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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)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

**HIGHLIGHTS**

- **Robust Results:** For the six months ended 30 June 2021, the total revenue of the Group reached RMB3,180 million, representing a year-on-year (“yoy”) increase of 12.4%. Cash EBITDA recorded RMB1,153 million, representing a yoy increase of 16.8%. The profit attributable to owners of the Company reached RMB497 million, representing a yoy increase of 125.0%.
- **Acquisition of Zhongyuan:** The acquisition of Zhongyuan was completed in July 2021 which could create substantive synergies in terms of farm operation, management and financial strength, etc. of the Group. The Group’s herd size will be increased, which could further enhance the Group’s competitiveness in terms of quality and pricing of raw milk.
- **Acquisition of Fuyuan:** The acquisition of Fuyuan was approved by shareholders in June 2021 and is expected to be completed in the third quarter of 2021. Following the acquisition, the Group’s herd size will significantly increase to approximately 340,000 heads, which could further strengthen the Group’s position in the dairy farming industry in China and enhance its competitiveness in terms of quality and pricing of raw milk.
- **Issuance of Bonds:** The Company has successfully issued US\$500,000,000 2.125% bonds due 2026 in July 2021 with a credit rating of “BBB”, being an investment grade assigned by Standard & Poor’s. The Company intends to use the proceeds for refinancing and general corporate purposes, which will lower overall financing cost.

- **Significant Reduction in Indebtedness:** As a result of sound and remarkable debts-reducing strategies, the Group’s net gearing ratio was significantly reduced to 24.2% as of 30 June 2021.
- **Branded Milk Won Gold Awards for Eight Consecutive Years:** The Group’s pure milk was awarded the Gold Prize of Monde Selection for the eighth consecutive year, symbolizing that our premium quality branded milk was widely recognized by all sectors of the society.

#### FOR THE SIX MONTHS ENDED 30 JUNE

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

	2021 (unaudited)	2020 (unaudited)	Change
Revenue	3,179.7	2,827.8	+12.4%
Gross profit	1,181.6	1,052.0	+12.3%
Cash EBITDA <i>(Note 1)</i>	1,152.7	986.9	+16.8%
Profit attributable to owners of the Company	496.7	220.7	+125.0%
Net operating cash inflow	1,464.9	1,055.2	+38.8%
Free cash flow <i>(Note 2)</i>	639.3	631.8	+1.2%
Net gearing ratio <i>(Note 3)</i>	24.2%	66.4%	-42.2ppt
Basic earnings per share <i>(RMB cents)</i>	7.13	3.47	+105.5%
Net asset value per share <i>(RMB)</i> <i>(Note 4)</i>	1.34	1.14	+17.5%
Herd scale <i>(heads)</i>	<u>251,876</u>	<u>235,877</u>	<u>+6.8%</u>

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: 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) Free cash flow is defined as net cash from operating activities less net cash used in investing activities.
- (3) 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.
- (4) Equity attributable to owners of the Company at the period end divided by the number of ordinary shares in issue at the end of the reporting periods, defined as of 30 June 2021 and 30 June 2020.

The board (the “**Board**”) of directors (the “**Directors**”) of China Modern Dairy Holdings Ltd. (the “**Company**”/“**Modern Dairy**”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021 (the “**Reporting Period**”), together with comparative figures for the corresponding period in 2020. The interim results have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and the Group’s auditor Deloitte Touche Tohmatsu.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB’000 (unaudited)	2020 RMB’000 (unaudited)
Revenue	4	3,179,719	2,827,752
Cost of sales	6	(3,106,084)	(2,736,128)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		<u>1,107,962</u>	<u>960,393</u>
Gross profit		1,181,597	1,052,017
Loss arising from changes in fair value less costs to sell of dairy cows		(405,792)	(448,749)
Other income	5	53,384	41,182
Impairment losses under expected credit loss model, net of reversal	13	(64)	10
Selling and distribution costs		(80,630)	(98,175)
Administrative expenses		(154,622)	(144,885)
Share of profits of associates		15,674	12,727
Other gains and losses	6	(9,871)	40,351
Other expenses		<u>(2,245)</u>	<u>(13,089)</u>
Profit before finance costs and tax	6	597,431	441,389
Finance costs	7	<u>(91,389)</u>	<u>(214,798)</u>
Profit before tax		506,042	226,591
Income tax expense	8	<u>(420)</u>	<u>(276)</u>
Profit for the period		<u><u>505,622</u></u>	<u><u>226,315</u></u>
<b>Other comprehensive (expense)/income:</b>			
<b>Item that will not be reclassified to profit or loss:</b>			
Fair value (loss)/gain on investments in equity instruments at fair value through other comprehensive income		<u>(1,100)</u>	<u>3,935</u>
Other comprehensive (expense)/income for the period, net of income tax		<u>(1,100)</u>	<u>3,935</u>
Total comprehensive income for the period		<u><u>504,522</u></u>	<u><u>230,250</u></u>

