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MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

HIGHLIGHTS:

Robust Growth in Results: During the year, the total revenue of the Group reached RMB7,078 million, representing a year-on-year (“yoy”) increase of 17.6%. Cash EBITDA recorded RMB2,434 million, representing a yoy increase of 7.5%. The profit attributable to owners of the Company reached RMB1,019 million, representing a yoy increase of 32.3%;

Smooth Completion of Acquisition: During the year, the Group has successfully completed several acquisitions, including Zhongyuan Muye and Fuyuan International, both of which have become subsidiaries of the Company, and their financial results were also consolidated into the financial statements of the Group. Zhongyuan Muye and Fuyuan International have contributed approximately 80,000 heads of dairy cows in total to the Group along with the completion of acquisition, further strengthening the leading position of Modern Dairy in the dairy farming industry in the PRC, and at the same time improving the Group’s competitiveness in raw milk quality and pricing;

Significant Increase in Herd Size: As of 31 December 2021, the Group had invested and established 33 dairy farming companies in the PRC, and the number of dairy cows reached 354,000 heads, representing an increase of 106,000 heads over the corresponding period and a significant yoy increase of 43.0%;

Debut Issuance Pioneer Amongst Peers: During the year, the Company was assigned the “BBB” investment grade rating by Standard & Poor’s, becoming the first dairy farming company in the world having been assigned such a credit rating of investment grade. Subsequently, the Company successfully issued bonds of US\$500 million (coupon of 2.125%, due in 2026) for the first time, which has caught the attention of the capital market. This fully affirms the recognition received by the Company for China’s large-scale farming model from international credit rating agencies. Such issuance and grading established a positive image for the industry in the international capital market, enlightening peers in the industry to the further development of financing channels in the international capital market;

Won Gold Awards for Eight Consecutive Years: During the year, the Group’s pure milk was awarded the Gold Prize of Monde Selection for the eighth consecutive year, symbolizing that our high quality raw milk and business philosophy have been widely recognized and favored by the industry and consumers; and

The “Quality Milk Project”: In 2021, the Group launched the “Quality Milk Project” and published the evaluation results, becoming the first dairy farming operator in the world that has obtained the “Quality Milk Project” certification.

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

FINANCIAL DATA	2021	2020	Change
Revenue	7,078	6,020	+17.6%
Gross profit	2,549	2,458	+3.7%
Earnings before tax	1,035	784	+32.0%
Cash EBITDA ^(Note)	2,434	2,265	+7.5%
Cash EBITDA Margin (%)	34.4%	37.6%	-3.2ppt
Profit attributable to owners of the Company	1,019	770	+32.3%
KEY PERFORMANCE DATA			
Basic earnings per share <i>(RMB cents)</i>	14.43	12.07	+19.6%
Annualised milk yield in total <i>(ten thousand tons)</i>	161	149	8.1%
Herd size <i>(heads)</i>	353,793	247,371	+43.0%

DIVIDEND

The Board recommended the payment of final dividend of RMB0.026 per ordinary share (2020: RMB0.02).

Note: 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.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of China Modern Dairy Holdings Ltd. (the “**Company**” or “**Modern Dairy**”) is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021 (the “**Reporting Year**”), together with comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	5	7,078,470	6,020,247
Cost of sales	7	(6,907,441)	(5,838,973)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest	7	2,378,446	2,277,414
Gross profit		2,549,475	2,458,688
Loss arising from changes in fair value less costs to sell of dairy cows		(956,011)	(1,031,316)
Other income	6	123,835	86,675
Impairment losses under expected credit loss model, net of reversal	9	(476)	(5)
Other gains and losses, net	7	51,103	142,514
Selling and distribution costs		(183,732)	(194,440)
Administrative expenses		(379,065)	(374,155)
Other expenses		(8,703)	(16,503)
Share of results of associates		36,928	31,570
Profit before finance costs and tax		1,233,354	1,103,028
Finance costs	8	(198,132)	(318,624)
Profit before tax		1,035,222	784,404
Income tax expense	10	(2,023)	(639)
Profit for the year		1,033,199	783,765

	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other comprehensive (expense)/income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value (loss)/gain on investments in equity instruments at fair value through other comprehensive income		(2,425)	1,121
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation from functional currency to presentation currency		(40)	–
Other comprehensive (expense)/income for the year, net of income tax		(2,465)	1,121
Total comprehensive income for the year		<u>1,030,734</u>	<u>784,886</u>
Profit for the year attributable to:			
Owners of the Company		1,018,832	770,010
Non-controlling interests		14,367	13,755
		<u>1,033,199</u>	<u>783,765</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		1,016,407	771,110
Non-controlling interests		14,327	13,776
		<u>1,030,734</u>	<u>784,886</u>
Earnings per share (RMB)	<i>12</i>		
Basic		14.43 cents	12.07 cents
Diluted		14.39 cents	12.04 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,312,970	3,317,719
Right-of-use assets		725,164	303,849
Goodwill		2,075,591	1,322,457
Other intangible assets		3,777	–
Interests in associates		353,278	289,860
Equity instruments at fair value through other comprehensive income		2,655	5,080
Biological assets		9,404,924	7,101,243
Prepayments		54,238	–
Derivative financial instruments		67,537	–
Pledged bank deposits		127,043	122,706
Bank balances		201,881	20,637
Deferred tax assets		2,337	–
		<u>18,331,395</u>	<u>12,483,551</u>
CURRENT ASSETS			
Inventories	<i>13</i>	2,191,269	1,158,643
Trade and other receivables and prepayments	<i>14</i>	1,221,871	706,659
Derivative financial instruments		–	11,145
Other financial assets		–	50,000
Pledged bank deposits		41,631	34,503
Bank balances and cash		1,887,744	1,123,710
		<u>5,342,515</u>	<u>3,084,660</u>

