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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 2022**

HIGHLIGHTS

- **Robust Results:** The total revenue of the Group reached RMB5.63 billion for the Reporting Period, representing a year-on-year (“yoy”) increase of 77.1%. Cash EBITDA amounted to RMB1.44 billion, representing a yoy increase of 25.0%. During the period, net profit recorded RMB531 million, representing a yoy increase of 5.0%, and the adjusted net profit reached RMB729 million with a significant yoy increase of 48.9%.
- **Excellent Operating Indicators:** Thanks to the efficient management and operation and the dedication of all staffs, the performance of the Group’s main operating indicators was better than expected during the period. The annualized unit yield per milkable dairy cow on average grew by 11% yoy to 12.3 tons, breaking a record high, and 10 farms of which have even exceeded 13 tons. The total milk yield reached 1,152 thousand tons during the period, representing a yoy increase of 56.9%. During the period, the average cost of milk per kilogram was RMB2.90, which was lower than the industry level. We continued to lead the industry in terms of unit milk yield, total production and effectiveness of cost control.
- **Being Assigned a “BBB” Investment Grade Rating Again:** Following last year, Modern Dairy was again assigned a “BBB” investment grade rating by Standard & Poor’s, with a stable outlook. Modern Dairy became the first dairy farming company in the world having been assigned such credit rating, which fully affirmed the recognition received by the Company and China’s large-scale farming model from international credit rating agencies, and it also established a positive image for the industry.
- **Branded Milk Won Gold Award for Nine Consecutive Years:** The Group’s pure milk was awarded the Gold Prize of Monde Selection for the ninth 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)**

	2022 (unaudited)	2021 (unaudited)	Change
Revenue	5,632.1	3,179.7	+77.1%
Gross profit	1,654.8	1,181.6	+40.0%
Cash EBITDA ^(Note 1)	1,440.8	1,152.7	+25.0%
Net profit	531.1	505.6	+5.0%
Adjusted net profit ^(Note 2)	729.2	489.7	+48.9%
Profit attributable to owners of the Company	507.7	496.7	+2.2%
Net operating cash inflow	1,282.2	1,464.9	-12.5%
Net asset value per share (RMB) ^(Note 3)	1.41	1.34	+5.2%
Herd scale (heads)	382,693	251,876	+51.9%
Milk Yield (ten thousand tons)	115.2	73.4	+56.9%

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022 (2021: 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 adjusted net profit is defined as net profit after excluding the gains and losses arising from foreign exchanges and derivative financial instruments.
- (3) 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 2022 and 30 June 2021.

The board (the “**Board**”) of directors (the “**Directors**”) of China Modern Dairy Holdings Ltd. (the “**Company**” or “**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 2022 (the “**Reporting Period**”), together with comparative figures for the corresponding period in 2021. 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 2022

	Notes	Six months ended 30 June	
		2022	2021
		RMB’000	RMB’000
		(unaudited)	(unaudited)
Revenue	4	5,632,126	3,179,719
Cost of sales	7	(5,456,477)	(3,106,084)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		<u>1,479,174</u>	<u>1,107,962</u>
Gross profit		1,654,823	1,181,597
Loss arising from changes in fair value less costs to sell of dairy cows		(337,645)	(405,792)
Other income	6	81,238	53,384
Impairment losses under expected credit loss model, net of reversal		(981)	(64)
Selling and distribution costs		(165,577)	(80,630)
Administrative expenses		(318,438)	(154,622)
Other gains and losses, net	7	(225,409)	(9,871)
Other expenses		(2,510)	(2,245)
Share of profit of associates and a joint venture		<u>3,023</u>	<u>15,674</u>
Profit before finance costs and tax	7	688,524	597,431
Finance costs	8	<u>(153,847)</u>	<u>(91,389)</u>
Profit before tax		534,677	506,042
Income tax expense	9	<u>(3,539)</u>	<u>(420)</u>
Profit for the period		<u><u>531,138</u></u>	<u><u>505,622</u></u>

	Six months ended 30 June	
	2022	2021
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other comprehensive (expense) income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)	(4,492)	(1,100)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>3,647</u>	–
Other comprehensive expense for the period, net of income tax	<u>(845)</u>	(1,100)
Total comprehensive income for the period	<u><u>530,293</u></u>	<u><u>504,522</u></u>
Profit for the period attributable to:		
Owners of the Company	507,688	496,698
Non-controlling interests	<u>23,450</u>	<u>8,924</u>
	<u><u>531,138</u></u>	<u><u>505,622</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	506,857	495,618
Non-controlling interests	<u>23,436</u>	<u>8,904</u>
	<u><u>530,293</u></u>	<u><u>504,522</u></u>
Earnings per share (RMB)	<i>11</i>	
Basic	6.46 cents	7.13 cents
Diluted	<u>6.45 cents</u>	<u>7.12 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		5,313,106	5,312,970
Right-of-use assets		839,611	725,164
Goodwill		2,402,770	2,075,591
Other intangible assets		40,973	3,777
Interests in associates and a joint venture		415,241	353,278
Biological assets	<i>12</i>	10,260,257	9,404,924
Equity instruments at FVTOCI		17,687	2,655
Prepayments	<i>13</i>	126,863	54,238
Derivative financial instruments		41,452	67,537
Pledged bank deposits		129,200	127,043
Bank balances		295,153	201,881
Deferred tax assets		584	2,337
		19,882,897	18,331,395
CURRENT ASSETS			
Inventories		1,578,665	2,191,269
Trade and other receivables and prepayments	<i>13</i>	1,445,209	1,221,871
Derivative financial instruments		19,570	–
Pledged bank deposits		60,425	41,631
Bank balances and cash		2,357,502	1,887,744
		5,461,371	5,342,515
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	2,291,302	3,144,194
Tax payable		6,231	1,903
Bank borrowings	<i>15</i>	4,139,262	2,380,683
Other borrowings		12,736	433,676
Lease liabilities		73,989	50,435
Long term bonds		33,079	31,989
Other liabilities		4,573	–
Derivative financial instruments		39,544	17,758
Contract liabilities		11,215	5,343
		6,611,931	6,065,981
NET CURRENT LIABILITIES		(1,150,560)	(723,466)
TOTAL ASSETS LESS CURRENT LIABILITIES		18,732,337	17,607,929