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
<i>Note</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(unaudited)</b>	(unaudited)
Profit for the period attributable to:		
Owners of the Company	<b>496,698</b>	220,736
Non-controlling interests	<b>8,924</b>	5,579
	<b><u>505,622</u></b>	<u>226,315</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	<b>495,618</b>	224,599
Non-controlling interests	<b>8,904</b>	5,651
	<b><u>504,522</u></b>	<u>230,250</u>
Earnings per share (RMB)	<i>10</i>	
Basic	<b>7.13 cents</b>	3.47 cents
Diluted	<b><u>7.12 cents</u></b>	<u>3.46 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		<b>30 June</b>	31 December
		<b>2021</b>	2020
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>3,223,509</b>	3,317,719
Right-of-use assets		<b>295,936</b>	303,849
Goodwill		<b>1,322,457</b>	1,322,457
Interests in associates		<b>307,756</b>	289,860
Biological assets	<i>11</i>	<b>7,083,939</b>	7,101,243
Equity instruments at fair value through other comprehensive income		<b>3,980</b>	5,080
Advanced payments	<i>12</i>	<b>169,500</b>	–
Pledged bank deposits		<b>125,128</b>	122,706
Bank balances		<b>211,009</b>	20,637
		<u><b>12,743,214</b></u>	<u>12,483,551</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>733,943</b>	1,158,643
Trade and other receivables and advanced payments	<i>12</i>	<b>665,780</b>	706,659
Other financial assets		<b>50,359</b>	50,000
Derivative financial instruments		<b>7,313</b>	11,145
Pledged bank deposits		<b>33,953</b>	34,503
Bank balances and cash		<b>2,222,933</b>	1,123,710
		<u><b>3,714,281</b></u>	<u>3,084,660</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>14</i>	<b>1,268,448</b>	1,410,786
Tax payable		<b>256</b>	364
Bank borrowings	<i>15</i>	<b>2,305,341</b>	3,471,314
Lease liabilities		<b>12,350</b>	23,851
Derivative financial instruments		<b>58,605</b>	59,338
Contract liabilities		<b>218</b>	198
		<u><b>3,645,218</b></u>	<u>4,965,851</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u><b>69,063</b></u>	<u>(1,881,191)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>12,812,277</b></u>	<u>10,602,360</u>

	<b>30 June 2021</b>	31 December 2020
<i>Note</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(unaudited)</b>	(audited)
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>609,758</b>	555,535
Share premium and reserves	<b>8,934,535</b>	7,341,388
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>9,544,293</b>	7,896,923
Non-controlling interests	<b>152,417</b>	141,521
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>9,696,710</b>	8,038,444
	<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>		
Bank borrowings	<i>15</i> <b>2,686,757</b>	2,171,012
Lease liabilities	<b>198,389</b>	196,042
Derivative financial instruments	<b>30,981</b>	24,000
Deferred income	<b>199,440</b>	172,862
	<hr/>	<hr/>
	<b>3,115,567</b>	2,563,916
	<hr/>	<hr/>
	<b>12,812,277</b>	10,602,360
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## NOTES

### 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 30 June 2021, China Mengniu Dairy Co., Ltd. (“**Mengniu**”) and its wholly-owned subsidiary together owned 51.40% of the issued share capital of the Company. Mengniu and its subsidiaries are hereinafter collectively referred to as the “**Mengniu Group**”.

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in production and sales of milk. The Company and its subsidiaries are hereinafter collectively referred to as the “**Group**”.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), the currency of the primary economic environment in which the principal subsidiaries of the Group operate (the “**functional currency**”).

#### 1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT REPORTING PERIOD

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 (the “**Transaction**”). The above transaction constituted a major and connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and has been published in the Company’s announcement dated 22 March 2021, and further details in relation thereto has been set out in a circular dated 14 May 2021. All relevant resolutions have been duly passed at the extraordinary general meeting of the Company held on 2 June 2021. The Transaction has not been completed up to the end of the current Reporting Period.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting issued by the International Accounting Standards Board (“**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The directors of the Company (the “**Directors**”) have, at the time of approving the condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

### 3. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

#### Application of amendments to IFRSs

In the current Reporting Period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>

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

#### 3.1 Impacts and accounting policies on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”

##### 3.1.1 Accounting policies

###### *Financial instruments*

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.



A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both of these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the change).

### **3.1.2 Transition and summary of effects**

As at 1 January 2021, the Group has several financial liabilities and derivatives, the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts. Hereinafter United States Dollars is referred to as “US\$” or “USD” and Hong Kong Dollars is referred to as “HK\$” or “HKD”.

	<b>HKD Hong Kong Interbank Offered Rate  (“HIBOR”) RMB’000</b>	<b>USD London Interbank Offered Rate  (“LIBOR”) RMB’000</b>
<b>Financial liabilities</b>		
Bank borrowing	1,031,784	1,561,031
<b>Derivatives</b>		
Interest rate swaps	<u>1,262,400</u>	<u>1,580,983</u>

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowing measured at amortised cost. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the Reporting Period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group’s consolidated financial statements for the year ending 31 December 2021.

#### 4. REVENUE

##### Disaggregation of revenue

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Types of goods		
Raw milk	<u>3,179,719</u>	<u>2,827,752</u>
Timing of revenue recognition		
A point in time	<u>3,179,719</u>	<u>2,827,752</u>

##### Geographic information

Since all revenue from external customers is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China and the Group is managed on a nationwide basis because of the similarity of the type or class of the customers and the similarity of the regulatory environment in the whole region, no geographic information is presented.

#### 5. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	15,944	7,747
Government grants related to		
– Assets ( <i>Note i</i> )	12,267	10,727
– Income ( <i>Note ii</i> )	<u>19,515</u>	<u>18,897</u>
	31,782	29,624
Others	<u>5,658</u>	<u>3,811</u>
	<u>53,384</u>	<u>41,182</u>

##### Notes:

- i. These government grants are in relation to the construction and acquisition of property, plant and equipment and are included in the condensed consolidated statement of financial position as deferred income and credited to the profit or loss on a straight-line basis over the useful lives of the related assets.
- ii. These government grants are unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