	<i>Note</i>	2021 RMB'000	2020 RMB'000
CURRENT LIABILITIES			
Trade and other payables	15	3,144,194	1,410,786
Tax payable		1,903	364
Bank borrowings		2,380,683	3,471,314
Other borrowings		433,676	–
Lease liabilities		50,435	23,851
Long term bonds		31,989	–
Derivative financial instruments		17,758	59,338
Contract liabilities		5,343	198
		<u>6,065,981</u>	<u>4,965,851</u>
NET CURRENT LIABILITIES		<u>(723,466)</u>	<u>(1,881,191)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,607,929</u>	<u>10,602,360</u>
CAPITAL AND RESERVES			
Share capital		675,869	555,535
Reserves		10,189,062	7,341,388
Equity attributable to owners of the Company		10,864,931	7,896,923
Non-controlling interests		249,803	141,521
TOTAL EQUITY		<u>11,114,734</u>	<u>8,038,444</u>
NON-CURRENT LIABILITIES			
Derivative financial instruments		98,330	24,000
Trade and other payables		23,967	–
Bank borrowings		2,285,333	2,171,012
Other borrowings		203,328	–
Long term bonds		3,159,730	–
Lease liabilities		517,077	196,042
Deferred tax liability		20,868	–
Deferred income		184,562	172,862
		<u>6,493,195</u>	<u>2,563,916</u>
		<u>17,607,929</u>	<u>10,602,360</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the “**Company**”) was incorporated and registered in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KYI-1104, Cayman Islands. The principal place of business of the Company is located in Economic and Technological Development Zone, Maanshan City, Anhui Province, the People’s Republic of China (the “**PRC**”).

As at 31 December 2021, 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 the “**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 consolidated financial statements are presented in Renminbi (“**RMB**”), which is the functional currency of the Company.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“**IASB**”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the IASB issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

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

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

IFRS 17	Insurance Contracts and the related Amendments ³
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to IAS 8	Definition of Accounting Estimates ³
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020 ²

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

The directors of the Company (the “**Directors**”) anticipate that the application of new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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

In preparation of the consolidated financial statements for the year ended 31 December 2021, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its total current assets by RMB723,466,000 (2020: RMB1,881,191,000). Taking into account, (i) the available credit facilities of approximately RMB5,618,008,000 which remain unutilised as at 31 December 2021 and of which, an amount of RMB1,000,000,000 is from Inner Mongolia Mengniu Dairy (Group) Company Limited (“**Inner Mongolia Mengniu**”), a subsidiary of Mengniu, and the remaining are from licensed banks; (ii) the expected net cash inflows generated from the Group’s operations for the next twelve months, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Fair value measurements of biological assets

The Group's biological assets are measured at fair value less costs to sell at the end of each reporting period. The Group uses valuation techniques that include inputs that are not based on market observable data to estimate the fair value of biological assets. For heifers and calves, the fair value is determined based on the 14 months old heifers' local market selling prices and adjusted by estimated feeding costs for heifers and calves older or younger than 14 months. For milkable cows, the fair value is determined by using the multi-period excess earning method with key inputs including the discount rate, the estimated feed costs per kilogram ("kg") of raw milk, estimated average daily milk yield at each lactation cycle and the estimated local future market price of raw milk. Any changes in the inputs may affect the fair value of the Group's biological assets significantly. The carrying amount of the Group's biological assets as at 31 December 2021 was RMB9,404,924,000 (2020: RMB7,101,243,000).

Estimated impairment of goodwill

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

As at 31 December 2021, the carrying amount of goodwill is RMB2,075,591,000 (2020: RMB1,322,457,000), net of accumulated impairment loss of RMB213,429,000 (2020: RMB213,429,000).

5. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Types of goods		
Raw milk	7,005,012	6,020,247
Feeds	<u>73,458</u>	<u>–</u>
	<u>7,078,470</u>	<u>6,020,247</u>
Timing of revenue recognition		
A point in time	<u>7,078,470</u>	<u>6,020,247</u>
Geographical markets		
Mainland China	7,059,603	6,020,247
Other countries	<u>18,867</u>	<u>–</u>
	<u>7,078,470</u>	<u>6,020,247</u>

(ii) Performance obligations for contracts with customers

For the sales of raw milk, revenue is recognised when control of the raw milk has been transferred, being at the point the customer received the raw milk and accepted the quality, the normal credit term of which is 30 days. For the sales of feeds, revenue is recognised when control of the feeds has been transferred, being at the point the customers received the feeds or at the point being despatched, depending on the terms of the contracts, the normal credit term is generally due within 30 to 90 days.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Sales of raw milk and feeds are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iv) **Segment information**

IFRS 8 *Operating Segments* (“**IFRS 8**”) requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “**CODM**”), in order to allocate resources and to assess performance. During the year, the Group commenced the business of sales of feeds after the acquisition of Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. (“**Fuyuan**”, Fuyuan and its subsidiaries are hereinafter collectively referred to as the “**Fuyuan Group**”), which is regarded as a new operating and reportable segment by the CODM. The quantitative thresholds of sales, profit and assets of feeds segment do not meet any of the quantitative thresholds required by IFRS 8, and the management believes that information about the segment would not be useful to users of the financial statements in the current year. Accordingly, no segment information is reported.

