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 2018

The board (the "Board") of directors (the "Directors") of China Modern Dairy Holdings Ltd. (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018, together with comparative figures for the corresponding period in 2017. The interim results have been reviewed by the audit committee of the Company (the "Audit Committee") and the Group's auditor Deloitte Touche Tohmatsu.

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2018 RMB'000 (unaudited)	Six months ended 30 June 2017 RMB'000 (unaudited)
Revenue	4	**2,468,250**	2,344,380
Cost of sales before raw milk fair value adjustments		**(1,732,827)**	(1,725,396)
Raw milk fair value adjustments included in cost of sales		**(629,418)**	(501,413)
Loss arising from changes in fair value less costs to sell of dairy cows		**(434,716)**	(497,080)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		**629,418**	501,413
Other income	6	**34,321**	27,826
Impairment losses, net of reversal		**(74,168)**	–
Selling and distribution costs		**(93,560)**	(244,351)
Administrative expenses		**(106,762)**	(209,691)
Share of profit (loss) of associates		**6,335**	(85)
Other gains and losses, net	7	**(54,308)**	(183,217)
Other expenses		**(7,157)**	(16,781)
Profit (loss) before finance costs and tax	7	**5,408**	(504,395)
Finance costs	8	**(148,225)**	(182,981)
Loss before tax		**(142,817)**	(687,376)
Income tax expense	9	**(194)**	(137)
Loss for the period		**(143,011)**	(687,513)
Other comprehensive expense:			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(8,870)**	–
Other comprehensive expense for the period (net of tax)		**(8,870)**	–
Total comprehensive expense for the period		**(151,881)**	(687,513)
Loss for the period attributable to:			
Owners of the Company		**(140,250)**	(666,255)
Non-controlling interests		**(2,761)**	(21,258)
		(143,011)	(687,513)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(148,958)**	(666,255)
Non-controlling interests		**(2,923)**	(21,258)
		(151,881)	(687,513)
Loss per share *(RMB)*	11		
Basic		**(2.30) cents**	(11.20) cents
Diluted		**(2.30) cents**	(11.20) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 *RMB'000* (unaudited)**	31 December 2017 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,115,409**	4,698,736
Land use rights		**119,003**	125,802
Goodwill		**1,424,539**	1,424,539
Interest in associates		**62,375**	–
Available-for-sale investment		**–**	12,934
Equity instruments at fair value through other comprehensive income		**5,164**	–
Biological assets		**7,681,259**	7,751,070
		13,407,749	14,013,081
CURRENT ASSETS			
Inventories		**499,911**	848,635
Trade and other receivables	*12*	**987,818**	1,022,069
Land use rights		**4,201**	4,106
Financial asset at fair value through profit or loss		**55,914**	–
Other financial assets		**–**	31,704
Pledged bank balances and non-pledged bank deposits		**151,589**	131,467
Cash and bank balances		**656,253**	666,519
		2,355,686	2,704,500
CURRENT LIABILITIES			
Trade and other payables	*13*	**1,574,221**	2,019,466
Tax payable		**195**	2
Bank borrowings – due within one year		**1,944,864**	1,564,228
Other borrowings – due within one year		**1,000,000**	1,103,799
Medium-term notes – due within one year		**599,545**	1,198,922
Contract liabilities		**859**	–
Derivative financial instruments		**2,943**	–
		5,122,627	5,886,417
NET CURRENT LIABILITIES		**(2,766,941)**	(3,181,917)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,640,808**	10,831,164

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
CAPITAL AND RESERVES		
Share capital	**526,058**	526,058
Share premium and reserves	**6,271,613**	6,443,064
Equity attributable to owners of the Company	**6,797,671**	6,969,122
Non-controlling interests	**116,429**	119,307
TOTAL EQUITY	**6,914,100**	7,088,429
NON-CURRENT LIABILITIES		
Bank borrowings – due after one year	**2,525,672**	1,913,029
Medium-term notes – due after one year	**–**	599,458
Corporate bonds	**1,046,309**	1,045,761
Deferred income	**154,727**	184,487
	3,726,708	3,742,735
	10,640,808	10,831,164

NOTES

1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the "Company") is a limited liability company and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands. The principal place of business of the Company is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People's Republic of China (the "PRC"). As at 30 June 2018, China Mengniu Dairy Co., Ltd. ("Mengniu") and its wholly owned subsidiary together owned 60.76% of the issued share capital of the Company.

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

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

2. BASIS OF PREPARATION

In preparation of the condensed consolidated financial statements for the six months ended 30 June 2018, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of that the Group incurred a net loss of RMB143,011,000 for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB687,513,000) and, as of that date, the Group's current liabilities exceeded its total current assets by RMB2,766,941,000 (31 December 2017: RMB3,181,917,000). Having considered the available credit facilities of approximately RMB3,626,417,000 which remains unutilised as at 30 June 2018, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for: (i) the biological assets, which are measured at fair value less costs to sell; (ii) financial instruments at fair value through profit or loss ("FVTPL"); and (iii) financial instruments at fair value through other comprehensive income ("FVTOCI"), which are measured at fair value at the end of each reporting period.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue* and the related interpretations.

The Group recognises revenue from the following major sources:

- Dairy farming – breeding dairy cows to produce and sell raw milk.

- Liquid milk products – producing and selling processed liquid milk.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3.1.2 Summary of effects arising from initial application of IFRS 15

The transition to IFRS 15 does not have impact on the Group's retained earnings at 1 January 2018.

As at 1 January 2018, advances from customers of RMB348,000 in respect of sales contracts previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018. Line items that were not affected by the changes have not been included.

Impacts on the condensed consolidated statement of financial position

	Note	**As reported**	**Adjustments**	**Amount without application of IFRS 15)**
		RMB'000	*RMB'000*	*RMB'000*
Current Liabilities				
Trade and other payables	*13*	1,574,221	859	1,575,080
Contract liabilities		859	(859)	–

There is no impact of applying IFRS 15 on the condensed consolidated statement of profit and loss and other comprehensive income for the current interim period.

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combination applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at the date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note 3.2.2.