## 6. PROFIT BEFORE FINANCE COSTS AND TAX

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Cost of sales:		
Breeding costs to produce raw milk	<b>1,998,122</b>	1,775,735
Raw milk fair value adjustments included in cost of sales	<b>1,107,962</b>	960,393
	<b><u>3,106,084</u></b>	<u>2,736,128</u>
Other gains and losses, net:		
Net foreign exchange (gains)/losses	<b>(23,754)</b>	51,078
Loss on disposal of property, plant and equipment, net	<b>4,611</b>	3,953
Impairment loss on goodwill	–	22,750
Gain on disposal of subsidiaries	–	(72,280)
Fair value loss/(gain) on derivative financial instruments:		
Foreign currency forward contracts	<b>1,956</b>	(18,414)
Foreign currency option contracts	<b>27,812</b>	(27,364)
Fair value gain on other financial assets	<b>(754)</b>	(74)
	<b><u>9,871</u></b>	<u>(40,351)</u>
Depreciation of property, plant and equipment	<b>232,518</b>	228,498
Depreciation of right-of-use assets	<b>8,390</b>	8,434
Less: capitalised in biological assets	<b>(101,341)</b>	(99,800)
Depreciation charged to profit or loss	<b><u>139,567</u></b>	<u>137,132</u>
Equity-settled share award expense	<b>9,015</b>	21,977
Other employee benefits costs	<b>267,616</b>	274,024
Less: capitalised in biological assets	<b>(60,555)</b>	(65,416)
Employee benefits charged to profit or loss	<b><u>216,076</u></b>	<u>230,585</u>

## 7. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	108,138	137,539
Other borrowings from Mengniu Group	–	6,818
Other borrowings from financial institutions	–	403
Lease liabilities	5,223	5,475
	<u>113,361</u>	<u>150,235</u>
Total borrowing cost	113,361	150,235
Fair value (gain)/loss on interest rate swaps	(21,972)	64,563
	<u>91,389</u>	<u>214,798</u>

## 8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax	420	276

The tax charge represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries established in the PRC.

The PRC subsidiaries are subject to the PRC Enterprise Income Tax (the “EIT Law”) at 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. According to the prevailing tax rules and regulation of the PRC, the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

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

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from 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 condensed consolidated financial statements in respect of the accumulated profits of the PRC subsidiaries amounting to RMB3,126,474,000 (31 December 2020: RMB2,836,473,000) 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.

## 9. DIVIDENDS

During the current Reporting Period, a final dividend of HK2.43 cents per share in respect of the year ended 31 December 2020 (2020: nil) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the Reporting Period amounted to HK\$171,945,000 (equivalent to RMB142,532,000) (2020: nil) and was appropriated from the Company's distributable share premium.

## 10. 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:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit		
Profit for the purposes of basic and diluted earnings per share	<u>496,698</u>	<u>220,736</u>
	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,970,881,004	6,363,900,590
Effect of dilutive potential ordinary shares:		
Share options	–	3,568,516
Share awards	<u>5,398,716</u>	<u>8,778,377</u>
	<u>6,976,279,720</u>	<u>6,376,247,483</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.

## 11. BIOLOGICAL ASSETS

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

	<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
Milkable cows	4,854,439	5,084,343
Heifers and calves	<u>2,229,500</u>	<u>2,016,900</u>
Total dairy cows	<u><u>7,083,939</u></u>	<u><u>7,101,243</u></u>

The Group has engaged Jones Lang LaSalle Corporate Appraisal And Advisory Limited, an independent firm of professional valuer, to assist it in assessing the fair values of the Group's dairy cows.

## 12. TRADE AND OTHER RECEIVABLES AND ADVANCED PAYMENTS

	<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
Trade receivables	587,883	639,768
Less: allowance for credit losses	<u>(8,483)</u>	<u>(8,483)</u>
	579,400	631,285
Advanced payments for feeds, materials and insurance	66,425	47,736
Input value added tax recoverable	2,946	2,938
Receivables from disposal of subsidiaries	–	7,406
Advanced payments for acquisition of a subsidiary ( <i>Note i</i> )	169,500	–
Short term loan receivables ( <i>Note ii</i> )	4,004	8,092
Others	<u>13,005</u>	<u>9,202</u>
	<u><u>835,280</u></u>	<u><u>706,659</u></u>
Analysed as:		
Current	665,780	706,659
Non-current	<u>169,500</u>	<u>–</u>
	<u><u>835,280</u></u>	<u><u>706,659</u></u>

*Notes:*

- i. On 8 April 2021, Modern Farming (Group) Co., Ltd. (“**Modern Farming**”), a non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the “**SPA**”) with Asia Dairy Fab Ltd. (the “**Seller**”) and Zhongyuan Muye Company Limited (“**Zhongyuan**”) to acquire 100% equity interests in Zhongyuan (the “**Acquisition**”). In April 2021, the first tranche payment of RMB169,500,000 was paid to the Seller according to the SPA. The Acquisition was subsequently completed in July 2021. Details of the Acquisition are set out in the Company’s announcement dated 23 July 2021.
- ii. 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 would mature in 8 months. In June 2021, RMB4,000,000 was repaid and the remaining amount was extended to December 2021 pursuant to a supplemental agreement.

Trade receivables at the end of the Reporting Period principally represent receivables from sales of raw milk. The Group normally allows a credit period of 30 days to its customers.

The following is an 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:

	<b>30 June 2021 RMB’000 (unaudited)</b>	31 December 2020 RMB’000 (audited)
Trade receivables		
– within 30 days	<u><b>579,400</b></u>	<u>631,285</u>

**13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL**

	<b>Six months ended 30 June</b>	
	<b>2021 RMB’000 (unaudited)</b>	2020 RMB’000 (unaudited)
Impairment loss recognised (reversed) in respect of		
Trade receivables	–	(100)
Other receivables	<u><b>64</b></u>	<u>90</u>
	<u><b>64</b></u>	<u>(10)</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

#### 14. TRADE AND OTHER PAYABLES

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

	<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
Trade payables		
– within 60 days	<b>446,200</b>	610,589
– beyond 60 days but within 120 days	<b>154,806</b>	146,753
– beyond 120 days but within 360 days	<b>33,102</b>	44,539
– beyond 360 days	<b>14,570</b>	15,015
Bills payable ( <i>Note i</i> )	<b>963</b>	15,659
	<b>649,641</b>	832,555
Payables for acquisition of property, plant and equipment	<b>145,977</b>	217,521
Accrued staff costs	<b>129,898</b>	212,269
Advanced payments from disposal of dairy cows	<b>11,458</b>	27,093
Others ( <i>Note ii</i> )	<b>331,474</b>	121,348
	<b><u>1,268,448</u></b>	<b><u>1,410,786</u></b>

*Notes:*

- i. Bills payable are mature within twelve months from the respective issuance dates.
- ii. Included in the balance is an amount of RMB228,886,000, being payments received on behalf of certain individuals during the period, that are not related to investing nor financing activities of the Group and the related cash flows are accordingly classified under operating activities in the condensed consolidated statement of cash flows.