Geographical 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 (Note)	
	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Mainland China	7,057,441	6,020,247	17,810,823	12,335,128
USA	21,029	–	119,119	–
	<u>7,078,470</u>	<u>6,020,247</u>	<u>17,929,942</u>	<u>12,335,128</u>

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

(v) **Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Customer A	5,977,915	4,939,178
Customer B	<u>N/A</u>	<u>629,078</u>

6. OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Bank interest income	46,143	18,308
Government grants related to		
– Assets	47,733	31,131
– Others (<i>Note</i>)	<u>16,394</u>	<u>28,844</u>
	64,127	59,975
Others	<u>13,565</u>	<u>8,392</u>
	<u><u>123,835</u></u>	<u><u>86,675</u></u>

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 BEFORE FINANCE COSTS AND TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of sales:		
Breeding costs to produce raw milk	4,470,101	3,561,559
Raw milk fair value adjustments included in cost of sales	2,378,446	2,277,414
Cost of feeds sold	<u>58,894</u>	<u>–</u>
	<u><u>6,907,441</u></u>	<u><u>5,838,973</u></u>
Other gains and losses, net:		
Net foreign exchange gain	(84,287)	(158,173)
Loss on disposal of property, plant and equipment, net	9,659	13,110
Gains on disposal of subsidiaries	–	(72,280)
Impairment loss on goodwill	–	48,809
Fair value gain on other financial assets	(1,821)	(1,012)
Fair value loss/(gain) on derivative financial instruments:		
Foreign currency forward contracts	1,999	(26,381)
Foreign currency option contracts	90,884	53,413
Capped and floored cross currency swap	<u>(67,537)</u>	<u>–</u>
	<u>25,346</u>	<u>27,032</u>
	<u><u>(51,103)</u></u>	<u><u>(142,514)</u></u>

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Depreciation of property, plant and equipment	495,263	454,376
Less: capitalised in biological assets	<u>(213,639)</u>	<u>(191,851)</u>
Depreciation charged to profit or loss	<u>281,624</u>	<u>262,525</u>
Depreciation of right-of-use assets	22,296	16,904
Less: capitalised in biological assets	<u>(8,397)</u>	<u>(6,331)</u>
Depreciation charged to profit or loss	<u>13,899</u>	<u>10,573</u>
Short-term lease expense	21,301	15,305
Less: capitalised in biological assets	<u>(9,070)</u>	<u>(6,607)</u>
Short-term lease expense charged to profit or loss	<u>12,231</u>	<u>8,698</u>
Employee benefits expense:		
Salaries and allowances	599,645	573,810
Retirement benefit schemes contributions	39,635	11,808
Equity-settled share award expense	22,224	26,806
Less: capitalised in biological assets	<u>(173,506)</u>	<u>(120,868)</u>
Employee benefits charged to profit or loss	<u>487,998</u>	<u>491,556</u>
Auditors' remuneration	<u>3,350</u>	<u>2,600</u>

8. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest expenses on:		
Bank borrowings	187,924	258,883
Long term bonds	34,994	–
Other borrowings	11,142	7,221
Lease liabilities	<u>12,890</u>	<u>11,065</u>
Total borrowing cost	<u>246,950</u>	<u>277,169</u>
Fair value (gain)/loss on interest rate swaps	<u>(48,818)</u>	<u>41,455</u>
	<u>198,132</u>	<u>318,624</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Impairment losses recognised on:		
– Other receivables	476	157
Impairment losses reversed on:		
– Trade receivables – liquid milk product	–	(152)
	<u>476</u>	<u>5</u>

10. INCOME TAX EXPENSE AND DEFERRED TAXATION

Income tax expense

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current – PRC Enterprise Income Tax	1,899	639
Current – other jurisdiction	<u>124</u>	–
	<u>2,023</u>	<u>639</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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

According to the prevailing tax rules and regulation of the EIT Law, 31 subsidiaries of the Group are exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC for the year ended 31 December 2021 (2020: 16 subsidiaries) .

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

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. Deferred taxation has not been provided for in the consolidated financial statements in respect of the accumulated profits of the PRC subsidiaries amounting to RMB3,737,103,000 as at 31 December 2021 (31 December 2020: RMB2,836,473,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The tax expense for the current year can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	<u>1,035,222</u>	<u>784,404</u>
Tax at applicable income tax rate at 25% (2020: 25%)	258,806	196,101
Effect of tax exemption granted to agricultural entities and other duty-free areas	(318,643)	(241,126)
Effect of non-utilised losses incurred from agricultural business and other non-deductible expenses	54,782	42,817
Effect of different tax rates of subsidiaries operating in other jurisdictions	(26)	–
Effect of tax losses not recognised	7,105	2,916
Utilisation of tax losses previously not recognised	<u>(1)</u>	<u>(69)</u>
Income tax expense	<u>2,023</u>	<u>639</u>

11. DIVIDENDS

During the year, a final dividend of RMB0.02 per ordinary share in respect of the year ended 31 December 2020 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current year amounted to RMB142,532,000 and was appropriated from the Company's distributable share premium.