		30 June 2022	31 December 2021
	<i>Notes</i>	RMB'000 (unaudited)	RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		675,869	675,869
Share premium and reserves		10,503,709	10,189,062
		<u>11,179,578</u>	10,864,931
Equity attributable to owners of the Company		11,179,578	10,864,931
Non-controlling interests		349,813	249,803
		<u>11,529,391</u>	11,114,734
TOTAL EQUITY			
NON-CURRENT LIABILITIES			
Other payables	<i>14</i>	25,281	23,967
Bank borrowings	<i>15</i>	2,816,258	2,285,333
Other borrowings		166,286	203,328
Long term bonds		3,329,181	3,159,730
Lease liabilities		600,565	517,077
Derivative financial instruments		35,957	98,330
Deferred tax liabilities		24,517	20,868
Deferred income		204,901	184,562
		<u>7,202,946</u>	6,493,195
		<u>18,732,337</u>	<u>17,607,929</u>

NOTES

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 since 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KYI-1104, Cayman Islands.

As at 30 June 2022, China Mengniu Dairy Co., Ltd. (“**Mengniu**”) and its wholly-owned subsidiary together owned 56.36% of the issued share capital of the Company. Mengniu and its subsidiaries are hereinafter collectively referred to as “**Mengniu Group**”.

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

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the functional currency of the Company.

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 (the “**IASB**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparation of the condensed consolidated financial statements for the six months ended 30 June 2022, 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 current assets by RMB1,150,560,000. Having considered the expected net cash inflows from the Group’s operations for the next twelve months and the available credit facilities of approximately RMB5,377,296,000 which remains unutilised as at 30 June 2022, 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. The above-mentioned credit facilities included an amount of RMB1,000,000,000 from Inner Mongolia Mengniu Dairy (Group) Company Limited, a subsidiary of Mengniu, and the remaining facilities are from licensed banks. 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 biological assets, which are measured at fair value less costs to sell and certain financial instruments, which are measured at fair values 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

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 Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2018–2020</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 changes in accounting policies on application of Amendments to IFRS 3 Reference to the Conceptual Framework

3.1.1 Accounting policies

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* issued by the IASB in March 2018 (the “**Conceptual Framework**”) except for transactions and events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

3.1.2 Transition and summary of effects

The Group applies the amendments to business combinations for which the acquisition date is on or after 1 January 2022. The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

3.2 Impacts on application of Amendments to IFRSs Annual Improvements to IFRSs 2018–2020

The Group has applied the annual improvements which make amendments to the following standard which is relevant to the Group:

IAS 41 Agriculture

The amendment ensures consistency with the requirements in IFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of IAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements.

4. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Types of goods		
Raw milk	4,858,036	3,179,719
Feeds	774,090	–
	<u>5,632,126</u>	<u>3,179,719</u>
Timing of revenue recognition		
A point in time	<u>5,632,126</u>	<u>3,179,719</u>
Geographical markets		
Mainland China	5,507,656	3,179,719
Other countries	124,470	–
	<u>5,632,126</u>	<u>3,179,719</u>

5. SEGMENT INFORMATION

IFRS 8 *Operating Segments* 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. In December 2021, the Group commenced the business of sales of feeds, which is regarded as a new operating segment by the CODM. Information reported to the CODM for the purposes of resources allocation and assessment of segment performance focuses on the types of goods delivered.

The Group’s reportable segments under IFRS 8 are as follows:

- Raw milk business – raising and breeding dairy cows to produce and sell raw milk.
- Feed business – trading, production and sales of feeds.

The following is an analysis of the Group’s revenue and results by reportable segments:

For the six months ended 30 June 2022 (unaudited)

	Raw milk business RMB’000	Feed business RMB’000	Total reportable segments RMB’000	Eliminations RMB’000	Consolidated RMB’000
Segment revenue					
External sales	4,858,036	774,090	5,632,126	-	5,632,126
Inter-segment sales	<u>-</u>	<u>621,207</u>	<u>621,207</u>	<u>(621,207)</u>	<u>-</u>
Segment profit	<u>860,748</u>	<u>19,736</u>	<u>880,484</u>	<u>(3,521)</u>	<u>876,963</u>
Share of profit of associates					2,960
Unallocated other income					33,275
Unallocated other gains and losses					(222,924)
Unallocated expenses					<u>(155,597)</u>
Profit before tax					<u>534,677</u>

The accounting policies of the operating segments are the same as the Group’s accounting policies. Segment profit represents the profit before tax earned by each segment without allocation of central administration expenses, corporate income and expenses, share of profit of associates that are not directly attributable to operating segments. This is the measure reported to the CODM for the purposes of resources allocation and assessment of segment performance. Inter-segment revenue is charged at prices agreed between group entities, which are determined by reference to the prices offered to third party customers.

The CODM makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographic information

The Group's operations are located in Mainland China and the United States of America ("USA").

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets (<i>Note</i>)	
	Six months ended 30 June		30 June	31 December
	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(audited)
Mainland China	5,436,338	3,179,719	19,278,976	17,810,823
USA	195,788	–	119,845	119,119
	<u>5,632,126</u>	<u>3,179,719</u>	<u>19,398,821</u>	<u>17,929,942</u>

Note: Non-current assets excluded financial instruments and deferred tax assets.

6. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	32,051	15,944
Government grants related to		
– Assets (<i>Note i</i>)	32,029	12,267
– Income (<i>Note ii</i>)	14,514	19,515
	46,543	31,782
Others	2,644	5,658
	<u>81,238</u>	<u>53,384</u>

Notes:

- i. These government grants are in relation to the construction and acquisition of property, plant and equipment and inventories which 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 or over the periods in which the inventories were consumed.
- ii. These government grants are unconditional government subsidies received by the Group for the purpose of giving immediate financial support to the Group's operation.

7. PROFIT BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of sales:		
Breeding costs to produce raw milk	3,294,136	1,998,122
Raw milk fair value adjustments included in cost of sales	1,479,174	1,107,962
Cost of feeds sold	<u>683,167</u>	<u>–</u>
	<u>5,456,477</u>	<u>3,106,084</u>
Other gains and losses, net:		
Net foreign exchange loss (gain)	228,545	(23,754)
Loss on disposal of property, plant and equipment, net	155	4,611
Fair value (gain) loss on derivative financial instruments:		
Foreign currency forward contracts	(1,416)	1,956
Foreign currency option contracts	(27,785)	27,812
Capped and floored cross currency swap	27,112	–
Fair value gain on structured deposits	(2,377)	(754)
Others	<u>1,175</u>	<u>–</u>
	<u>225,409</u>	<u>9,871</u>
Depreciation of property, plant and equipment	342,152	232,518
Depreciation of right-of-use assets	28,614	8,390
Less: capitalised in biological assets	<u>(182,486)</u>	<u>(101,341)</u>
Depreciation charged to profit or loss	<u>188,280</u>	<u>139,567</u>
Equity-settled share award expense	25,573	9,015
Other employee benefits costs	508,399	267,616
Less: capitalised in biological assets	<u>(121,964)</u>	<u>(60,555)</u>
Employee benefits charged to profit or loss	<u>412,008</u>	<u>216,076</u>

8. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	122,040	108,138
Long term bonds	37,751	–
Lease liabilities	14,741	5,223
Other borrowings	7,702	–
	<u>182,234</u>	<u>113,361</u>
Total borrowing costs	182,234	113,361
Fair value gain on interest rate swaps	(28,387)	(21,972)
	<u>153,847</u>	<u>91,389</u>

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax	3,184	420
Other jurisdictions	1,171	–
	<u>4,355</u>	<u>420</u>
Deferred tax:		
PRC enterprise income tax	(239)	–
Other jurisdictions	(577)	–
	<u>(816)</u>	<u>–</u>
Income tax expense	<u>3,539</u>	<u>420</u>

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory income tax rate of the PRC subsidiaries is 25% for both periods.

According to the prevailing tax rules and regulation of the EIT Law, the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC.

The subsidiaries established in USA are subject to the law of the U.S. Enterprise Income Tax, and the applicable income tax rate is 21% for the current period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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 condensed consolidated financial statements in respect of the accumulated profits of the PRC subsidiaries amounting to RMB4,387,830,000 (31 December 2021: RMB3,737,103,000) 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 be reversed in the foreseeable future.

10. DIVIDENDS

During the current Reporting Period, a final dividend of RMB0.026 per share in respect of the year ended 31 December 2021 (six months ended 30 June 2021: RMB0.02 per share in respect of the year ended 31 December 2020) 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 RMB204,390,000 (six months ended 30 June 2021: RMB142,532,000) and was appropriated from the Company's distributable share premium.

11. 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	
	2022 <i>RMB'000</i> (unaudited)	2021 <i>RMB'000</i> (unaudited)
Profit		
Profit for the purposes of basic and diluted earnings per share	<u>507,688</u>	<u>496,698</u>
	Six months ended 30 June	
	2022 '000 (unaudited)	2021 '000 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,855,607	6,970,881
Effect of dilutive potential ordinary shares:		
Share awards under the Share Award Scheme	<u>19,651</u>	<u>5,399</u>
	<u>7,875,258</u>	<u>6,976,280</u>

The number of shares adopted in the calculation of the basic earnings per share has been arrived at after adjusting the effect of shares repurchased by the Company and the shares held under the Company's Share Award Scheme.

12. BIOLOGICAL ASSETS

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Milkable cows	6,479,557	6,060,224
Heifers and calves	<u>3,780,700</u>	<u>3,344,700</u>
Total dairy cows	<u><u>10,260,257</u></u>	<u><u>9,404,924</u></u>

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

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	1,196,954	1,044,160
Bills receivables	846	1,176
Less: allowance for credit losses	<u>(956)</u>	<u>–</u>
	1,196,844	1,045,336
Prepayments for feeds, materials, insurance and others	202,885	149,239
Prepayments for property, plant and equipment	11,290	54,238
Prepayments for biological assets	94,723	–
Input value added tax recoverable	3,209	6,720
Short term loan receivables	30,000	2,003
Others	<u>33,121</u>	<u>18,573</u>
	<u><u>1,572,072</u></u>	<u><u>1,276,109</u></u>
Analysed as:		
Current	1,445,209	1,221,871
Non-current	<u>126,863</u>	<u>54,238</u>
	<u><u>1,572,072</u></u>	<u><u>1,276,109</u></u>

Trade receivables at the end of the Reporting Period principally represent receivables from sales of raw milk and feeds. The Group allows a credit period of 30 days to its customers of raw milk and no more than 90 days to its customers of feeds.