## 15. BANK BORROWINGS

During the current period, the Group obtained new bank borrowings amounting to RMB1,785,527,000 (six months ended 30 June 2020: RMB2,459,100,000) and repaid RMB2,420,537,000 (six months ended 30 June 2020: RMB1,772,996,000).

As at 30 June 2021, bank borrowings are denominated in the following currencies:

	<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
US\$	1,551,361	1,570,957
HK\$	526,850	1,031,784
RMB	<u>2,913,887</u>	<u>3,039,585</u>
	<b><u>4,992,098</u></b>	<b><u>5,642,326</u></b>

The bank borrowings comprised:

	<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
Fixed-rate borrowings	2,282,595	2,230,939
Variable-rate borrowings	<u>2,709,503</u>	<u>3,411,387</u>
	<b><u>4,992,098</u></b>	<b><u>5,642,326</u></b>

The annual interest rate of the bank borrowings during the current period ranged from 1.50% to 4.57% (six months ended 30 June 2020: 0.66% to 5.00%).

## 16. CAPITAL COMMITMENTS

	<b>30 June 2021 RMB'000 (unaudited)</b>	31 December 2020 RMB'000 (audited)
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	<b><u>101,294</u></b>	<u>20,238</u>

## 17. EVENTS AFTER THE REPORTING PERIOD

The Group had the following significant events after the Reporting Period:

- (a) On 7 July 2021, the Company entered into a subscription agreement in connection with the issue of US\$500,000,000 bonds at a fixed interest rate of 2.125% due in 2026 (the “**Bonds**”). The Company intends to use the net proceeds of the Bonds issue for refinancing and general corporate purposes. The listing of, and dealing in, the Bonds became effective on 15 July 2021.
- (b) The Acquisition as disclosed in Note 12 was completed in July 2021.

## **BUSINESS REVIEW**

### **INDUSTRY OVERVIEW**

In the first half of 2021, China's economy recovered continuously and steadily in the face of complicated and changing internal and external environments, with production demands rebounding continuously and the employment rate and the price level stabilizing. Markets generally expected that China's domestic economy is improving while maintaining stability. China's GDP reached approximately RMB53.2 trillion in the first half of 2021, with a yoy growth of 12.7%, of which, the first and second quarter recorded a yoy surge of 18.3% and 7.9%, respectively.

In the dairy sector, the prices of global bulk commodities have generally risen during the first half of 2021, and many unfavorable factors posed by the COVID-19 pandemic to the market and the tight supply of feed ingredients have in aggregate led to a general increase in feed costs. In recent years, China's dairy farming industry has been developing sustainably and healthily; the quality and safety standards have been improving consistently, and the dairy industry has developed to a greater scale. Currently, the proportion of domestic large-scaled dairy farming has reached 67%, representing a yoy improvement of 3%, and large-scaled dairy farms have all adopted mechanized milking. China's dairy industry maintains a momentum of rapid growth; the milk production grew by 7.6% yoy in the first half of 2021. The average market price of raw and fresh milk in the first half of 2021 was approximately RMB4.26/kg, representing a yoy growth of 15%.

The local Chinese government has introduced a series of policies to further promote the revitalization of dairy industry. In February 2021, the No.1 Central Document also stated that the construction of high-quality milk bases will be the main battlefield for the revitalization of the dairy industry. The introduction of three-child policy in May forged a new driving force for the future growth of dairy demands. In July, the Decision of the Central Committee of the Communist Party of China and the State Council on Improving Birth Policies to Promote Long-term and Balanced Population Development was officially released, which provided a basket of measures that support better childbearing and care, inclusive child care and reduction of costs in childbearing, care and education. Driven by favorable national policies, large-scaled dairy enterprises and dairy farming enterprises could embrace more development opportunities in the industry.

## **BUSINESS REVIEW**

For the six months ended 30 June 2021 (the “**Reporting Period**”), the Group was mainly engaged in dairy farming operations (producing and selling quality raw milk to customers who process it into dairy products) and developing its self-branded liquid milk products through associates jointly established with China Mengniu Dairy Company Limited (“**Mengniu**”). The Group is committed to pooling resources and focusing on the upstream dairy farming business, and in response to customers’ demand for high-quality raw milk, providing raw milk for diversified and high-end high-quality products.

With effective cost control and sound management, coupled with dynamic and appropriate herd expansion strategies, the Group achieved profit before tax of approximately RMB506.0 million during the Reporting Period (2020: RMB226.6 million), representing a yoy growth of 123.3%. Net free cash inflow amounted to RMB639.3 million (2020: RMB631.8 million), representing a sustained growth. The Group’s pure milk was awarded the Gold Prize of Monde Selection for the eighth consecutive year, symbolizing that our premium quality branded milk was widely recognized by all sectors of the society.