Impairment under ECL model

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increase significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial assets.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in note 3.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

		Available-for-sale investment *RMB'000*	Equity instruments at FVTOCI *RMB'000*	Amortised cost previously classified as loans and trade receivables *RMB'000*	FVTOCI reserve *RMB'000*	Retained earnings *RMB'000*	Non-controlling interests *RMB'000*
Closing balance at 31 December 2017 – IAS 39		12,934	–	1,701,003	–	–	–
Reclassification							
From available-for-sale ("AFS")	(a)	(12,934)	12,934	–	(12,021)	11,802	219
Remeasurement							
Impairment under ECL model	(b)	–	–	(1,660)	–	(1,486)	(174)
Opening balance at 1 January 2018		–	12,934	1,699,343	(12,021)	10,316	45

(a) AFS investment

From AFS equity investment to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investment previously classified as AFS, of which RMB12,934,000 related to unquoted equity investment previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB12,934,000 were reclassified from AFS investments to equity instruments at FVTOCI, which related to unquoted equity investments previously measured at cost less impairment under IAS 39. At 1 January 2018, the fair value of the equity investment approximate its carrying amount at 31 December 2017 and no fair value adjustment would be made to the Group's investment revaluation reserve at 1 January 2018 upon initial application of IFRS 9. In addition, impairment losses previously recognised of RMB12,021,000 were transferred from retained earnings to FVTOCI reserve as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which use lifetime ECL for all trade receivables. To measure ECL, trade receivables have been grouped on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprised of pledged bank balances, non-pledged bank deposits, cash and bank balances and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB1,660,000 has been recognised against retained earnings. The additional loss allowance is charged against the respective asset.

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the change in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *RMB'000*	IFRS 15 *RMB'000*	IFRS 9 *RMB'000*	1 January 2018 (Restated) *RMB'000*
Non-current Assets				
AFS investments	12,934	–	(12,934)	–
Equity instruments at FVTOCI	–	–	12,934	12,934
Current asset				
Trade and other receivables	1,022,069	–	(1,660)	1,020,409
Current liability				
Contract liabilities	–	(348)	–	(348)
Trade and other payables	(2,019,466)	348	–	(2,019,118)
Capital and Reserves				
Share premium and reserves	–	–	(1,486)	(1,486)
Non-controlling interests	–	–	(174)	(174)

4. REVENUE

Disaggregation of revenue

Segments	Six months ended 30 June 2018		
	Dairy farming	**Liquid milk products**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
	(unaudited)	**(unaudited)**	**(unaudited)**
Types of goods			
Raw milk	**2,344,168**	**–**	**2,344,168**
Liquid milk products	**–**	**240,869**	**240,869**
Total	**2,344,168**	**240,869**	**2,585,037**
Timing of revenue recognition			
A point in time	**2,344,168**	**240,869**	**2,585,037**

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Six months ended 30 June 2018		
	Dairy farming	**Liquid milk products**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
	(unaudited)	**(unaudited)**	**(unaudited)**
Revenue disclosed in segment information			
External customers	**2,227,381**	**240,869**	**2,468,250**
Inter-segment	**116,787**	**–**	**116,787**
	2,344,168	**240,869**	**2,585,037**
Eliminations	**(116,787)**	**–**	**(116,787)**
Revenue from contracts with customers	**2,227,381**	**240,869**	**2,468,250**

5. SEGMENT INFORMATION

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

Segment revenue, results, assets and liabilities

Six months ended 30 June 2018 (unaudited)

	Dairy farming *RMB'000*	Liquid milk products *RMB'000*	Subtotal *RMB'000*	Inter-segment elimination* *RMB'000*	Total *RMB'000*
Segment revenue	**2,344,168**	**240,869**	**2,585,037**	**(116,787)**	**2,468,250**
Segment cost of sales before raw milk fair value adjustments	**1,634,308**	**220,961**	**1,855,269**	**(122,442)**	**1,732,827**
Reportable segment profit (loss)	**373,697**	**(92,934)**	**280,763**	**5,655**	**286,418**
Loss arising from changes in fair value less costs to sell of dairy cows					**(434,716)**
Share of profit of associates					**6,335**
Unallocated other income					**8,564**
Unallocated other gains and losses					**14,875**
Unallocated expenses					**(24,293)**
Loss before tax					**(142,817)**
As at 30 June 2018 (unaudited)					
Segment assets	**14,598,251**	**146,609**	**14,744,860**	**(143)**	**14,744,717**
Unallocated assets					**1,018,718**
Consolidated assets					**15,763,435**
Segment liabilities	**8,593,218**	**234,477**	**8,827,695**	**(143)**	**8,827,552**
Unallocated liabilities					**21,783**
Consolidated liabilities					**8,849,335**

* Inter-segment elimination represents the elimination of sales of raw milk from dairy farming segment to liquid milk products segment and balances of related current accounts.

Segment revenue of dairy farming segment included inter-segment revenue of RMB116,787,000, which are charged at internally agreed prices with reference to the local market prices between dairy farming segment and liquid milk products segment.

Six months ended 30 June 2017 (unaudited)

	Dairy farming *RMB'000*	Liquid milk products *RMB'000*	Subtotal *RMB'000*	Inter-segment elimination* *RMB'000*	Total *RMB'000*
Segment revenue	2,078,320	405,092	2,483,412	(139,032)	2,344,380
Segment cost of sales before raw milk fair value adjustments	1,515,032	357,472	1,872,504	(147,108)	1,725,396
Reportable segment profit (loss)	249,854	(306,200)	(56,346)	8,076	(48,270)
Loss arising from changes in fair value less costs to sell of dairy cows					(497,080)
Share of loss of an associate					(85)
Unallocated other income					12,369
Unallocated other gains and losses					(26,558)
Unallocated expenses					(127,752)
Loss before tax					(687,376)
As at 31 December 2017					
Segment assets	14,761,917	893,749	15,655,666	(6,682)	15,648,984
Unallocated assets					1,068,597
Consolidated assets					16,717,581
Segment liabilities	8,661,962	934,280	9,596,242	(1,027)	9,595,215
Unallocated liabilities					33,937
Consolidated liabilities					9,629,152

* Inter-segment elimination represents the elimination of sales of raw milk from dairy farming segment to liquid milk products segment and balances of related current accounts.

Segment revenue of dairy farming segment included inter-segment revenue of RMB139,032,000, which are charged at prices internally agreed between dairy farming segment and liquid milk products segment.

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 all the segments are 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 by segment is presented.