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:

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables		
– within 30 days	1,032,390	955,222
– beyond 30 days but within 90 days	98,848	49,977
– beyond 90 days but within 1 year	16,576	–
– beyond 1 year but within 2 years	48,184	38,961
	<hr/>	<hr/>
Bills receivables		
– within 30 days	105	135
– beyond 90 days but within 120 days	606	500
– beyond 120 days but within 1 year	135	541
	<hr/>	<hr/>
	<u>1,196,844</u>	<u>1,045,336</u>

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.

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade payables		
– within 60 days	866,604	1,177,400
– beyond 60 days but within 120 days	214,009	337,617
– beyond 120 days but within 1 year	60,809	71,546
– beyond 1 year	32,823	25,359
Bills payables (<i>Note</i>)	1,493	28,632
	1,175,738	1,640,554
Payables for acquisition of property, plant and equipment	262,507	376,012
Accrued staff costs	215,091	241,636
Advanced payments from disposal of dairy cows	24,117	11,375
Payables for acquisition of subsidiaries	394,650	643,197
Guarantee deposit	95,647	131,571
Payables for acquisition of non-controlling interests	40,268	38,192
Dividends payable	11,938	9,778
Others	96,627	75,846
	2,316,583	3,168,161
Analysed as:		
Current	2,291,302	3,144,194
Non-current	25,281	23,967
	2,316,583	3,168,161

Note: Bills payables are with maturities within twelve months from the respective issuance dates.

15. BANK BORROWINGS

During the current Reporting Period, the Group obtained new bank borrowings amounted to RMB4,372,388,000 (six months ended 30 June 2021: RMB1,785,527,000) and repaid bank borrowings amounted to RMB2,310,091,000 (six months ended 30 June 2021: RMB2,420,537,000).

As at 30 June 2022, bank borrowings are denominated in the following currencies:

	30 June 2022	31 December 2021
	RMB'000	RMB'000
	(unaudited)	(audited)
US\$	1,246,419	1,327,048
RMB	<u>5,709,101</u>	<u>3,338,968</u>
	<u>6,955,520</u>	<u>4,666,016</u>
Carrying amounts repayable:		
Within one year	4,139,262	2,380,683
Between one to two years	1,268,678	1,234,489
Between two to five years	947,403	980,596
Over five years	<u>600,177</u>	<u>70,248</u>
	<u>6,955,520</u>	<u>4,666,016</u>
Less: Amounts due within one year shown under current liabilities	<u>(4,139,262)</u>	<u>(2,380,683)</u>
Amounts shown under non-current liabilities	<u>2,816,258</u>	<u>2,285,333</u>

The bank borrowings comprised:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Fixed-rate borrowings	5,267,794	2,971,548
Variable-rate borrowings	<u>1,687,726</u>	<u>1,694,468</u>
	<u>6,955,520</u>	<u>4,666,016</u>

The annual interest rate of the bank borrowings as at 30 June 2022 ranged from 1.90% to 8.16% (31 December 2021: 1.50% to 4.57%) per annum.

16. CAPITAL COMMITMENTS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	<u>264,351</u>	<u>244,469</u>

17. EVENTS AFTER THE REPORTING PERIOD

The Group has no material subsequent events that need to be disclosed after the end of the Reporting Period and up to the date of this announcement.

INDUSTRY OVERVIEW

The dairy industry experienced multiple challenges in the first half of 2022. The international political conflicts triggered energy crises, leading to the sharp increase of the prices of food and bulk commodities, and the COVID-19 pandemic had a negative impact on the consumption of general public. China's dairy farming industry continued to develop healthily facing mounting pressures. The quality and safety of raw milk also improved continuously, and the development scale of the dairy operators expanded further. The development pattern of China's dairy industry led by large-scale farming and enterprises integrating the whole industry chain has been formed. China's dairy industry has maintained a rapid growth trend, and its domestic milk production in the first half of 2022 rose by 8.4% yoy and the average milk price in the market was RMB4.19/kg, maintaining at a high level.

Internationally, in the first half of 2022, Mainland China imported a total of 1.7835 million tons of various dairy products, representing a yoy decrease of 18%, and the imports were worth US\$7.363 billion, representing a yoy increase of 1.8%. Due to the increase in operating costs and the impact of anomalous climates internationally, the milk production of New Zealand and the Europe Union declined, and the auction price of foreign whole milk powder increased by 9.2% yoy. China's imported milk powder volume reached 676,600 tons, representing a yoy decrease of 11.8%.

In recent years, policies on promoting the revitalization of the dairy industry have been implemented in many places in the PRC. According to the 14th Five-Year Plan for Promoting Agricultural and Rural Modernization issued by the State Council of China in February 2022, China shall implement the Five-Year Action Plan for cattle and sheep farming to vigorously develop grass-fed animal husbandry, and shall also strengthen the construction of milk source bases, optimize the structure of dairy products, build modern systems for the forage industry and promote the specialized production of forage. The Ministry of Agriculture and Rural Affairs issued the Action Plan for Improving the Competitiveness of Dairy Industry in the 14th Five-Year Plan Period, which provided that by 2025, the national milk production would reach approximately 41 million tons, and the proportion of large-scale farms with more than 100 cows would reach approximately 75%. The construction of milk sources and large-scale farms remains the industry focus. This has demonstrated the state's firm attitude in respect of the revitalization and development of the dairy industry, and has also strongly recognized the achievements in the construction of upstream milk sources in recent years while clarifying the future development direction of the dairy industry.

BUSINESS REVIEW

For the six months ended 30 June 2022 (the “**Reporting Period**”), the Group was mainly engaged in dairy farming (producing and selling quality raw milk to dairy operators) and processing and sales of feeds business. Adhering to the mission of “raising healthy cows, safeguarding each and every drop of milk”, the Group is committed to deploying the whole industry chain, innovating with digital intelligence, and becoming a global dairy farming leader on the basis of expanding and strengthening the dairy farming business.