## **OPERATIONAL PERFORMANCE**

For the Reporting Period, the performance of the Group’s main operating indicators was better than expected. The average selling price (“**ASP**”) of raw milk stood at RMB4.39/kg (2020: RMB3.87/kg), representing a yoy growth of 13.4%. The Group has achieved sales of raw milk of up to RMB3,179.7 million (2020: RMB2,827.8 million), representing a yoy growth of 12.4%. Benefiting from increase in sales of raw milk and effective cost control, the gross profit of the dairy farming business stood at RMB1,181.6 million (2020: RMB1,052.0 million), representing a yoy growth of 12.3% with a gross profit margin of 37.2% (2020: 37.2%), maintaining a strong profitability.

The Group continued to moderate the impact arising from the increase in feed costs through measures such as improving the health of dairy cows, optimizing the structure of feed formula, enhancing the absorbance and conversion rate of dairy cows, and leveraging on a consolidated procurement platform. During the Reporting Period, unit cost (excluding depreciation of property, plant and equipment) of milk of the Group was RMB2.60/kg (2020: RMB2.27/kg), representing a yoy increase of RMB0.33/kg, mainly due to the increase of feed costs. The direct feed cost per kilogram of milk was RMB2.09/kg (2020: RMB1.75/kg), representing a yoy increase of RMB0.34/kg.

## DAIRY FARMS

Leveraging on the world’s first model of “integration of forage planting, cow breeding and milk processing”, Modern Dairy is currently a leading dairy farming operator and raw milk producer in the PRC in terms of herd scale and volume of annual production. With farms spread across the nation, we are endowed with unique geographical advantages. Most of our farms are located at regions with fine climate and ample feed supply, and are adjacent to processing plants of dairy products to ensure that the milking to processing procedures could be completed in the shortest time and the nutritional value and freshness could be maintained at the highest level.

The Group has continued to renovate the cowshed equipment and improve the ventilation system; adjust the feed formula and increase the frequency of feeding; enhance the dryness level of the bedding materials and improve the bedding comfortability by applying drying technologies; and increase the frequency of sink cleaning to ensure healthy drinking water. By doing so, the Group could continuously improve and enhance comfortability for milkable cows so as to raise milk production.

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

### Herd Scale

	<b>As at</b>	
	<b>30 June</b>	30 June
	<b>2021</b>	2020
	<b><i>Heads</i></b>	<i>Heads</i>
Dairy cows		
Milkable cows	<b>134,843</b>	134,533
Heifers and calves	<b>117,033</b>	101,344
Total	<b><u>251,876</u></b>	<u>235,877</u>

The Group currently operates a total of 26 dairy farms (each with a herd size close to or over 10,000 dairy cows) across seven provinces in the PRC. All milkable cows are high-end Holstein dairy cows or their offsprings, with good physical health and high milk yield. We continue to improve the genetics of dairy cows so as to increase the proportion of the core herd and achieve a steady growth in production. Modern Dairy strives to double its herd size and milk production in the coming five years through organic growth and external acquisitions, that by 2025, the number of dairy cows will increase to more than 500,000 heads and the annual production of fresh milk will increase to 3.6 million tons.

During the Reporting Period, the herd size of the Group grew orderly by approximately 6.8% yoy to 251,876 heads of dairy cows (as at 30 June 2020: 235,877 heads), in line with the Group's overall herd expansion strategies.

### **Milk Yield**

Milk yield of milkable cow is affected by a number of factors, such as the number of the cow's lactation, breed, comfort level, health condition, genetics and feed mix. Under effective herd management, the annualized milk yield per head of milkable cow was 11.1 tons and the total milk yield was 734 thousand tons during the Reporting Period.

### **PLACING OF NEW SHARES UNDER GENERAL MANDATE**

On 27 January 2021, the Company issued an aggregate of 650,000,000 new shares under general mandate 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 (equivalent to approximately RMB1,295 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. As of 30 June 2021, approximately RMB300 million has been used for infrastructure and herd expansion, approximately RMB195 million has been used for general working capital, and the remaining approximately RMB800 million has yet to be utilized.

### **ISSUANCE OF BONDS DUE 2026**

The Company has successfully issued US\$500,000,000 2.125% bonds due 2026 (the "Bonds") with a credit rating of "BBB", being an investment grade assigned by Standard & Poor's, by way of debt issues to professional investors. The listing of, and dealing in, the Bonds were effective from 15 July 2021.

The offer price of the Bonds was 99.717% of the principal amount. The Bonds will bear interest with effect from 14 July 2021 (inclusive), payable semi-annually in arrears. The Company intends to use the proceeds from the issue of the Bonds for refinancing and general corporate purposes.

### **FINANCIAL OVERVIEW**

#### **Revenue**

The Company focuses on upstream business, and through the operation of 26 dairy farms in the PRC, the Company produces and sells raw milk to customers for processing into dairy products.

During the Reporting Period, the Group recorded total revenue of RMB3,179.7 million (2020: RMB2,827.8 million), representing a yoy increase of approximately 12.4%. The increase in revenue was primarily due to the increase in ASP of raw milk. ASP of raw milk grew by 13.4% yoy to RMB4.39/kg during the Reporting Period (2020: RMB3.87/kg).

	Six months ended 30 June					
	2021			2020		
	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/kg</i>	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/kg</i>
Sales of raw milk	<u>3,179,719</u>	<u>724,564</u>	<u>4.39</u>	<u>2,827,752</u>	<u>730,026</u>	<u>3.87</u>

### COST OF SALES BEFORE RAW MILK FAIR VALUE ADJUSTMENT

During the Reporting Period, the Group's cost of sales before raw milk fair value adjustment primarily consisted of dairy farming cost, the breakdown of which is shown as below:

	Six months ended 30 June			
	2021		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Direct materials	<b>1,554,745</b>	<b>77.8</b>	1,320,256	74.3
Labor cost	<b>135,970</b>	<b>6.8</b>	148,094	8.3
Utilities	<b>59,510</b>	<b>3.0</b>	51,169	2.9
Depreciation of property, plant and equipment	<b>111,238</b>	<b>5.6</b>	118,552	6.7
Other costs of farms	<u><b>136,659</b></u>	<u><b>6.8</b></u>	<u>137,664</u>	<u>7.8</u>
Cost of sales before raw milk fair value adjustments of dairy farming business	<u><b>1,998,122</b></u>	<u><b>100</b></u>	<u>1,775,735</u>	<u>100</u>

Direct materials (mainly forage) cost for the Reporting Period amounted to RMB1,555 million (2020: RMB1,320 million), representing a yoy increase of 17.8%, mainly due to increase in feed costs.

