000 ordinary shares of the Company as restricted shares at a consideration of approximately HK\$17,255,000 (equivalent to RMB15,763,000). The Group retained a total number of 5,510,525 vesting shares as a consideration of approximately HK\$4,519,000 (equivalent to RMB4,129,000) for paying the individual income tax on behalf of those selected participants under the share award schemes of the Company.

PROPOSED FINAL DIVIDEND

No interim dividend was paid during the Reporting Year (2019: nil).

The Board has recommended the payment of a final dividend of RMB0.02 (2019: nil) per ordinary share for the year ended 31 December 2020. Upon shareholders' approval at the forthcoming annual general meeting of the Company (the "AGM"), the proposed final dividend will be paid on or about Thursday, 24 June 2021 to shareholders whose names appear on the register of members of the Company on Thursday, 10 June 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Friday, 28 May 2021 to Wednesday, 2 June 2021, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) from Tuesday, 8 June 2021 to Thursday, 10 June 2021, both days inclusive, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM of the Company to be held on Wednesday, 2 June 2021, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 27 May 2021.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 7 June 2021.

EVENTS AFTER THE REPORTING YEAR

Reference is made to the announcement of the Company dated 20 January 2021 in respect of the placing of new shares of the Company under general mandate (the "Placing"), all the conditions of the Placing have been fulfilled and completion of the Placing took place on 27 January 2021. An aggregate of 650,000,000 shares of the Company have placed by the placing manager to not fewer than six independent placees at placing price of HK\$2.40 per share. The net proceeds from the Placing amount to approximately HK\$1,552 million. The Company intends to apply the net proceeds from the Placing on infrastructure development and herd expansion, potential mergers and acquisitions and general working capital.

Reference is made to the announcement of the Company dated 22 March 2021, the Company entered into a sale and purchase agreement with certain sellers (the “**Sellers**”) and Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. (“**Fuyuan**”), pursuant to which the Sellers agreed to sell, and the Company agreed to purchase, the entire equity interests in Fuyuan (“**Acquisition**”) at a total consideration of RMB3,480,000,000, which shall be satisfied by a combination of cash and allotment and issue of shares of the Company under two settlement scenarios. The above transaction constituted a major and connected transaction of the Company under the Listing Rules.

The Acquisition is in line with the trend and development of the dairy market, and it enables the Group to integrate the upstream and downstream business, thereby building a full chain of raw milk production which will be favourable for the Group’s long-term development. The Acquisition is a unique opportunity for the Group to build on and strengthen its operation through expansion into and accessing the feeds supply industry. Subsequent to the Acquisition, the feed prices could be reduced, hence lowering the operating costs of the Group. The Acquisition is still subject to the approval of subsequent shareholders’ meeting.

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 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. During the Reporting Year, Mr. LI Shengli was also one of the independent non-executive directors of China Zhongdi Dairy Holdings Company Limited (stock code: 1492), which operates dairy farming business.

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 auditor, Messrs. Deloitte Touche Tohmatsu, has 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 2020 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. WOLHARDT Julian Juul and one non-executive Director, Mr. ZHANG Ping. 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 2020.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2020 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 2021

As of the date of this announcement, the executive directors are Ms. GAO Lina and Mr. SUN Yugang, the non-executive directors are Mr. LU Minfang (chairman), Mr. ZHANG Ping and Mr. ZHAO Jiejun and Ms. GAN Lu, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. WOLHARDT Julian Juul.