In December 2021, Haykingdom declared a dividend of USD2,556,000 (equivalent to RMB16,308,000) to its non-controlling shareholders and of which USD1,023,000 (equivalent to RMB6,530,000) was paid.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of RMB0.026 per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

12. EARNINGS PER SHARE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Earnings		
Profit for the year attributable to owners of the Company	1,018,832	770,010
Earnings for the purpose of basic and diluted earnings per share	<u>1,018,832</u>	<u>770,010</u>

	2021 <i>Shares</i>	2020 <i>Shares</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,062,840,875	6,380,386,978
Effect of dilutive potential ordinary shares:		
Share options	–	3,543,748
Share awards	<u>17,603,554</u>	<u>11,709,826</u>
	<u>7,080,444,429</u>	<u>6,395,640,552</u>

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

13. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Feeds to be consumed	1,888,090	1,108,020
Feeds held for sale	179,294	–
Others	<u>123,885</u>	<u>50,623</u>
	<u>2,191,269</u>	<u>1,158,643</u>

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	1,044,160	639,768
Bills receivables	1,176	–
Less: allowance for credit losses	–	(8,483)
	<u>1,045,336</u>	<u>631,285</u>
Prepayments for feeds, materials, insurance and others	149,239	47,736
Prepayments for property, plant and equipment	54,238	–
Input value added tax recoverable	6,720	2,938
Short term loan receivables	2,003	8,092
Receivables from disposal of subsidiaries	–	7,406
Others	18,573	9,202
	<u>1,276,109</u>	<u>706,659</u>
Analysed as:		
Current	1,221,871	706,659
Non-current	54,238	–
	<u>1,276,109</u>	<u>706,659</u>

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB541,570,000.

As at 31 December 2021, the Group's trade receivables with carrying amount of RMB7,250,000 (2020: nil) were pledged to secure certain bank and other borrowings granted to the Group.

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 and bills receivables, net of allowance for credit losses, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates at the end of the reporting period:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
– within 30 days	955,222	631,285
– beyond 30 days but within 90 days	49,977	–
– beyond 1 year but within 2 years (<i>Note</i>)	38,961	–
Bills receivables		
– within 30 days	135	–
– beyond 90 days but within 120 days	500	–
– beyond 120 days but within 360 days	541	–
	<u>1,045,336</u>	<u>631,285</u>

Note: The receivable balance belongs to a subsidiary, Zhongyuan Muye Company Limited (“**Zhongyuan**”), and is secured by the original shareholders of Zhongyuan (“**Zhongyuan Seller**”) and a consideration payable to Zhongyuan Seller of RMB256,338,000.

15. TRADE AND OTHER PAYABLES

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables		
– within 60 days	1,177,400	610,589
– beyond 60 days but within 120 days	337,617	146,753
– beyond 120 days but within 360 days	71,546	44,539
– beyond 360 days but within 720 days	25,359	15,015
Bills payable (<i>Note</i>)	<u>28,632</u>	<u>15,659</u>
	1,640,554	832,555
Payable for acquisition of property, plant and equipment	376,012	217,521
Accrued staff costs	241,636	212,269
Receipts in advance from disposal of dairy cows	11,375	27,093
Payables for acquisition of subsidiaries	643,197	–
Guarantee deposit	131,571	89,740
Payables for acquisition of non-controlling Interests	38,192	–
Dividends payable	9,778	–
Others	<u>75,846</u>	<u>31,608</u>
	<u><u>3,168,161</u></u>	<u><u>1,410,786</u></u>
Analysed as:		
Current	3,144,194	1,410,786
Non-current	<u>23,967</u>	–
	<u><u>3,168,161</u></u>	<u><u>1,410,786</u></u>

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

16. EVENTS AFTER THE REPORTING PERIOD

On 15 March 2022, Modern Farming (Group) Co., Ltd. (“**Modern Farming (Group)**”) (a subsidiary of the Company) entered into an equity transfer agreement with certain sellers (the “**Sellers**”) and Inner Mongolia Aiyangniu Technology Co., Ltd. (the “**Aiyangniu**”), pursuant to which the Sellers agreed to sell, and Modern Farming (Group) agreed to purchase, 75% equity interests in Aiyangniu at a total consideration of RMB287,774,900. The above transaction which constituted a discloseable and connected transaction of the Company and should be disclosed under Listing Rules has been published in the Company’s announcement dated 15 March 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the audited annual results of the Group for the Reporting Year.

INDUSTRY OVERVIEW

In 2021, China's economy continued to recover steadily in the face of complex and volatile domestic and foreign environments. Production demand continued to pick up along with the generally stable employment rate and price level, and the domestic economy was generally expected to be stable and improving. In 2021, China's GDP reached approximately RMB114.4 trillion, representing a yoy increase of 8.1%, and its economic growth is top-ranked among the top among the world's major economies. China's per capita GDP exceeded RMB80,000, outperforming the world's per capita GDP.

China's dairy farming industry continued to develop healthily. The level of quality and safety of raw milk kept on rising, and the operators of dairy industry saw a larger scale of development. China's dairy industry has made a good start in the first year of the "14th Five-Year Plan". China's dairy industry sustained a rapid growth, with milk production reaching 36.83 million tons in 2021, representing a yoy increase of 7.1%. In 2021, China's dairy imports reached 3.947 million tons, representing a yoy increase of 18.5%. In 2021, the average market price of raw fresh milk was approximately RMB4.29/kg, representing a yoy increase of 13.4%.

In terms of the international environment, due to the increase in operating costs and the impact of climate change, the milk production in New Zealand and the European Union exhibited a decreasing trend. The auction price of foreign whole milk powder continued to rise. In 2021, the price of whole milk powder increased by 29.2% yoy. China's imported milk powder reached 12.75 million tons in 2021, representing a yoy increase of 30.2% yoy.