As of 30 June 2022, the Group invested in and operated 38 dairy farms companies in the PRC with dairy cows of 382,693 heads and annualised milk yield of over 2.3 million tons. The Group is a global leading dairy farming operator and raw milk producer in terms of herd size. The Group’s pure milk was awarded the Gold Prize of Monde Selection for the ninth consecutive year, symbolizing that our premium quality branded milk was widely recognized by all sectors of the society.

In terms of business of sales of feeds, the Group has established the feed center of Liangyuan Science and Technology. While ensuring the stable supply of pasture feeds to the Group’s dairy farms, it continues to expand the scale of external sales business, which is expected to continue to contribute sales revenue and profit to the Group.

OPERATIONAL PERFORMANCE

During the Reporting Period, thanks to the concerted efforts of the management and all employees of the Company and the continued implementation of the “Five Year Lead Plan”, the performance of the Group’s main operating indicators was better than expected. The average annualized milk yield (“**AMY**”) of milkable cow was 12.3 tons per head (2021: 11.1 tons per head), and the total milk yield was 1,152 thousand tons (2021: 734 thousand tons) during the period, representing a yoy increase of 56.9%, and with a yoy increase of 12.8% excluding the impact of acquisition.

During the Reporting Period, the Group’s sales revenue recorded RMB5,632.1 million (2021: RMB3,179.7 million), representing a yoy increase of 77.1%. Among which, the sales revenue of raw milk amounted to RMB4,858.0 million (2021: RMB3,179.7 million), representing a yoy increase of 52.8%. The Group entered into the business of sales of feeds after completing the acquisition of Fuyuan International in November 2021, and it recorded a sales revenue of RMB774.1 million during the Reporting Period.

The Group has moderated the impact arising from the increase in feed costs through applying measures continuously such as improving the health of dairy cows and milk yield per head of milkable cow, optimizing the structure of feed formula, enhancing the absorbance and conversion rate of dairy cows, and leveraging on a consolidated procurement platform.

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. As a dairy farming group with a nationwide layout, 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 through improving the ventilation system, adjusting the feed formula and increasing the frequency of feeding, enhancing the dryness level of the bedding materials and improving the bedding comfortability by applying drying technologies and increasing the frequency of sink cleaning to ensure healthy drinking water. By doing so, the Group is able to 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 and healthy environment and produces high-quality raw milk.

Herd Scale

	As at	
	30 June	30 June
	2022	2021
	Heads	<i>Heads</i>
	(unaudited)	(unaudited)
Dairy cows		
Milkable cows	196,287	134,843
Heifers and calves	186,406	117,033
Total	382,693	251,876

As at 30 June 2022, the Group invested in and operated 38 farm companies with 382,693 dairy cows (as at 30 June 2021: 251,876 heads), representing an increase of 51.9% yoy in Mainland China. The proper and orderly growth of herd size is in line with the Group's overall herd expansion strategies. The proportion of milkable cows to the total number of dairy cows decreased by 2.2 ppt to 51.3% as at 30 June 2022 (as at 30 June 2021: 53.5%) 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. However, the growth of the heifers and calves has laid a solid foundation for the increase of Group's raw milk production in the future. We will continue to improve the genetics of dairy cows so as to increase the proportion of the core herd, thereby achieving a steady growth in production.

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 AMY of milkable cow was 12.3 tons per head on average, and the total milk yield was 1,152 thousand tons during the Reporting Period, representing a yoy increase of 56.9%.

FINANCIAL OVERVIEW

Sales Revenue

Business Analysis

The following table sets forth the details of the consolidated revenue during the Reporting Period:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Raw milk business	4,858,036	3,179,719
Feeds sales business	774,090	–
Consolidated revenue	<u>5,632,126</u>	<u>3,179,719</u>

During the Reporting Period, the Group recorded sales revenue of RMB5,632.1 million (2021: RMB3,179.7 million), representing a yoy increase of 77.1%. Among which, the sales revenue of raw milk amounted to RMB4,858.0 million (2021: RMB3,179.7 million), representing a yoy increase of 52.8%; and the sales revenue of the feeds sales business amounted to RMB774.1 million (2021: nil). The significant increase in sales revenue during the period was mainly attributable to the increase in the sales volume of the Group's existing raw milk business and the contribution of the newly added feeds sales business after the acquisition of Fuyuan International last year.

Raw Milk Business

The following table sets forth the details of sales revenue, sales volume and average selling price (“ASP”) of raw milk for the Reporting Period indicated:

	2022			2021		
	(unaudited)			(unaudited)		
	Sales	Sales	ASP	Sales	Sales	ASP
	revenue	volume	RMB/kg	revenue	volume	RMB/kg
	RMB'000	tons		RMB'000	tons	
Raw milk	<u>4,858,036</u>	<u>1,135,080</u>	<u>4.28</u>	<u>3,179,719</u>	<u>724,564</u>	<u>4.39</u>

The total revenue from the sales of raw milk increased by 52.8% yoy to RMB4,858.0 million during the Reporting Period (2021: RMB3,179.7 million). The increase was mainly due to an increase in the sales volume of raw milk.

ASP of raw milk declined by 2.5% yoy to RMB4.28/kg during the Reporting Period (2021: RMB4.39/kg). This was mainly caused by the fact that most of the acquired farms were located in the northern regions where milk prices were lower than those in the southern regions, which leads to the change in the yoy regional sales volume shares; and the slight decrease in milk prices due to the weak consumption in the first half of the year caused by the epidemic.