Information about major customers

Included in revenue arising from sales of raw milk to external customers of approximately RMB2.02 billion (for the six months ended 30 June 2017: RMB1.53 billion) arose from sales to a single external customer. During the current period, the Group also sold liquid milk products of RMB240 million (six months ended 30 June 2017: RMB22.6 million) to this customer. No other single customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**6,501**	5,286
Government grants related to		
– Other assets	**9,722**	7,252
– Income *(note)*	**9,317**	6,498
	19,039	13,750
Others	**8,781**	8,790
	34,321	27,826

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

7. PROFIT (LOSS) BEFORE FINANCE COSTS AND TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of sales before raw milk fair value adjustments		
Breeding costs to produce raw milk	**1,565,928**	1,413,920
Production costs for liquid milk products	**166,899**	311,476
	1,732,827	1,725,396
Raw milk fair value adjustments included in cost of sales	**629,418**	501,413
	2,362,245	2,226,809
Other gains and losses:		
Impairment loss on property, plant and equipment	**16,876**	–
Loss from settlement of Modified Considerations	**–**	15,361
Net foreign exchange loss	**50,474**	4,546
Loss on disposal of property, plant and equipment, net	**3,225**	1,681
Gains arising on disposal of subsidiary	**(18,193)**	–
Impairment loss on trade receivables	**–**	156,400
Net loss on foreign currency forward	**2,152**	1,949
Others	**(226)**	3,280
	54,308	183,217
Depreciation of property, plant and equipment	**274,389**	292,517
Less: capitalised in biological assets and agricultural produce	**(114,321)**	(126,262)
Depreciation charged to profit or loss	**160,068**	166,255
Equity-settled share option expense	**–**	92,623
Share award expense	**2,795**	4,535
Other employee benefits costs	**212,370**	250,017
Less: capitalised in biological assets	**(57,554)**	(60,607)
Employee benefits charged to profit or loss	**157,611**	286,568
Release of land use rights	**2,031**	2,016

8. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	**90,146**	85,472
Short-term debenture	**–**	24,401
Medium-term notes	**27,960**	45,340
Other borrowings	**24,406**	6,771
Corporate bonds	**29,132**	18,493
Total borrowing cost	**171,644**	180,477
Less: amounts capitalised for construction of property, plant and equipment	**–**	(412)
Cost of discount of bills receivable	**–**	2,965
Gain on an interest swap	**(23,419)**	(49)
	148,225	182,981

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
Current tax:		
PRC enterprise income tax	**194**	137

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.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividend income of Aquitair Holdings Limited from Modern Farming (Group) Co., Ltd ("Modern Farming") is subject to Irish Income Tax at 25%. As at 30 June 2018, the aggregate amount of temporary differences associated with undistributed earnings of Modern Farming was approximately RMB2,532,940,000 (31 December 2017: RMB3,645,491,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

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.

10. DIVIDENDS

No interim dividends (six months ended 30 June 2017: nil) were paid, declared or proposed for current period.

11. LOSS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	**(140,250)**	(666,255)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,091,492,673**	5,949,128,811

The number of shares adopted in the calculation of the basic loss per share has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme. The calculation of diluted loss per share for the period ended 30 June 2018 and 2017 has not taken into account the effect of the share options and share awards of the Company, as appropriate, since the assumed exercise and vesting would result in decrease in loss per share.

12. TRADE AND OTHER RECEIVABLES

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Trade receivables	**1,449,052**	1,392,548
Bills receivable	**5,000**	500
Less: allowance for doubtful debts *(note)*	**(565,695)**	(495,168)
	888,357	897,880
Advanced payments for feeds and materials	**90,991**	97,178
Input value added tax recoverable	**2,551**	21,457
Interest receivables	**173**	144
Others	**5,746**	5,410
	987,818	1,022,069

Note: In June 2017, the Group entered into a framework supply and processing agreement with Mengniu and its subsidiaries ("Mengniu Group"), pursuant to which the Group agreed to sell its liquid milk products to Mengniu Group to enlarge its market share by leveraging the established distribution channel of Mengniu Group. In the meantime, the Group discontinued its direct cooperation with other major distributors (the "Distributors"). Following the above change in distribution channel, these Distributors have been engaged by Mengniu Group as the secondary distributors of Mengniu Group for distribution of liquid milk products of the Group. In view of the termination of the direct distributorship with these Distributors and the delay of repayments, the Group anticipated the trade receivable of RMB1,069,543,000 as at 31 December 2017 due from these Distributors may not be fully recovered. After taking into account the present value of future collection and the security of 318,697,354 ordinary shares of the Company provided by certain individuals who used to be the non-controlling equity holders of Modern Farming (Anhui) Dairy Product Sales Co., Ltd. ("Modern Farming Anhui") and were responsible for selecting distributors, an impairment loss of RMB488,489,000 was recognised in respect of the Group's trade receivables due from these Distributors for the year ended 31 December 2017. During the current period, the Group performed the impairment test under the ECL model and an impairment loss of RMB69,991,000 was recognised after considering the discounted cash flows that the Group expects to receive. As at 30 June 2018, the carrying amount of trade receivables of the Distributors were RMB510,260,000 (31 December 2017: RMB581,054,000), net of accumulated impairment loss of RMB558,480,000 (31 December 2017: RMB488,489,000). The Group will closely monitor and reinforce collection to the extent possible.

The Group normally allows credit periods of 30 to 120 days to its customers.

The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates at the end of the reporting period:

	30 June 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Trade receivables		
– within 120 days	**398,670**	314,426
– beyond 120 days but within 360 days	**2,208**	77,583
– beyond 360 days	**482,479**	505,371
Bills receivable		
– within 120 days	**5,000**	500
	888,357	897,880

13. 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 2018 *RMB'000* **(unaudited)**	31 December 2017 *RMB'000* (audited)
Trade payables		
– within 60 days	**864,421**	926,757
– beyond 60 days but within 120 days	**154,167**	296,373
– beyond 120 days	**29,526**	55,442
Bills payable *(note)*	**43,299**	61,458
	1,091,413	1,340,030
Payable for acquisition of property, plant and equipment	**288,601**	393,745
Accrued staff costs	**65,237**	84,548
Accrued interest expenses	**35,463**	113,890
Advance payments from disposal of dairy cows and others	**11,237**	17,791
Others	**82,270**	69,462
	1,574,221	2,019,466

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

BUSINESS REVIEW

Industry Overview

In the first half of 2018, China's Gross Domestic Product ("GDP") grew by 6.8% year-on-year, and remained within the 6.7%-6.9% range for the past twelve consecutive quarters. The per capita disposable income of China's residents had an actual increase of 6.6% excluding the price factor. Overall, China's economy is expected to grow at a stable pace in the foreseeable future despite of the hiccup caused by recent China-US trade war.