The development of the dairy industry was promising despite facing a complex and severe situation. Opportunities and challenges coexisted. A series of policies issued by the state did support and scale up the development of the dairy industry as a whole and the enterprises involved, thereby creating more and greater development opportunities and room for dairy enterprises. At the beginning of the year, "Continuing to implement the Dairy Industry Revitalization Action" was mentioned in Central Document No. 1 as the main content of accelerating agricultural modernization. Milk sources and the construction of large-scale farms were still the focus of the industry, and many companies have launched a number of mergers and acquisitions to compete for high-quality milk sources.

To further improve the quality of supply, the kick-off meeting for the modernization evaluation of dairy enterprises and the promotion meeting for the grading and evaluation of modern dairy farms were held in Hebei Province, PRC. The modernization level of dairy enterprises can be divided into three grades, namely 3A, 2A and A. The modernization evaluation of dairy enterprises has a direct and important impact on the dairy market, and is of great significance in promoting the modernization of China's dairy industry.

BUSINESS REVIEW

During the Reporting Year, the Group was mainly engaged in the dairy farming (producing and selling quality raw milk to dairy operators). It also commenced the business of sales of feeds along with the acquisition of Fuyuan International and developed its self-branded liquid milk products through associates jointly established with China Mengniu Dairy Company Limited (“**Mengniu**”, together with its subsidiaries, refer to as “**Mengniu Group**”). The Group is committed to pooling resources and focusing on the upstream dairy farming business, and in response to customers' demand for high-quality raw milk, providing raw milk for diversified and high-end high-quality products.

As at 31 December 2021, the Group operated 33 dairy farming companies in the PRC with dairy cows of 353,793 heads and annualised milk yield of over 2 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 eighth consecutive year, symbolizing that our premium quality branded milk was widely recognized by all sectors of the society.

In terms of mergers and acquisitions, during the Reporting Year, the Company has completed several acquisitions including the one of Zhongyuan Muye Company Limited (“**Zhongyuan Muye**”) and Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd. (“**Fuyuan International**”), launched the Horinger Ranch of China Dairy Industrial Park strategic cooperation project in an innovative financial leasing way and successfully deployed its first large-scale ranch in Xinjiang, which opened a new chapter for the Group's business.

OPERATIONAL PERFORMANCE

Year 2021 is the debut of the Group's "Five-Year Lead Plan". With effective cost control and sound management, coupled with dynamic and appropriate herd expansion strategies, the Group has achieved a significant increase in major operating indicators during the Reporting Year. The average selling price ("ASP") of raw milk stood at RMB4.41/kg (2020: RMB4.13/kg), representing a yoy growth of 6.8%. The annual milk yield ("AMY") per milkable cow amounted to 11.3 tons (2020: 11.1 tons), representing a yoy growth of 1.8%. The total milk production for the Reporting Year hit 1.61 million tons (2020: 1.49 million tons), representing a yoy growth of 8.1%.

The Group continued to moderate the impact arising from the increase in feed costs through measures such as improving the health of dairy cows, optimizing the structure of feed formula, enhancing the absorbance and conversion rate of dairy cows, and leveraging on a consolidated procurement platform. During the Reporting Year, unit cost (excluding depreciation of property, plant and equipment) of milk ("UCM") of the Group was RMB2.67/kg (2020: RMB2.29/kg), representing a yoy increase of RMB0.38/kg, mainly due to the increase of feed costs. The direct feed cost per kilogram of milk was RMB2.11/kg (2020: RMB1.77/kg), representing a yoy increase of RMB0.34/kg.

The Group has been dedicated to the fulfillment of the objectives of "increase output, reduce cost and upgrade quality", and implemented various measures to enhance and streamline the procurement process so as to reduce purchasing costs.

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 size and volume of annual production. With farms spreading across the nation, we are endowed with unique geographical advantages. Most of our dairy farms are located at regions with fine climate and ample feed supply, and are adjacent to processing plants of dairy products to ensure that procedures from the milking to processing could be completed in the shortest time and the nutritional value and freshness could be maintained at the highest level.

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

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

Smart & Efficient Dairy Farm

The Company is committed to building efficient and smart dairy farms and strengthening the core competitiveness of the dairy industry in the new era. By strengthening the smart management technology, we improve the farm production management system, integrate technology into the efficient management of the farm, empower the new ecosystem of the dairy industry with efficient digital operation, thereby realizing the intelligent transformation of the farm. During the year, we have comprehensively unified the ranch management platform: “YIMU Cloud”. As the “smart brain” of the ranch, “YIMU Cloud” integrates the daily management of cows, technical system monitoring and other management functions, comprehensively simplifying the process of data analysis and traceability, realizing the integration, analysis and prediction of ranch data and instilling solutions into the first-line production process, and assists the first-line implementation, improves the working efficiency of the ranch, and realizes the highly information-based collaborative operation of the ranch.

Xinjiang Changji Project

On 15 September 2021, Changji Municipal People’s Government, Inner Mongolia Mengniu Dairy (Group) Co., Ltd., Modern Farming (Group) Co., Ltd. (a subsidiary of the Company) and Changji Agricultural Investment Development and Operation Co., Ltd. entered into a strategic cooperation agreement to officially launch Modern Dairy Strategic Cooperation Project of the standardized demonstration dairy farm of 5,000 dairy cows in Changji, Xinjiang, marking the successful deployment of the first large-scale breeding dairy farm in Xinjiang by Modern Dairy. Modern Dairy has accelerated the implementation of such project with its innovative leasing operation model, mature and advanced experience in the farm operation and management accumulated over the years as well as standardized construction, automated production and digitalized and intelligent management.