Total sales volume of raw milk increased by 56.7% yoy to approximately 1.135 million tons during the Reporting Period (2021: 725 thousand tons), mainly due to the rise in AMY per milkable cow and the contribution of sales volume of raw milk from newly acquired farms.

Feeds Sales Business

The Group commenced the business of sales of feeds along with the acquisition of Fuyuan International in November 2021. During the Reporting Period, the feeds sales business recorded a sales revenue of RMB774.1 million, a gross profit of RMB90.9 million and a gross profit margin of 11.7%, maintaining good profitability. The feeds sales business will continue to contribute profits to the Group.

Cost of Sales

The Group's cost of sales consisted of cost of raw milk and feeds sales. The following table sets forth the breakdown of the cost of sales of our products during the Reporting Period:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Raw milk business	3,294,136	1,998,122
Feeds sales business	683,167	—
Total cost of sales	<u>3,977,303</u>	<u>1,998,122</u>

Raw Milk Business

The following table sets forth the breakdown of the cost of sales of the raw milk business during the Reporting Period:

	Six months ended 30 June			
	2022		2021	
	(unaudited)		(unaudited)	
	RMB'000	%	RMB'000	%
Direct materials	2,628,359	79.8%	1,554,745	77.8%
Labor cost	222,779	6.7%	135,970	6.8%
Utilities	91,764	2.8%	59,510	3.0%
Depreciation of property, plant and equipment	148,016	4.5%	111,238	5.6%
Other costs of farms	203,218	6.2%	136,659	6.8%
Total	<u>3,294,136</u>	<u>100.0%</u>	<u>1,998,122</u>	<u>100.0%</u>

During the Reporting Period, direct materials (mainly forage) cost of the dairy farming business amounted to RMB2,628.4 million (2021: RMB1,554.7 million), representing a yoy growth of 69.1%, mainly due to the increase in the number of lactating cows and the increase of feed prices.

Since the beginning of 2022, the international situation has been complicated and grim, and the world economic growth has been slowing down. The feed prices have significantly increased, globally and domestically, as the frequent and scattered outbreaks of domestic pandemic have caused a serious impact on the stable operation of the economy. 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 AMY per milkable cow, broadening sources of income and reducing expenditure. During the Reporting Period, the Group kept the average unit cost of raw milk (“UCM”) at RMB2.90/kg (2021: RMB2.76/kg). Both average UCM and rate of increase were lower than the industry level. Out of which, the average feed cost of raw milk amounted to RMB2.26/kg (2021: RMB2.09/kg), representing a yoy increase of RMB0.17/kg, mainly due to the increase in feed prices.

Gross Profit and Profitability

The following table sets forth the breakdown of gross profit and gross profit margin of our business during the Reporting Period:

	Six months ended 30 June			
	2022		2021	
	(unaudited)		(unaudited)	
	Gross profit	Gross profit	Gross profit	Gross profit
	margin	margin	margin	margin
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw milk business	1,563,900	32.2%	1,181,597	37.2%
Feeds sales business	90,923	11.7%	N/A	N/A

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.

During the Reporting Period, gross profit of the Group's dairy farming business amounted to RMB1,563.9 million (2021: RMB1,181.6 million), representing an increase of 32.4% yoy, which was mainly due to the increase in sales volume of raw milk. Gross profit margin of the Group's dairy farming business stood at 32.2% (2021: 37.2%), representing a yoy drop of 5.0 ppt. The gross profit of the Group's feeds sales business was RMB90.9 million, with a gross profit margin of 11.7%, showing relatively good profitability.

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

As at 30 June 2022, the biological assets of the Group were valued at RMB10,260.3 million (as at 31 December 2021: RMB9,404.9 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 RMB337.6 million (2021: RMB405.8 million) for the Reporting Period, representing a yoy decrease of 16.8%, mainly due to the increase in the number of reserved heifers.

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 33.5% yoy to RMB1,479.2 million (2021: RMB1,108.0 million), mainly due to the increase in the sales volume 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 RMB81.2 million (2021: RMB53.4 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Selling and distribution costs	165,577	80,630
Administrative expenses	318,438	154,622
Total operating expenses	<u>484,015</u>	<u>235,252</u>

During the Reporting Period, the overall operating expenses of the Group amounted to approximately RMB484.0 million (2021: RMB235.3 million). The analysis is set forth as follows:

- **Selling and Distribution Costs**

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Transportation costs and others	157,784	78,832
Taxes and surcharges	7,793	1,798
	<u> </u>	<u> </u>
Total selling and distribution costs	<u>165,577</u>	<u>80,630</u>

Selling and distribution costs mainly consisted of transportation costs for sales of raw milk and feeds. During the Reporting Period, the Group recorded selling and distribution costs of RMB165.6 million (2021: RMB80.6 million), which increased by RMB85.0 million yoy, representing a significant yoy increase of 105.4%. This was mainly due to the increase in the sales volume of raw milk, and the selling costs arising from the business of sales of feeds the Group commenced along with the acquisition of Fuyuan International.

- **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 RMB318.4 million (2021: RMB154.6 million), which increased by RMB163.8 million, which was mainly due to the increase in management remuneration and other daily administrative expenses due to the expansion of the Group's business scale and the corresponding increase in the number of employees.

IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Impairment losses recognised in respect of:		
Trade receivables	956	–
Other receivables	25	64
	981	64

OTHER GAINS AND LOSSES, NET

During the Reporting Period, the Group recorded a net loss arising from other gains and losses of RMB225.4 million (2021: net loss of RMB9.9 million). Other gains and losses mainly consisted of net foreign exchange gain or loss and fair value gain/loss on derivative financial instruments.