## **Gross Profit and Profitability**

Gross profit of dairy farming business amounted to RMB1,181.6 million during the Reporting Period (2020: RMB1,052.0 million), representing a significant yoy increase of 12.3%, mainly due to the increase in ASP of raw milk and effective cost control.

Gross profit margin of dairy farming business stood at 37.2% during the Reporting Period (2020: 37.2%), maintaining a strong profitability.

## **Losses Arising from Changes in the Dairy Cow Fair Value Less Cost of Sales of Dairy Cows**

As at 30 June 2021, the biological assets of the Group were valued at RMB7,083.9 million (as at 31 December 2020: RMB7,101.2 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the dairy cow fair value less cost of sales of dairy cows were RMB405.8 million (2020: RMB448.7 million) for the Reporting Period, representing a yoy decrease of 9.6%.

## **Gains Arising from Initial Recognition at Fair Value Less Cost of Sales at the Point of Raw Milk Harvest**

During the Reporting Period, gains arising from initial recognition at fair value less cost of sales at the point of raw milk harvest increased by 15.4% yoy to RMB1,108.0 million (2020: RMB960.4 million), mainly due to the increase in ASP of raw milk.

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

## **OTHER INCOME**

During the Reporting Period, other income amounted to RMB53.4 million (2020: RMB41.2 million), mainly consisted of government subsidies and interest income. Government subsidies mainly consisted of subsidies for agricultural projects and subsidies for the operations of the Group.



## OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Selling and distribution costs	80,630	98,175
Administrative expenses	<u>154,622</u>	<u>144,885</u>
Total operating expenses	<u><u>235,252</u></u>	<u><u>243,060</u></u>

During the Reporting Period, the overall operating expenses of the Group amounted to approximately RMB235.3 million (2020: RMB243.1 million). The analysis is as follows:

- **Selling and Distribution Costs**

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Transportation costs and others	78,832	96,580
Taxes and surcharges	<u>1,798</u>	<u>1,595</u>
Total selling and distribution costs	<u><u>80,630</u></u>	<u><u>98,175</u></u>

Selling and distribution costs mainly consisted of transportation costs for sales of raw milk. During the Reporting Period, the Group recorded selling and distribution costs of RMB80.6 million (2020: RMB98.2 million), representing a significant yoy decrease of 17.9%. This was mainly due to the effective control of costs and expenses of the Group.

- **Administrative Expenses**

Administrative expenses mainly consisted of remuneration of management staff (including equity-based restricted share award expenses) and depreciation of office buildings, staff quarters and facilities. During the Reporting Period, the administrative expenses of the Group were RMB154.6 million (2020: RMB144.9 million), which increased by RMB9.7 million (6.7%). The increase was mainly due to the Group's provision of rewards and continuous incentives for employees to boost good performance for the Company and the increase in the management's remuneration.

## **IMPAIRMENT LOSSES, NET OF REVERSAL**

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Impairment losses recognised/(reversed) on the following items:		
Trade receivables	–	(100)
Other receivables	<u>64</u>	<u>90</u>
	<u><b>64</b></u>	<u>(10)</u>

## **OTHER GAINS AND LOSSES, NET**

During the Reporting Period, the Group recorded a net loss arising from other gains and losses of RMB9.9 million (2020: net gain of RMB40.4 million). Other gains and losses mainly consisted of net foreign exchange gain or loss, fair value gain/loss on derivative financial instruments, impairment loss on goodwill and gains arising on disposal of subsidiaries.

The breakdown of other gains and losses is as follow:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Other gains and losses, net:		
Net foreign exchange (gains)/losses	<b>(23,754)</b>	51,078
Loss on disposal of property, plant and equipment, net	<b>4,611</b>	3,953
Impairment loss on goodwill	–	22,750
Gain on disposal of subsidiaries	–	(72,280)
Fair value loss/(gain) on derivative financial instruments:		
Foreign currency forward contracts	<b>1,956</b>	(18,414)
Foreign currency option contracts	<b>27,812</b>	(27,364)
Fair value gain on structured deposits	<b>(754)</b>	(74)
	<b><u>9,871</u></b>	<b><u>(40,351)</u></b>

## **FINANCE COSTS**

During the Reporting Period, finance costs amounted to RMB91.4 million (2020: RMB214.8 million), representing a significant yoy decrease of 57.4%, mainly due to the decrease of the financing scale and the financing interest rate, as well as the changes of fair value on interest rate swaps.

## **PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY**

During the Reporting Period, the profit attributable to owners of the Company amounted to RMB496.7 million (2020: RMB220.7 million), representing a significant yoy increase of 125.0%. Adhering to the Group's strategies of cost reduction and efficiency enhancement, the Group has implemented the cost control principles of "increasing, reducing, replacing and stopping" in terms of technology, equipment, procurement and formula of feed mix, which resulted in significant improvement in the overall operating indicators of the Group.

During the Reporting Period, basic earnings per share was approximately RMB7.13 cents (2020: RMB3.47 cents). Diluted earnings per share was RMB7.12 cents (2020: RMB3.46 cents).