During the reporting period, the operating environment of the upstream dairy industry remained challenging. Although the international auction price of milk powder recovered mildly from its trough, the domestic raw milk price was still weak due to seasonal effects. It is expected that the raw milk price will increase notably in second half of the year after the demand of raw milk picks up in the peak season. The international political situation has been uncertain since the first quarter of 2018. The lingering of a China-US trade war resulting in tariffs imposed on US imported raw materials such as soybeans and alfalfa, post pressure on the costs for the upstream agricultural industry.

Despite the uncertainties mentioned above, experts still believe that with the industry having undergone a three-year production capacity adjustment, the supply and demand of raw milk are approaching equilibrium, and the upstream dairy farming industry is entering a recovery period. The price of domestic raw milk usually repeats in a three-year cycle; yet the current cycle has been lengthened. The Group believes the prospect of the dairy product market remains promising given that the per capita disposable income of China's residents increased and the Index of Consumer Sentiment re-bounced. With the escalation of the per capita consumption of diary product, the growing demand of dairy products in rural area, and the ongoing structural upgrade in consumption, the dairy market demonstrates enormous potential.

During the reporting period, the Chinese government has strengthened her determination in helping the development of the dairy industry. Relevant policy consultation papers were introduced successively contributing forth positive factors to the industry. In February 2018, the first draft of the consultation paper on the four new national standards for raw milk, pasteurized milk, sterilized milk and reconstituted milk was officially released for public comments. The introduction of raw milk grading mechanism, clear guidelines for milk processing procedures, and the guidance on milk product packaging and labelling are conducive to enhancing the confidence for consumers, thereby boosting the consumption of domestic fresh milk and the development of high quality farms. The "Opinions of the General Office of the State Council on Promoting the Revitalization of the Dairy Industry to Ensure the Quality and Safety of Dairy Products" released in May 2018 positioned the dairy industry as an indispensable industry for cultivating a healthy China and a strong nation. It reaffirmed complementary interests and a win-win situation amongst dairy enterprises. It also strives to enhance the standardization of milk quality, establishment of raw milk grading mechanism, quality assurance with premium pricing. The central government of China aims at maintaining over 65% of dairy farms to have a herd size of over 100 dairy cows in order to retain the raw milk self-supply rate over 70% by 2020, with an expectation a full revitalization of the dairy industry by 2025.

With the stabilization of raw milk price, the supply and demand of raw milk approaching equilibrium, and the release of favorable policies by the local government, the dairy industry has overcome a three-year downturn and has entered into a new cycle.

Operational Performance

The Group is primarily engaged in two business segments: (i) dairy farming business, which mainly involves the production and sales of raw milk to customers for processing into dairy products; and (ii) the business of liquid milk, which mainly involves the production and sales of liquid milk products.

The Group has always continued to strive for high standards on raw milk quality. During the reporting period, our high-end products with "purity, genuineness, freshness and vitality", the integration of "planting – farming – processing" and the advanced production model of two-hour from milking to processing have been highly recognised and trusted by market. The Group always adheres to the principle of prioritized safety and health, proactively develops and implements modern scientific breeding and feeding know-how. Embracing the core objectives of "increasing production, reducing costs, and stopping losses", the Group has lowered operating costs through improving nutrients and adjusting the dairy cows feeding structure. On the income aspect, the Group boosted the operating revenue by implementing modern management, improving the unit production output and optimizing the herd-size structure. Both the enhancement of unit production and cost reduction had led the Group's business to a new era of development.

For the six months ended 30 June 2018, the Group's unit price of the external sales of raw milk increased to RMB3.73/kg, up by 3.9% from RMB3.59/kg in the same period last year. With the increase in milk yield per cow, the total milk yield of the Group in the first half of 2018 amounted to 636,000 tons, representing a year-on-year growth of 6.86%. During the reporting period, the revenue of raw milk realized by the Group as a whole was RMB2.227 billion, representing an increase of 14.86% on a year-on-year basis. Benefiting from an increase in average selling price of raw milk and an increase in milk yield, the gross profit margin of the Group's dairy farming business increased by 3 percentage points to 30.28% on a year-on-year basis.

Despite the business environment remaining difficult, all operation indicators have achieved some improvements. For the six months ended 30 June 2018, the Group's milk yield per cow was 10.3 tons, which was increased by 0.5 tons from 9.8 tons on a year-on-year basis, while cash cost of raw milk was RMB2.42/kg which was basically the same as corresponding period at last year.

As a pioneer in the domestic large-scale dairy farming, the Group was the first to develop the production mode of "integration of forage planting, dairy farming and dairy products processing". Leveraging on excellent corporate management, advanced scientific farming and high-quality raw milk products, the Group has been widely recognised both domestically and overseas. At the awards ceremony of Monde Selection held in Spain on 24 May 2018, four of our products, the pure milk of Modern Dairy, "Fresh" pure milk, 2 hours of fresh milk (250ml) and 2 hours of fresh milk (1L), were all awarded the Gold Prize of the Monde Selection 2018. The pure milk of Modern Dairy was awarded the Gold Prize for the fifth consecutive years, breaking the record of the world's pure milk category.

The Group will uphold the craftsmanship to produce high quality milk, promoting the revitalization of dairy industry in China. With ingenuity and optimizing the corporate operation with professional dedication, the Group strives to create values for its shareholders and provide healthy, high quality and fresh milk products to consumers.

Associate Factories

In January 2018, Modern Farming (Group) Co., Ltd ("Modern Farming"), a subsidiary of the Company, has strategically disposed 50% equity interest in Modern Dairy (Feidong) Co., Ltd. ("Feidong")* (現代牧業(肥東)有限公司) and Modern Dairy (Bengbu) Co., Ltd. ("Bengbu")* (現代牧業(蚌埠)有限公司), respectively, to Inner Mongolia Mengniu Dairy (Group) Company Limited (the "Inner Mongolia Mengniu"), a subsidiary of Mengniu, to form two associate factories (the "Associate Factories"). The disposal completed in March 2018. Pursuant to the articles of association of Feidong and Bengbu, Inner Mongolia Mengniu has 51% of voting power at the shareholder meetings and three out of a total of five directors of each Feidong and Bengbu, and thus Inner Mongolia Mengniu has control over Feidong and Bengbu. The Group lost control of Feidong and Bengbu but has significant influence over Feidong and Bengbu, therefore classified them as associates of the Group.