The breakdown of other gains and losses is as follow:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other gains and losses, net:		
Net foreign exchange loss (gain)	228,545	(23,754)
Loss on disposal of property, plant and equipment, net	155	4,611
Fair value (gain) loss on derivative financial instruments:		
Foreign currency forward contracts	(1,416)	1,956
Foreign currency option contracts	(27,785)	27,812
Capped and floored cross currency swap	27,112	–
Fair value gain on structured deposits	(2,377)	(754)
Others	1,175	–
	225,409	9,871

FINANCE COSTS

During the Reporting Period, finance costs amounted to RMB153.8 million (2021: RMB91.4 million), representing a yoy increase of 68.3%, mainly due to the increase of the financing scale.

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 RMB507.7 million (2021: RMB496.7 million), representing a slightly yoy increase of 2.2%.

During the Reporting Period, basic earnings per share was approximately RMB6.46 cents (2021: RMB7.13 cents). Diluted earnings per share was approximately RMB6.45 cents (2021: RMB7.12 cents).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group's total equity as at 30 June 2022 was RMB11,529.4 million (as at 31 December 2021: RMB11,114.7 million). As at 30 June 2022, the Group's net gearing ratio (calculated on the basis of the amount of total interest-bearing borrowings less cash and deposit assets as a percentage of the total equity) was 66.4% (as at 31 December 2021: 56.1%), representing a lift of 10.3 ppt as compared with that as at 31 December 2021.

As at 30 June 2022, the Group's available and unutilized credit facilities amounted to approximately RMB5,377.3 million (as at 31 December 2021: RMB5,618.0 million). Having considered (i) forecast cash flow from operating activities of continuing operation; and (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 30 June 2022.

Interest-bearing Borrowings

As at 30 June 2022, the total interest-bearing borrowings amounted to RMB10,496.8 million (as at 31 December 2021: RMB8,494.7 million), representing a yoy increase of 23.6%.

	As at	
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Borrowings		
Bank borrowings	6,955,520	4,666,016
Other borrowings	179,022	637,004
Long term bonds	3,362,260	<u>3,191,719</u>
	<u>10,496,802</u>	<u>8,494,739</u>
Carrying value repayable:		
Within one year	4,185,077	2,846,348
Between one and two years	1,279,678	1,252,000
Between two and five years	4,431,870	4,326,143
Over five years	600,177	<u>70,248</u>
	<u>10,496,802</u>	<u>8,494,739</u>

The following sets forth an analysis of the respective borrowings:

Bank Borrowings

The annual interest rate of the bank borrowings as at 30 June 2022 ranged from 1.90% to 8.16% (as at 31 December 2021: 1.50% to 4.57%) per annum.

The table below sets forth our short-term and long-term bank borrowings as at the end of the period indicated:

	As at	
	30 June 2022	31 December 2021
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
Carrying amount repayable:		
Within one year	4,139,262	2,380,683
Between one and two years	1,268,678	1,234,489
Between two and five years	947,403	980,596
Over five years	<u>600,177</u>	<u>70,248</u>
	<u>6,955,520</u>	<u>4,666,016</u>

Bank borrowings are denominated in the following currencies:

	30 June 2022	31 December 2021
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
US\$	1,246,419	1,327,048
RMB	<u>5,709,101</u>	<u>3,338,968</u>
	<u>6,955,520</u>	<u>4,666,016</u>

The bank borrowings comprised:

	30 June 2022	31 December 2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Fixed-rate borrowings	5,267,794	2,971,548
Variable-rate borrowings	1,687,726	1,694,468
	<u>6,955,520</u>	<u>4,666,016</u>

- **Other borrowings**

The annual interest rate of other borrowings as at 30 June 2022 ranged from 3.59% to 12.00% (as at 31 December 2021: 3.85% to 12.00%) per annum.

The table below sets forth the short-term and long-term other borrowings as at the end of the period indicated:

	30 June 2022	31 December 2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Carrying amounts repayable:		
Within one year	12,736	433,676
Between one to two years	11,000	17,511
Between two to five years	155,286	185,817
	<u>179,022</u>	<u>637,004</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

As at 30 June 2022, the number of issued ordinary shares of the Company was 7,915,662,048 shares.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2022, no buildings or equipment of the Company (as at 31 December 2021: nil) were pledged as security for the Group's borrowings.

Modern Farming (Group) Co., Ltd. (a subsidiary of the Company) ("**Modern Farming**") acquired 80% equity interests in Datong Yilei Second Animal Husbandry Co., Ltd. ("**Yilei**") on 6 May 2022. Yilei has been the respondent of an ongoing arbitration proceeding. The claimant accused that Yilei failed to supply goods to it in accordance with the terms of contract and the claimed compensation was approximately RMB43,313,000. Provisions of RMB4,573,000 was recognised under other liabilities in respect of this ongoing arbitration at the date of acquisition.

As at 30 June 2022, biological assets with carrying value of RMB910.7 million (as at 31 December 2021: RMB770.4 million), time deposits of RMB129.2 million (as at 31 December 2021: RMB127.0 million), trade receivables of RMB8.24 million (as at 31 December 2021: RMB7.25 million) and properties of RMB68.5 million (as at 31 December 2021: RMB112.1 million) were pledged to secure the Group's borrowings.

Saved as disclosed above, the Group did not have any significant contingent liabilities as at 30 June 2022.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments of RMB264.4 million relating to acquisition of property, plant and equipment (as at 31 December 2021: RMB244.5 million).