Herd Size

As at 31 December 2021, the Group operated 33 farm companies with 353,793 dairy cows (2020: 247,371 heads), representing an increase of 43.0% yoy in mainland China. The increase in 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 3.0 ppt to 52.1% in 2021 (2020: 55.1%) 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.

Milk Yield

During the Reporting Year, the Group recorded AMY of 11.3 tons per milkable cow (2020: 11.1 tons), representing a yoy increase of 1.8%. The total annual milk production of the Group grew 8.1% yoy to 1.61 million tons (2020: 1.49 million tons). The increase in milk yield was attributable to effective herd management, genetic improvement over generations, and increase in the number of cows reaching peak stage of lactation. Milk yield is affected by a number of factors, including the frequency of lactation, breed, comfort level, genetics and feed mix. The Company has continuously been conducting research on each factor, inviting foreign and domestic cow experts to regularly station and give guidance at the farms, and, through interactive sharing amongst industry experts and staff training, improving milk yield and cow health.

FINANCIAL OVERVIEW

Revenue

Business Analysis

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Raw milk	7,005,012	6,020,247
Feeds	73,458	–
Consolidated revenue	<u>7,078,470</u>	<u>6,020,247</u>

During the Report Year, the Group's revenue increased by 17.6% yoy to RMB7,078.5 million (2020: RMB6,020.3 million). The increase was mainly due to the increase in sales volume of raw milk and increase in ASP of raw milk, as well as the revenue generated from sales of feeds along with the acquisition of Fuyuan International.

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

	2021			2020		
	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/ton</i>	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/ton</i>
Raw milk	<u>7,005,012</u>	<u>1,586,857</u>	<u>4,414</u>	<u>6,020,247</u>	<u>1,456,962</u>	<u>4,132</u>

The Group's total revenue of the sales of raw milk increased by 16.4% yoy to RMB7,005.0 million during the Reporting Year (2020: RMB6,020.2 million). The increase was mainly due to the increase in ASP of raw milk and increase in sales volume of raw milk.

ASP of raw milk grew by 6.8% yoy to RMB4.41/kg during the Reporting Year (2020: RMB4.13/kg).

Total sales volume of raw milk increased by 8.9% yoy to approximately 1.59 million tons during the Reporting Year (2020: 1.46 million tons), mainly due to the rise in AMY per milkable cow and the contribution of sales volume of raw milk from newly acquired farms.

COST OF SALES

The Group's cost of sales primarily consisted of cost of dairy farming and feeds sales. The following table sets forth the breakdown of the cost of sales of our products for the years indicated:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Dairy farming business	4,470,101	3,561,559
Feeds sales business	<u>58,894</u>	<u>—</u>
Total cost of sales	<u>4,528,995</u>	<u>3,561,559</u>

Dairy Farming Business

The following table sets forth the breakdown of the cost of sales of the dairy farming business for the years indicated:

	2021		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Dairy Farming Business				
Direct materials	3,453,182	77.2%	2,664,608	74.8%
Labor cost	304,030	6.8%	266,325	7.5%
Utilities	123,525	2.8%	111,689	3.1%
Depreciation of property, plant and equipment	231,078	5.2%	227,366	6.4%
Other costs of farms	358,286	8.0%	291,571	8.2%
Total	<u>4,470,101</u>	<u>100.0%</u>	<u>3,561,559</u>	<u>100.0%</u>

During the Reporting Year, direct materials (mainly forage) cost of the dairy farming business amounted to RMB3,453.2 million (2020: RMB2,664.6 million), representing a yoy growth of 29.6%, mainly due to the increase of feed prices and the increase in the number of lactating cows.

The feed prices had significantly increased, globally and domestically as a result of the COVID-19 pandemic (the “**Pandemic Outbreak**”) and the recovery of the domestic farming industry, etc. The Group implemented various measures to enhance and streamline the procurement process so as to reduce purchasing costs. The Company has lowered operating costs through improving the formula, adjusting the feed mix, enhancing the health of cows, raising unit production, broadening sources of income and reducing expenditure. During the Reporting Year, the Group successfully kept UCM at RMB2.67/kg (2020: RMB2.29/kg), representing a yoy increase of RMB0.38/kg. Out of which, the feed cost per kg of raw milk amounted to RMB2.11/kg (2020: RMB1.77/kg), representing a yoy increase of RMB0.34/kg.

Gross Profit and Profitability

The following table sets forth the breakdown of gross profit and gross profit margin of our business for the years indicated:

	2021		2020	
	Gross profit RMB'000	Gross profit margin	Gross profit RMB'000	Gross profit margin
Dairy farming business	2,534,911	36.2%	2,458,688	40.8%
Feeds sales business	14,564	19.8%	—	—
Total	<u>2,549,475</u>	<u>36.0%</u>	<u>2,458,688</u>	<u>40.8%</u>

The Company's financial performance is highly correlated with market prices and costs of raw milk and also affected by the milk yield of each milkable cow. In general, when milk prices increase, the Company's profitability will increase correspondingly under normal operation condition. When milk yield improves, the UCM will correspondingly decrease relatively.