## LIQUIDITY, FINANCIAL RESOURCES AND NET GEARING RATIO

The Group's total equity as at 30 June 2021 was RMB9,696.7 million (as at 31 December 2020: RMB8,038.4 million). As at 30 June 2021, the Group's net gearing ratio (calculated on the basis of the amount of total borrowings less cash and deposit assets as a percentage of the total equity) was 24.2% (as at 31 December 2020: 53.4%), representing a drop of 29.2 ppt as compared with that as at 31 December 2020.

As at 30 June 2021, the Group's available and unutilized credit facilities amounted to approximately RMB4,823.4 million (as at 31 December 2020: RMB4,597.9 million). In the opinion of the Group's management, the Group is able to repay the relevant amount in full as the financial obligations fall due for the next twelve months.

### Interest-bearing Borrowings

As at 30 June 2021, the total interest-bearing borrowings amounted to RMB4,992.1 million, all of which were bank borrowings.

The annual interest rate of the bank borrowings for the six months ended 30 June 2021 varied from 1.50% to 4.57% (for the six months ended 30 June 2020: 0.66% to 5.00%).

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

	As at	
	30 June 2021 <i>RMB'000</i> (Unaudited)	31 December 2020 <i>RMB'000</i> (Audited)
<b>Type of borrowings</b>		
Unsecured borrowings	4,633,447	5,281,002
Secured borrowings	<u>358,651</u>	<u>361,324</u>
	<u><b>4,992,098</b></u>	<u>5,642,326</u>
<b>Carrying amount repayable:</b>		
Within one year	2,305,341	3,471,314
Between one and two years	1,823,757	703,519
Between two and five years	<u>863,000</u>	<u>1,467,493</u>
	<u><b>4,992,098</b></u>	<u>5,642,326</u>

Bank borrowings are denominated in the following currencies:

	<b>30 June 2021 <i>RMB'000</i> (Unaudited)</b>	31 December 2020 <i>RMB'000</i> (Audited)
US\$	1,551,361	1,570,957
HK\$	526,850	1,031,784
RMB	<u>2,913,887</u>	<u>3,039,585</u>
	<u><b>4,992,098</b></u>	<u><b>5,642,326</b></u>

The bank borrowings comprise:

	<b>30 June 2021 <i>RMB'000</i> (Unaudited)</b>	31 December 2020 <i>RMB'000</i> (Audited)
Fixed-rate borrowings	2,282,595	2,230,939
Variable-rate borrowings	<u>2,709,503</u>	<u>3,411,387</u>
	<u><b>4,992,098</b></u>	<u><b>5,642,326</b></u>

## GROUP STRUCTURE

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

## CAPITAL STRUCTURE

On 27 January 2021, the Company issued an aggregate of 650,000,000 new shares under general mandate to certain independent third parties. As at 30 June 2021, the number of issued ordinary shares of the Company was 7,108,565,947 shares.

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2021, no buildings or equipment of the Company (as at 31 December 2020: nil) were pledged as security for the Group's borrowings.

As at 30 June 2021, biological assets with carrying value of RMB738.7 million (as at 31 December 2020: RMB754.0 million) and time deposits of RMB124.9 million (31 December 2020: RMB122.7 million) were pledged to secure the Group's borrowings.

The Group did not have any significant contingent liabilities as at 30 June 2021.

## **CAPITAL COMMITMENTS**

As at 30 June 2021, the Group had capital commitments of RMB101.3 million relating to acquisition of property, plant and equipment (as at 31 December 2020: RMB20.2 million).

## **MATERIAL ACQUISITIONS AND DISPOSALS**

### **Acquisition of Zhongyuan**

As disclosed in the announcement of the Company dated 8 April 2021, on 8 April 2021, Modern Farming (Group), a non-wholly owned subsidiary of the Company (as purchaser) entered into a sale and purchase agreement ("**Zhongyuan Acquisition Agreement**") with Asia Dairy Fab Ltd. (中博農畜牧科技股份有限公司) (as seller) to acquire the entire equity interests in Zhongyuan. Pursuant to the Zhongyuan Acquisition Agreement, the seller has conditionally agreed to sell and the purchaser has conditionally agreed to acquire 100% equity interests in Zhongyuan at a consideration of no more than RMB815.2 million. Pursuant to a supplemental agreement entered into between the parties on 20 July 2021, the consideration was adjusted downwards to no more than RMB723.0 million after taking into account the amount of certain unsettled liabilities of Zhongyuan incurred prior to 31 December 2020. The acquisition of Zhongyuan was completed in July 2021, and Zhongyuan has become a non-wholly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

The business activities of Zhongyuan, being cow breeding, farms operation and milk production, are in line with the Group's overall strategy. The acquisition will create substantive synergies for the Group in terms of farm operation, management and financial strength. Following the acquisition of Zhongyuan, the Group's herd size will be increased, which could further enhance the Group's competitiveness in terms of quality and pricing of raw milk. In the long run, the Group is committed to building a smart, eco-friendly, finely-branded and all-rounded ecological farm.

## **Acquisition of Fuyuan**

As disclosed in the announcement of the Company dated 22 March 2021 and the circular of the Company dated 14 May 2021 (the “**Fuyuan Acquisition Circular**”), on 22 March 2021, the Company (as purchaser) entered into a sale and purchase agreement (the “**Fuyuan Acquisition Agreement**”) with, among others, certain sellers (the “**Sellers**”) and Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. (“**Fuyuan**”) to acquire the entire equity interests in Fuyuan at a consideration of RMB3.48 billion. Approximately 56.65% of the consideration will be satisfied in cash, and the remaining 43.35% will be satisfied by the allotment and issue of 807,096,101 shares of the Company at the issue price of HK\$2.24 per share to a holding company controlled by Mengniu immediately after completion of the allotment. As at 30 June 2021, Mengniu was the largest single shareholder holding approximately 43.35% of equity interests in Fuyuan through Inner Mongolia Mengniu Dairy (Group) Co., Ltd., a 99.99%-owned subsidiary of Mengniu.