MATERIAL ACQUISITIONS AND DISPOSALS

Acquisition of Aiyangniu Technology

The acquisition of 75% equity interest in Inner Mongolia Aiyangniu Technology Co., Ltd. ("**Aiyangniu Technology**") has been approved at the extraordinary general meeting of the Company held on 8 June 2022. Aiyangniu Technology is principally engaged in the operation of animal husbandry e-commerce platform, animal husbandry service cloud platform, animal husbandry service business, sale of feedstuffs, additives and veterinary medicine, and trade consulting of agricultural and livestock products in the PRC. The Group believes that the acquisition of Aiyangniu Technology can further leverage the industrial chain synergy advantages of the Group as a leading dairy enterprise, and provide services such as digital technology, supply chain finance, breeding technology and other services through the ecological sharing platform to upstream and downstream customers, enhancing the Group's profitability.

Entry into an Entity Incorporation Agreement with Rixin Investment

On 22 June 2022, Modern Farming and Inner Mongolia Rixin Investment (Group) Co., Ltd. (“**Rixin Investment**”) entered into an agreement to establish a company for investment in the new dairy farms in Inner Mongolia of the PRC. The shareholding of the company is held as to 51% by Modern Farming and 49% by Rixin Investment. The registered capital of the company is RMB1 billion and each of Modern Farming and Rixin Investment commits to contribute RMB510,000,000 and RMB490,000,000, respectively, in the capital of the company.

With the support of the PRC government and favourable national policies, setting up dairy farms by investing in such kind of company could reduce short term capital expenditure and improve the cash flow of the Company and the contribution of extra herd size thereafter will further strengthen the Group’s position in the dairy farming industry in the PRC and enhance the Group’s competitiveness in terms of economies of scale, product quality and pricing of fresh raw milk. Since it is agreed that Mengniu Group will purchase the qualified raw milk from the company’s invested new dairy farms, the proceeds from the sale of raw milk will have positive contribution on the Group’s revenue and profitability.

For details of entry into the agreement, please refer to the announcement of the Company dated 22 June 2022.

SIGNIFICANT INVESTMENTS

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

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 2022, 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 7,876 employees in Mainland China and Hong Kong as at 30 June 2022 (as at 30 June 2021: 4,421 employees). Total staff costs (excluding equity-settled share award expenses) for the Reporting Period were approximately RMB508.4 million (2021: RMB267.6 million).

Employees in Hong Kong are provided with retirement benefits, under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in Mainland China are provided with pension insurance, medical insurance, employment injury insurance, unemployment insurance, maternity insurance and housing fund contributions in compliance with the requirements of the laws of China.

In 2022, the Group continued the implementation of the frontline organizational reforms in the farms to upgrade the organization configuration and enhance organizational capabilities. The Group has introduced senior management talents, comprehensively improved and upgraded the salary and performance management system and incentive plans, reinforced the happiness and welfare scheme for employees and established a tailor-made leadership behavior evaluation system, aiming to effectively build the talent career development channels, continuously optimize employees' income and career development, provide employees with competitive salaries, a career development platform with continuous promotion and provide a variety of ability improvement training. In this way, we can build an excellent team that is caring, promising and resilient with high professional ability and strong comprehensive capability, providing human resources support for the rapid development of the Group.

PROSPECTS

Modern Dairy will continue to implement the “Five-Year Lead Plan” and focus on the core business. We expect that the dairy herd of the Group could reach more than 500,000 heads by 2025, with an annual output of 3.6 million tons of fresh milk. We will expand into new business fields and develop new profit growth points. We are expanding the market share of the feed sector, realizing the quality traceability of the whole chain through equity investments in the digital platforms of “Yunyangniu” and “Aiyangniu”, building a world-leading dairy cow breeding and breeding services consortium, and integrating land, forage and resources. We will improve the layout of the entire industry chain and carry out in-depth cooperation on the upstream of the dairy industry, so that all upstream parties in the dairy industry can jointly participate in the development and, together, form an industrial ecosystem to share development results, so as to enhance the Group’s core competitiveness and anti-risk capabilities.

The Group’s upstream dairy farming industry chain layout has been formed. Driven by demand, favorable policies and technology, the Group will have a very broad development prospect. In the future, Modern Dairy will continue to actively undertake the responsibility of revitalizing national dairy industry and lead the industry towards a sustainable development model with digital and intelligent innovations, low-carbon and environmental protection, and will also accelerate its development through the improvement of the whole industry chain ecology, aiming to build itself into one of the world’s leading dairy farming group with social responsibility.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Reporting Period (2021: Nil).

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code (“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 deviation from code provision C.1.6 which is explained below.

Code provision C.1.6 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. Mr. Lu Minfang, a non-executive Director, was unable to attend the annual general meeting and extraordinary meeting of the Company both held on 8 June 2022 due to other business arrangement.

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

During the Reporting Period, Dairy Fortune Limited, the trustee of the share award scheme of the Company, purchased 9,200,000 ordinary shares (2021: nil) from the open market at a total consideration of approximately HK\$10,962,000 (equivalent to RMB9,073,000) (2021: nil).

The Group retained a total number of 4,112,062 vesting shares as a consideration of approximately HK\$5,222,000 (equivalent to RMB4,227,000) for paying the individual income tax in Mainland China 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

Mr. Chow Ming Sang, an independent non-executive Director of the Board, was appointed as an independent non-executive director of Redco Healthy Living Company Limited, a company listed in Hong Kong (stock code: 2370) with effect from 14 March 2022. Mr. Lee Kong Wai, Conway, an independent non-executive Director of the Board, resigned as an independent non-executive director of WH Group Limited, a company listed in Hong Kong (stock code: 288) with effect from 1 June 2022. Mr. Sun Yugang, an executive Director of the Board, was promoted from the acting chief executive officer to the chief executive officer of the Group with effect from 30 June 2022.

Save for disclosed above, there were no changes in the information of Directors since the date of the 2021 annual report of the Company, which are 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 Sang 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 2022.

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) and the website of The Hong Kong Exchanges and Clearing Limited (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 2022

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