Starting from the second quarter of 2018, the financial results of the Associate Factories were no longer consolidated into the financial statements of the Group. The products produced by the Associate Factories were sold to the companies within the Mengniu Group at cost plus pricing, while the Group shared the operational results of the Associate Factories by means of equity accounting method. The Group's share of profit of associate was RMB6.34 million in the reporting period. The Group will consolidate resources to develop the upstream farming business, while the operation of the downstream branded milk business will be handled by Mengniu Group.

Heat Stress alleviation measures

In order to improve the living habitat of dairy cows and minimize the hinderance of raw milk production arising from the impact of heat stress, the Group has invested a total of RMB86.1 million in relevant equipment, such as powerful fan and water sprinkler system in selected barns.

After the implementation of heat stress alleviation measures, there are obvious improvement in the milk yield per cow in the reporting period comparing to the same period in 2017 when the counter-heat-stress equipment were not yet in place. The Company will continue to deploy resources to upgrade the facilities in each barn and enhance the health of each dairy cow.

Environmental Protection and Epidemic Prevention

With the mission of "creating the world's most advanced farms, producing the highest quality milk, and achieving harmonious development of people and nature", the Group actively fulfills its social responsibilities and continuously improves environmental and social benefits in terms of product quality, epidemic control, and environmental protection. The Group's various milk indicators are better than the EU standards. Food safety indicators are set in the raw milk production process, and the whole process is monitored to ensure that the raw milk quality meets the standard. Since Mengniu increase its stake in the Company in 2017 the Group and Mengniu have enhanced the synergy in product testing, unified inspection standards and processes to improved testing efficiency and product quality. The Group strictly complies with relevant laws and regulations for epidemic prevention management, conducts health rating management for dairy cows, strictly controls the environment of farms, refines the management of farms, provides epidemic prevention and protection for dairy cows, and establishes quarantine and health check plans for cows.

Based on resource recycling, the Group has built a green recycling industrial chain of "forage planting – milk farming – fertilizer treatment – biogas power generation – fertilizer returning to the field". Each farm is equipped with large-scale biogas power generation facilities and comprehensive utilization facilities for biogas fertilizer, which absorbs, digests and indiscriminately treats the manure. For a sustainable development, the Group will continue in pursue of high standard of environmental protection policy and implements rigorous epidemic prevention measures to our farms.

Our farms

As of 30 June 2018, the Group had 26 self-owned farms in mainland China with a total of approximately 225,782 dairy cows.

Herd size

	30 June 2018 *Heads*	31 December 2017 *Heads*
Dairy cows		
Milkable cows	**126,314**	126,839
Heifers and calves	**99,468**	106,219
Total number of dairy cows	**225,782**	233,058

We are the largest dairy farming company in terms of herd size as well as the largest raw milk producer in mainland China. As at 30 June 2018, the herd size is 225,782 compared to 233,058 as at 31 December 2017.

Milk yield

Milk yield per milkable cow is affected by a number of factors, such as a cow's stage of lactation, breed, genetics and feed mix. The Group has achieved an average annual milk yield per cow of 10.3 tons during the reporting period, representing an increase of 5.10% from 9.8 tons for the corresponding period in 2017. Such results are attributable to the effective herd management, genes optimisation of our cows by breeding, providing milkable cows with high quality feeds so as to enable them to reach the peak stage of lactation.

FINANCIAL OVERVIEW

Total revenue

Business segmental analysis

	Six months ended 30 June					
	2018			2017		
	External Sales *RMB'000*	**Internal Sales** *RMB'000*	**Subtotal** *RMB'000*	External Sales *RMB'000*	Internal Sales *RMB'000*	Subtotal *RMB'000*
Segment						
Sales of dairy farming business	**2,227,381**	**116,787**	**2,344,168**	1,939,288	139,032	2,078,320
Sales of liquid milk products business	**240,869**	**–**	**240,869**	405,092	–	405,092
Consolidated revenue	**2,468,250**	**116,787**	**2,585,037**	2,344,380	139,032	2,483,412

The Group's revenue increased by 5.28% from RMB2.34 billion for the six months ended 30 June 2017 to RMB2.47 billion for the six months ended 30 June 2018, primarily due to the increase in sales of raw milk and the increase in average selling price ("ASP") of raw milk.

Dairy farming business

Dairy farming business is the production and sales of raw milk to customers for processing into dairy products. Revenue from our dairy farming business increased by 12.79% as compared to the corresponding period last year, in which raw milk sales volume increased by 7.96% as compared to the corresponding period last year and ASP of raw milk increased by 4.44% as compared to the corresponding period last year. The following table sets out the sales amount, sales volume and ASP of our raw milk for the periods indicated:

	Six months ended 30 June					
	2018			2017		
	Sales amount *RMB'000*	**Sales volume** *tons*	**ASP** *RMB/KG*	Sales amount *RMB'000*	Sales volume *tons*	ASP *RMB/KG*
Raw milk						
External sales	**2,227,381**	**597,578**	**3.73**	1,939,288	539,716	3.59
Internal sales	**116,787**	**25,891**	**4.51**	139,032	37,777	3.68
Subtotal	**2,344,168**	**623,469**	**3.76**	2,078,320	577,493	3.60

Liquid milk products business

Revenue from our liquid milk products business decreased by 40.49% from RMB405 million for the six months ended 30 June 2017 to RMB241 million for the six months ended 30 June 2018, primarily due to the formation of Associate Factories with Mengniu. The Associate Factories become associated companies of the Group and are no longer consolidated in the Group's financial statement and accounted by equity accounting method in the second quarter of 2018.