During the Reporting Year, gross profit of the Group's dairy farming business amounted to RMB2,534.9 million (2020: RMB2,458.7 million), representing an increase of 3.1% yoy, which was mainly due to the increase in price and sales volume of raw milk. Gross profit margin of the Group's dairy farming business stood at 36.2% (2020: 40.8%), representing a drop of 4.6 ppt yoy.

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

As at 31 December 2021, the biological assets of the Group were valued at RMB9,404.9 million (31 December 2020: RMB7,101.2 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, representing an increase of 32.4% yoy, mainly due to the increase of herd size.

Losses arising from changes in the fair value of dairy cows less costs to sell dairy cows were RMB956.0 million as at 31 December 2021 (31 December 2020: RMB1,031.3 million), representing a decrease of 7.3% yoy, mainly due to the increase in number of reserved heifers, and the increase in the market price of beef and calves.

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

During the Reporting Year, the gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest amounted to RMB2,378.4 million (2020: RMB2,277.4 million), representing an increase of 4.4% yoy, mainly due to the increase in sales volume of raw milk and its market price.

International Financial Reporting Standards (“IFRS”) required that raw milk harvested was initially measured at fair value less costs to sell, and the difference between the fair value less costs to sell and the actual costs incurred was charged to profit or loss.

Other Income

During the Reporting Year, other income amounted to RMB123.8million (2020: RMB86.7 million) which mainly consisted of government grants and interest income, of which interest income accounted for RMB46.1 million (2020: RMB18.3 million), while the government grants amounted to RMB64.1 million (2020: RMB60.0 million). Government grants mainly consisted of subsidies for agricultural projects such as “Grain to Fodder”.

Operating Expenses

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Selling and distribution costs	183,732	194,440
Administrative expenses	379,065	374,155
Total operating expenses	562,797	568,595

The total operating expenses was RMB562.8 million during the Reporting Year (2020: RMB568.6 million), approximately the same as the last year.

- ***Selling and distribution costs***

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Transportation costs and others	179,090	191,112
Business tax and surcharge	4,642	3,328
Total selling and distribution costs	183,732	194,440

Selling and distribution costs mainly consisted of transportation costs for sales of raw milk and feeds. During the Reporting Year, selling and distribution costs stood as RMB183.7 million (2020: RMB194.4 million), representing a decrease of 5.5% yoy, mainly due to the decrease in transportation costs.

- **Administrative expenses**

Administrative expenses mainly included remuneration of management staff (including equity-based share award expenses) and depreciation charges of office building, staff quarters and facilities. During the Reporting Year, administrative expenses amounted to RMB379.1 million (2020: RMB374.2 million), approximately the same as the last year.

Other Gains and Losses, Net

During the Reporting Year, net gains arising from other gains and losses amounted to RMB51.1 million (2020: net losses of RMB142.5 million) mainly consisting of net amount of foreign exchange (gains)/losses, impairment provision for fixed assets and impairment loss on goodwill. The breakdown of other gains and losses is as follows:

	2021	2020
	RMB'000	RMB'000
Other gains and losses:		
Net foreign exchange (gains)/loss	(84,287)	(158,173)
Loss on disposal of property, plant and equipment	9,659	13,110
Gains on disposal of subsidiaries	–	(72,280)
Impairment loss on goodwill	–	48,809
Fair value gain on other financial assets	(1,821)	(1,012)
Fair value (gain)/loss on derivative financial instruments		
Foreign currency forward contracts	1,999	(26,381)
Foreign currency option contracts	90,884	53,413
Capped and floored cross currency swap	(67,537)	–
	25,346	27,032
	(51,103)	(142,514)

Other Expenses

During the Reporting Year, other expenses amounted to RMB8.7 million (2020: RMB16.5 million), representing a decrease of 47.3% yoy mainly due to the impact of one-off significant donation expenses during the Pandemic Outbreak in 2020.

Finance Costs

During the Reporting Year, finance costs amounted to RMB198.1 million (2020: RMB318.6 million), representing a decrease of 37.8% yoy. Among the finance costs, borrowing costs amounted to RMB246.9 million (2020: RMB277.2 million), representing a decrease of 10.9% yoy mainly due to the decrease of the financing interest rate and effective control of borrowings scale.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's cash EBITDA amounted to RMB2,434.3 million during the Reporting Year (2020: RMB2,264.9 million), representing a yoy growth of 7.5%. The cash EBITDA margin was 34.4% (2020: 37.6%), with a decrease by 3.2 ppt.

Taking into account the above factors, profit attributable to owners of the Company amounted to RMB1,018.8 million during the Reporting Year (2020: RMB770.0 million), grew by 32.3% yoy.

During the Reporting Year, basic earnings per Share of the Company (the "Share") was RMB14.43 cents (2020: RMB12.07 cents per Share). Diluted earnings per Share was RMB14.39 cents (2020: RMB12.04 cents per Share).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2021, the net gearing ratio, which was 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 56.1% (31 December 2020: 53.4%) with a yoy increase of 2.7 ppt.

As at 31 December 2021, the Group's available and unutilized credit facilities were approximately RMB5,618.0 million (31 December 2020: RMB4,597.9 million). Having considered (i) forecast cash flow from operating activities of continuing operation; (ii) existing financial resources and gearing level of the Group, the Directors believe that the Group's financial resources are sufficient to meet its debt repayment, day-to-day operations, contracted capital expenditures as at 31 December 2021.

INTEREST-BEARING BORROWINGS

As at 31 December 2021, the total interest-bearing borrowings of the Group was RMB8,494.7 million (2020: RMB5,642.3 million), representing a yoy increase of 50.6%.