The acquisition of Fuyuan was approved by shareholders at the extraordinary general meeting of the Company held on 2 June 2021. In mid-June 2021, the Company obtained unconditional antitrust clearances and approvals from the State Administration for Market Regulation of the PRC in respect of the acquisition of Fuyuan; and in early August 2021, regulatory approvals in relation to the Burra Disposal (as defined in the Fuyuan Acquisition Circular) were also obtained. It is expected that the acquisition of Fuyuan will be completed in the third quarter of 2021. Upon completion of the acquisition of Fuyuan, Fuyuan will be a non-wholly owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

Following the acquisition of Fuyuan, the Group’s herd size will increase significantly to approximately 340,000 heads, which could further strengthen the Group’s position in the dairy farming industry in China and enhance the Group’s competitiveness in terms of quality and pricing of the raw milk.

## **SIGNIFICANT INVESTMENTS**

Saved as disclosed elsewhere in this announcement, during the Reporting Period, the Group had no significant investments.

## **PLANS FOR MATERIAL INVESTMENTS OR CAPITAL**

Saved as disclosed elsewhere in this announcement, the Group does not have any concrete plans for material investments and capital assets.

## **CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES**

Save as otherwise disclosed in this announcement, our Directors have confirmed that, as of 30 June 2021, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

## **FINANCIAL MANAGEMENT POLICIES**

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

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

## **HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES**

The Group had 4,421 employees (as at 31 December 2020: 4,455 employees) in mainland China and Hong Kong as at 30 June 2021. Total staff costs (excluding equity-settled share award expenses) for the Reporting Period were approximately RMB267.6 million (2020: RMB274.0 million).

The Group values recruiting, training and retaining quality personnel. We recruit talented employees from local universities, vocational schools and other technical schools, and we provide these employees with various pre-employment and on-the-job trainings. The Group also offers competitive remuneration packages which include share award schemes and employee partnership program, with the aim of retaining quality personnel and encouraging them to grow with the Company.



## **PROSPECTS**

Currently, the raw milk market is in high demand and short of supply; it is expected that the shortage of raw milk will continue and the price will increase steadily. As small- and medium-sized dairy farms withdraw from the market and the cyclicality of the dairy farming industry weakens, raw milk will be mainly provided by large-scale dairy farms in the future. With high industry barriers for large-scale farming, the Company could benefit from the industry's upward cyclical benefits and take advantage of being an industry leader.

In addition to adhering to the development, improvement and expansion of the core raw milk business, Modern Dairy will also explore the possibility of developing new businesses to explore new engines for profit growth. The scope of new exploration includes: i) developing the feed business to build a complete upstream dairy farming industrial chain; ii) developing the beef cattle business and leveraging on our resource advantages; iii) developing the featured milk business to increase the overall gross profit margin; iv) fostering the breeding business through the development of genetic enhancement and sex-control breeding techniques for dairy cows, and supplying high-quality dairy cow and frozen sperm of beef cattle to the Group; and v) opening up trading platform business and achieving full digital dairy farming by means of modern technologies and strengthening facial recognition for cows.

During the year, the Group has embarked on the “Five-Year Leading Program” with an aim to achieve on-demand supply and rational expansion by leveraging the synergies of upstream and downstream coordination and aligning production plans with demands from downstream dairy enterprises. In the meantime, the Group has adopted countermeasures to mitigate the asymmetric impact brought by the cyclicality of dairy industry. The Company strives to double its herd size and milk production in the coming five years through organic growth and external acquisitions, that by 2025, the number of dairy cows will increase to more than 500,000 heads and the annual production of fresh milk will increase to 3.6 million tons.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the Reporting Period (2020: Nil).

## **CORPORATE GOVERNANCE**

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Company has, throughout the Reporting Period complied with the code provisions set out in the CG Code, except for the deviations from code provision A.6.7 which is explained below.

Code provision A.6.7 of the CG Code provides, among other things, that non-executive Directors should attend general meetings and develop a balanced understanding of the views of the shareholders of the Company. One non-executive Director was not able to attend the annual general meeting of the Company held on 2 June 2021 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.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities for the six months ended 30 June 2021.

The Group retained a total number of 4,420,482 vesting shares as a consideration of approximately HK\$8,974,000 (equivalent to RMB7,584,000) for paying the individual income tax on behalf of those selected participants under the share award schemes of the Company.

## **UPDATE ON INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES**

There were no changes in the information of Directors since the date of the 2020 annual report of the Company and the announcement of the Company dated 28 June 2021 in relation to, among others, the resignation, appointment and re-designation of Directors, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

There is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## **AUDIT COMMITTEE**

The Audit Committee currently comprises two independent non-executive Directors, namely Mr. Lee Kong Wai, Conway, Mr. Chow Ming Seng and one non-executive Director Mr. Zhang Ping. The Audit Committee has reviewed, with the Company's management and the external auditors the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control and system and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2021.

## **REVIEW OF INTERIM RESULTS**

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

## **PUBLICATION OF THE INTERIM REPORT**

This interim results announcement is published on the website of the Company ([www.moderndairyir.com](http://www.moderndairyir.com)) and the website of The Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

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

## **APPRECIATION**

The Board would like to take this opportunity to express gratitude to our shareholders for their continued support, and to all our staff for their hard work and commitment.

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

Hong Kong, 23 August 2021

*As of the date of this announcement, the executive Director is Mr. SUN Yugang, the non-executive Directors are Mr. LU Minfang (Chairman), Mr. ZHAO Jiejun, Mr. ZHANG Ping, Mr. ZHU Xiaohui and Ms. GAN Lu, and the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. CHOW Ming Sang.*