As the Associate Factories are no longer consolidated in the Group's financial statement starting from the second quarter of 2018, the total sales volume of our liquid milk decreased by 32.40% from 43,092 tons for the six months ended 30 June 2017 to 29,132 tons for the six months ended 30 June 2018. The analysis of the sales of liquid milk is as follows:

	Six months ended 30 June					
	2018			2017		
	Sales amount	**Sales volume**	**ASP**	Sales amount	Sales volume	ASP
	RMB'000	***tons***	***RMB/KG***	*RMB'000*	*tons*	*RMB/KG*
Liquid milk products	**240,869**	**29,132**	**8.27**	405,092	43,092	9.40

COST OF SALES BEFORE RAW MILK FAIR VALUE ADJUSTMENT

The Group's cost of sales before raw milk fair value adjustment primarily consisted of dairy farming cost and liquid milk products cost. The following table sets forth the breakdown of the cost of sales for our products for the periods indicated:

Cost of sales before raw milk fair value adjustments

- *Dairy farming business*

	Six months ended 30 June			
	2018		2017	
	RMB'000	***%***	*RMB'000*	*%*
Feed cost	**1,220,762**	**74.70%**	1,142,298	75.40%
Labor cost	**116,875**	**7.15%**	102,753	6.78%
Utilities	**45,734**	**2.80%**	32,865	2.17%
Depreciation	**124,163**	**7.60%**	117,976	7.79%
Other costs of farms	**126,774**	**7.75%**	119,140	7.86%
Subtotal of cost of sales before raw milk fair value adjustment of dairy farming business	**1,634,308**	**100%**	1,515,032	100%
Inter-segment cost	**(68,380)**		(101,111)	
Cost of sales before raw milk fair value adjustment of dairy farming business	**1,565,928**		1,413,921	

With the increase in the sales volume of raw milk, the total feed cost (before eliminating cost of sales in relation to internal supply of raw milk) for the six months ended 30 June 2018 increased to RMB1,221 million from RMB1,142 million for the corresponding period last year, representing an increase of 6.92%, which approximate the increase in sales for the current period.

Meanwhile, the cost (excluding depreciation) per ton of raw milk sold (before offsetting cost of sales in relation to internal consumption of raw milk) increased by 0.12% from RMB2,419 for the corresponding period last year to RMB2,422 for the six months ended 30 June 2018, mainly due to an increase in startup expenses of newly additional equipment for improving heat stress.

- *Liquid milk product business*

	Six months ended 30 June			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials	**196,850**	**89.09%**	280,029	78.34%
Labor cost	**6,530**	**2.96%**	15,711	4.39%
Depreciation	**6,152**	**2.78%**	26,260	7.35%
Utilities	**6,834**	**3.09%**	11,579	3.24%
Other processing costs	**4,595**	**2.08%**	23,893	6.68%
Subtotal of cost of sales before raw milk fair value adjustment of liquid milk product business	**220,961**	**100%**	357,472	100.00%
Inter-segment cost	**54,062**		(45,997)	
Cost of external sales before raw milk fair value adjustment of liquid milk product business	**166,899**		311,475	

Raw material cost for the six months ended 30 June 2018 decreased from RMB280.0 million for the corresponding period last year to RMB196.9 million, representing a decrease of 29.70% due to the formation of the Associate Factories with Mengniu, in the from of associates of the Group during the reporting period. The associates are no longer consolidated in the Group's financial statement but accounted by using equity accounting method instead.

Cost (excluding depreciation) per ton of liquid milk sold decreased from RMB7,686 for the corresponding period last year to RMB7,374 for the six months ended 30 June 2018, representing a decrease of 4.06%.

Gross profit and profitability

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

Business Segment	Six months ended 30 June **2018** Gross profit *RMB'000*	**2018** Gross profit margin	2017 Gross profit *RMB'000*	2017 Gross profit margin
Dairy farming business				
Before elimination	**709,860**	**30.28%**	563,288	27.10%
After elimination	**661,453**	**29.70%**	525,367	27.09%
Liquid milk products business				
Before elimination	**19,908**	**8.27%**	47,620	11.76%
After elimination	**73,970**	**30.71%**	93,617	23.11%

- *Dairy farming business*

  Gross profit of our dairy farming business (before eliminating cost of sales in relation to internal supply of raw milk) increased by 26.03% from RMB563.3 million for the six months ended 30 June 2017 to RMB709.9 million for the six months ended 30 June 2018. The increase mentioned above was primarily due to the increase in ASP of raw milk as well as in unit production output.

  Gross profit margin of our dairy farming business (before eliminating cost of sales in relation to internal supply of raw milk) increased from 27.10% for the six months ended 30 June 2017 to 30.28% for the six months ended 30 June 2018, primarily due to the increase in ASP of raw milk.

- *Liquid milk products business*

  Gross profit of our liquid milk products business decreased by 58.19% from RMB47.6 million for the six months ended 30 June 2017 to RMB19.9 million for the six months ended 30 June 2018, while the marketing and promotion expenses included in the sales and distribution costs were significantly decreased, gross profit margin of our liquid milk products business has also decreased from 11.76% for the six months ended 30 June 2017 to 8.27% for the six months ended 30 June 2018. This was mainly due to the fact that the financial results of the Associate Factories ceased to be consolidated into the consolidated financial statement of the Group starting from the second quarter of 2018, and the liquid milk products were sold to Mengniu Group at cost plus pricing in the first quarter of 2018.

LOSSES ARISING FROM CHANGES IN THE DIARY COW FAIR VALUE LESS COST OF SALES OF DAIRY COWS

The fair value of the Group's dairy cows, as at 30 June 2018 was determined by the directors of the Company with reference to the value of the Group's dairy cows as at 31 December 2017 that has been arrived based on the independent valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. As at 30 June 2018, the biological assets of the Group were valued at RMB7,681.3 million (as at 31 December 2017: RMB7,751.1 million). Losses arising from changes in the dairy cow fair value less cost of sales of dairy cows were RMB434.7 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB497.1 million), representing a decrease of 12.55% year-on-year, mainly due to the increase of average selling price of culled dairy cows.

GAINS ARISING FROM INITIAL RECOGNITION AT FAIR VALUE LESS COST OF SALES AT THE POINT OF RAW MILK HARVEST

Our gains arising from initial recognition at fair value less cost of sales at the point of raw milk harvest increased by 25.53% from RMB501.4 million for the six months ended 30 June 2017 to RMB629.4 million for the six months ended 30 June 2018, mainly due to the increase in ASP of raw milk as well as an increase in unit production output.

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

OTHER INCOME

For the six months ended 30 June 2018, other income amounted to RMB34.3 million (for the six months ended 30 June 2017: RMB27.8 million). Other income mainly consisted of government grants and interest income. Government grants mainly consisted of subsidies for agricultural projects and subsidies for the operations of the Group.

OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Selling and distribution costs	**93,560**	244,351
Administrative expenses	**106,762**	209,691
Total operating expenses	**200,322**	454,042

The overall operating expenses of the Group decreased from RMB454.0 million for the six months ended 30 June 2017 to RMB200.3 million for the six months ended 30 June 2018. 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	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Daring farming business		
Transportation costs and others	**86,105**	73,618
Liquid milk segment		
Transportation, loading and unloading costs	**982**	34,321
Staff remuneration	**1,712**	22,217
Publicity expenses	**585**	80,138
Others	**2,748**	33,018
Business tax and surcharge	**1,428**	1,039
Total selling and distribution costs	**93,560**	244,351

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

The amount of raw milk transportation costs included in selling and distribution costs increased to RMB85.7 million for the current period from RMB73.6 million for the corresponding period of last year. This was mainly due to an increase in both of the sales volume of raw milk and the transportation distance for sales of raw milk.

The amount of liquid milk marketing and promotion expenses included in selling and distribution costs decreased significantly to RMB0.6 million for the six months ended 30 June 2018 from RMB80.1 million for the corresponding period of last year. This was mainly due to the change in the sales model of the downstream business of the Group in the midterm of 2017 and that liquid milk products were sold to the Associate Factories operated by Mengniu Group at cost plus pricing, and Mengniu Group was responsible for the selling expenses of the downstream business including marketing costs.

- **Administrative expenses**

  During the reporting period, the administrative expenses were RMB106.8 million, which decreased significantly by RMB102.9 million as compared to the corresponding period of last year in the amount of RMB209.7 million, representing a decrease of 49.09%.

  Administrative expenses mainly consisted of, among other things, remuneration of management (including equity-based share option expenses) and depreciation of office buildings, staff quarters and facilities, of which remuneration of management (excluding equity-based share option expenses) decreased from RMB58.7 million for the six months ended 30 June 2017 to RMB49.6 million for the end of the reporting period. This was mainly because the sales of brand milk was handled by Mengniu and the marketing management personnel of the Group decreased since the formation of the Associate Factories has resulted in a significant decrease in relevant costs.

  During the six months ended 30 June 2018, the equity-based restricted share expenses included in the administrative expenses amounted to RMB2.56 million. Comparing with the same period of last year, this has significantly reduced primarily because there was an one-off amortization of remaining unamortized value of options during the corresponding period in 2017.

OTHER GAINS AND LOSSES NET

During the reporting period, the Group recorded a net loss arising from other gains and losses of RMB54.3 million (the amount for the corresponding period of last year amounted to RMB183.2 million). Other gains and losses mainly consisted of, among other things, foreign exchange losses and impairment loss from receivables. The breakdown of other gains and losses is as follow:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Other gains and losses:		
Impairment loss on property, plant and equipment	**16,876**	–
Loss from settlement of Modified Considerations	**–**	15,361
Net foreign exchange loss	**50,474**	4,546
Loss on disposal of property, plant and equipment, net	**3,225**	1,681
Gains arising on disposal of subsidiaries	**(18,193)**	–
Impairment loss on trade receivables	**–**	156,400
Net loss on foreign currency forward	**2,152**	1,949
Others	**(226)**	3,280
	54,308	183,217

FINANCE COSTS

Finance costs decreased 19.0% from RMB183.0 million of the corresponding period last year to RMB148.2 million for the current reporting period. The decrease in finance costs was mainly due to the additional fair value gain on the interest rate swaps of RMB23.4 million during the current period upon the assessment of the interest rate of a syndicated loan of US$300 million fixed in the third quarter of 2017 and decrease in the average effective annual interest rate of borrowings.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The loss attributable to owners of the Company amounted to RMB140.3 million for the six months ended 30 June 2018, which was significantly improved as compared to RMB666.3 million for the corresponding period in 2017. It was primarily due to the synergy effect arising from the change of the mode of operation between the Group and Mengniu, and the improvement of the overall operations.

Basic loss per share was approximately RMB2.30 cents (for the six months ended 30 June 2017: basic loss per share of RMB11.20 cents).

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2018, the Group's net cash inflow used in operating activities amounted to RMB709.5 million, as compared to net cash outflow generated from operating activities of RMB56.6 million for the six months ended 30 June 2017.

As at 30 June 2018, the Group's available and unutilized banking facilities amounted to approximately RMB3,626.4 million (31 December 2017: RMB6,306.5 million). In the opinion of the Group's management, the working capital available to the Group is sufficient to meet its present needs.

Interest-bearing borrowings

As at 30 June 2018, the total interest-bearing debt was RMB7,116.4 million.

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Borrowings		
Bank borrowings	**4,470,536**	3,477,257
Medium-term notes	**599,545**	1,798,380
Other borrowing	**1,000,000**	1,103,799
Corporate bonds	**1,046,309**	1,045,761
	7,116,390	7,425,197
Carrying value repayable:		
Within one year	**3,544,409**	3,866,949
Between one and two years	**1,346,309**	1,364,676
Between two and five years	**2,225,672**	2,193,572
	7,116,390	7,425,197

Bank borrowings

The effective annual interest rate of the bank borrowings for the six months ended 30 June 2018 varied from 0.45% to 4.8% (for the six months ended 30 June 2017: 0.90% to 6.40%).

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

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bank borrowings		
Unsecured borrowings	**3,332,017**	2,603,229
Secured borrowings	**417,936**	12,500
Guaranteed borrowings	**720,583**	861,528
	4,470,536	3,477,257
Carrying amount repayable:		
Within one year	**1,944,864**	1,564,228
Between one to two years	**300,000**	516,000
Between two to five years	**2,225,672**	1,397,029
	4,470,536	3,477,257

Other borrowings

In May 2017, the Group entered into two entrusted loan agreements with Mengniu Group and Agricultural Bank of China ("ABC") pursuant to which, Mengniu Group agreed to offer borrowing facilities of RMB1.5 billion to the Group through ABC. The borrowing facilities will mature in May 2020 and bear interest at fixed rates determined with reference to the benchmark interest rate of the People's Bank of China. During the reporting period, the Group drew down borrowings of RMB1,061,000 and repaid RMB1,061,000 under the agreements. The outstanding amount of the other borrowings as at 30 June 2018 will mature within one year and bear interest at a fixed rate of 4.00% per annum. The breakdown of principal is as follow:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Principal amounts payable:		
Within one year		
– Collateralised borrowing	**–**	38,399
– Borrowings from Mengniu Group	**1,000,000**	1,065,400
	1,000,000	1,103,799

GROUP STRUCTURE AND CAPITAL STRUCTURE

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

As at 30 June 2018, the number of issued ordinary shares of the Company were 6,131,406,706 shares.

CONTINGENCIES AND PLEDGE OF ASSETS

As at 30 June 2018, buildings and equipment, and biological assets with carrying value of RMB42.7 million (31 December 2017: RMB93.9 million) and RMB893.6 million (31 December 2017: RMB1,154.2 million) respectively were pledged to secure the Group's borrowings.

The Group did not have any significant contingent liabilities as at 30 June 2018.

CAPITAL COMMITMENTS AND OPERATING LEASE COMMITMENT

As at 30 June 2018, the Group has a capital commitment of RMB16 million related to acquisition of property, plant and equipment.

As at 30 June 2018, the Group has operating lease commitments of RMB11.3 million related to the operating leased property, plant and equipment and leased land.

FINANCIAL MANAGEMENT POLICIES

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

The Group's management considers that the Group has limited foreign currency exposure in respect of its operations since its operations are mainly conducted in mainland China. Sales and purchases are mainly denominated in Renminbi and the foreign currency risks associated with refined feeds and farm facilities are not material. In view of the minimal foreign currency exchange risk related to its operations, the Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risks.

SHARE AWARD SCHEME

The Company operates a restricted share award scheme (the"Share Award Scheme") which was adopted by the Company on 9 September 2016. The goal of the Share Award Scheme is to motivate the employees to maximize the value of the Company and share the results of the Company with the employees in order to achieve sustainable development of the Group.

During the reporting period, no award shares of award shares the Company was granted to any selected participants. Up to 30 June 2018, the total number of award shares granted to selected participants was 35,969,000, representing approximately 0.59% of the issued share capital of the Company. Out of the total award shares granted, 13,274,000 award shares were granted to certain members of the management, which would vest in two tranches, each on the second, and third anniversaries of the grant date provided that certain performance and service conditions are met. The remaining award shares of 22,695,000 were granted to the eligible employees.

The granted award shares are subject to the terms and condition of the Share Award Scheme and the fulfillment of all vesting conditions to the vesting of the award shares imposed on such selected participant as specified in the rules of the Share Award Scheme and the grant notice. Amongst the award shares, 6,451,000 were forfeited due to resignation of selected participants, while the remaining award shares granted are still outstanding and not yet vested as at 30 June 2018.

As the total contributed amount of the Share Award Scheme has reached its limit, on 26 March 2018, the Company amended the Share Award Scheme, referred to as Share Award Scheme II. The amendment will not affect any restricted share award made prior to 26 March 2018, which shall for all purposes continue to be administered and take effect in accordance with the rules of Share Award Scheme as adopted on 9 September 2016. As at 30 June 2018, no award share was granted under the Share Award Scheme II.

SOCIAL RESPONSIBILITY

The Group has been proactively fulfilling its social responsibility and adheres to the principle of safety and quality come first, proactively develops and implements modern scientific breeding and feeding know-how. The Group puts great effort to strike a balance between business growth and social responsibility, so as to convey the Group's care and blessing to all consumers. The Group promotes a forage grass industrialization operation mode of "enterprise + base + farmer", establishes a close relationship between growers and farmers by way of signing price protection purchase contracts, drives the poor farmers around the dairy farms to engage in forage grass planting, and encourages the dairy farmers around dairy farms to breed dairy cows, which has effectively increased the income of farmers.

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had 4,660 employees (31 December 2017: 5,097) in mainland China and Hong Kong as at 30 June 2018. Total staff costs (including staff compensation capitalised to immature dairy cows) for the six months ended 30 June 2018 were approximately RMB212.4 million (for the six months ended 30 June 2017: RMB250.0 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 training. The Group also offers remuneration at competitive rates with the aim of retaining quality personnel.

OUTLOOK

Since the decade-old melamine incident in 2008. China's dairy industry has essentially been upgraded from quantity-oriented expansion to quality-oriented improvement, from extensive farming to refined management, and from a traditional industry to a modern one. With gradual phasing out of individual dairy farms and the capacity optimization of large-scale farming enterprises, the industry concentration and the quality of products have achieved further improvement. The large-scale farming in mainland China with herd size of more than one hundred cows increased from less than 20% in 2007 to 56% in 2017. In the meantime, the quality and safety of Chinese dairy products have been substantially enhanced with the average passing rate of monitored raw milk achieving 99.8% in 2017, ranking first in the food industry.

In the first half of 2018, the upstream farming industry remained challenging in light of the weak domestic selling price, the continuous competition from the imported powders and dairy products, and the increasing feed costs triggered by the China-United States trade war. Nevertheless, the Group is full of confidence in the long-term development of China's dairy industry. After three year of production adjustment, China's dairy industry is stepping into a new cycle. The regional and urban-rural imbalances of dairy product consumption are significant. With structural upgrade in consumption, product innovation, category optimization, as well as the improvement of regional imbalance in respect of dairy product consumption, the dairy market is promising and sustainable for growth.

With a better equilibrium between the supply and demand of raw milk, the Group estimates that the price of raw milk will demostrate an upward trend in the second half of 2018. Embarking on a new journey, the Group will ride on the trend to maximise its milk production, reduce costs, and cut loss in the upstream business, while seeking collaboration, cooperation, and win-win solutions in the downstream business. By upholding the spirit of craftsmanship to produce high quality milk, we aim to provide consumers with nutritious and healthy milk, contribute solid power for upgrading China's dairy industry, and create value for the shareholders of the Group.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company has, throughout the six months ended 30 June 2018 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.

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.

Code provision A.6.7 of the CG Code provides, among other things, that non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. One non-executive Director was not able to attend the annual general meeting of the Company held on 1 June 2018 due to other business engagements.

INTERIM DIVIDEND

The Board has not declared any payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 enquiry by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2018.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities, except that the trustee of the Share Award Scheme II, pursuant to the rules of the Share Award Scheme II, purchased on the open market a total of 20,000,000 shares of the Company at a consideration of approximately HK$28,835,000 (equivalent to RMB23,583,000) for the six months ended 30 June 2018. As at 30 June 2018, the trustee of the Share Award Scheme and Share Award Scheme II has purchased from the open market an aggregate of 55,969,000 shares of the Company, representing approximately 0.91% of the issued share capital of the Company.

REVIEW OF INTERIM RESULTS

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

PUBLICATION OF THE INTERIM REPORT

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

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

On behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO Lina
Deputy Chairman, Chief Executive Officer and Executive Director

Hong Kong, 27 August 2018

As of the date of this announcement, the executive directors are Ms. GAO Lina and Mr. HAN Chunlin, the non-executive directors are Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.