Details are set out as below:

	2021 RMB'000	2020 RMB'000
Borrowings:		
Bank borrowings	4,666,016	5,642,326
Other borrowings	637,004	–
Long term bonds	3,191,719	–
	<u>8,494,739</u>	<u>5,642,326</u>
Carrying value repayable:		
Within one year	2,846,348	3,471,314
Between one to two years	1,252,000	703,519
Between two to five years	4,326,143	1,467,493
Over five years	70,248	–
	<u>8,494,739</u>	<u>5,642,326</u>

The following is an analysis of the respective borrowings:

- **Bank borrowings**

During the Reporting Year, the annual interest rate of bank borrowings varied from 1.21% to 7.26% (2020: from 0.66% to 5.17%).

The table below sets forth the short-term and long-term bank borrowings as at 31 December 2021:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings:		
Unsecured borrowings	4,064,347	5,281,002
Secured borrowings	601,669	361,324
	<u>4,666,016</u>	<u>5,642,326</u>
Carrying amounts repayable:		
Within one year	2,380,683	3,471,314
Between one to two years	1,234,489	703,519
Between two to five years	980,596	1,467,493
Over five years	70,248	–
	<u>4,666,016</u>	<u>5,642,326</u>

- **Other borrowings**

During the Reporting Year, the annual interest rate of other borrowings varied from 3.85% to 12.00%.

The table below sets forth the short-term and long-term other borrowings as at 31 December 2021:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Other borrowings:		
Unsecured borrowings	557,217	–
Secured borrowings	<u>79,787</u>	<u>–</u>
	<u>637,004</u>	<u>–</u>
Carrying amounts repayable:		
Within one year	433,676	–
Between one to two years	17,511	–
Between two to five years	<u>185,817</u>	<u>–</u>
	<u>637,004</u>	<u>–</u>

- **Long term bonds**

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amounts repayable:		
Within one year	31,989	–
Between two to five years	<u>3,159,730</u>	<u>–</u>
	<u>3,191,719</u>	<u>–</u>

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

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

The carrying amounts repayable within one year are interests payable.

GROUP STRUCTURE

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

CAPITAL STRUCTURE

On 27 January 2021, the Company has completed a placement of an aggregate of 650,000,000 new shares under general mandate to certain independent third parties at the placing price of HK\$2.40 per share.

On 29 November 2021, pursuant to the sale and purchase agreement for the acquisition of Fuyuan International, the Company has issued and allotted 807,096,101 shares of the Company at the issue price of HK\$2.24 per share to Mengniu as part of the consideration for the acquisition.

As at 31 December 2021, the total number of ordinary shares in issue of the Company was 7,915,662,048 shares (31 December 2020: 6,458,565,947 shares).

As at 31 December 2021, the net assets attributable to owners of the Company amounted to approximately RMB10,864.9 million (31 December 2020: approximately RMB7,896.9 million), the net borrowings of the Group (total interest-bearing borrowings less cash and deposit assets) amounted to approximately RMB6,236.4 million (31 December 2020: approximately RMB4,290.8 million).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

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

As at 31 December 2021, biological assets with carrying value of RMB770.4 million (31 December 2020: RMB754.0 million), time deposits of RMB127.0 million (31 December 2020: RMB122.7 million), trade receivables of RMB7.25 million (31 December 2020: nil) and properties of RMB112.1 million (31 December 2020: nil) were pledged as security for the Group's borrowings.

The Group did not have any significant contingent liabilities as at 31 December 2021 and 2020.

CAPITAL COMMITMENTS

As at 31 December 2021, the Group's capital commitments in relation to the acquisition of property, plant and equipment amounted to RMB244.5 million (31 December 2020: RMB20.2 million) with a significant increase of RMB224.3 million yoy, mainly due to the increase of newly built dairy farms.

FINANCIAL MANAGEMENT POLICIES

The Group continued to closely manage financial risks to safeguard the interest of the shareholders of the Company. The Group applied its cash flows generated from operations, bank loans and proceeds from the issuance of bonds and ordinary shares of the Company to satisfy its operational and investment needs.

SOCIAL RESPONSIBILITY

Upholding the principle of “safety and quality come first”, the Group is proactive when it comes to fulfilling its social responsibility. The Group proactively develops and implements modern and scientific breeding and feeding know-how. The Group devotes great effort to strike a balance between business growth and social responsibility, so as to convey the Group’s care and blessing to all stakeholders. The Group is committed to improving the quality of its products by providing consumers with a commitment to provide healthy, safe, nutritious and high-quality dairy products. Meanwhile, it adheres to the production principle of energy conservation and environmental protection. The Group actively promotes the economic development of the surrounding areas where the farms are located and increases the income of local residents. The Group actively implements the precise poverty alleviation policy, responds to the call of poverty alleviation, and is devoted to poverty alleviation within the industry and society. Firstly, the contracts of silage planting were signed with local farmers in the farming areas to reduce the impact of natural disasters on crop harvest and simultaneously solve the local employment problem. The Group’s farms provide multiple jobs throughout the country, effectively alleviating the pressure of surplus rural labor force and increasing the income of local farmers. The Group also undertakes social responsibility and promotes local economic development through measures such as making direct donation of materials, money and paying visits to nursing homes. The road of the Group’s social responsibility passes through from dairy cow 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 of promoting sustainable development of the dairy industry and giving back to the nature and serving the society.

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

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2021, the Group had approximately 6,772 employees (31 December 2020: 4,455 employees) in mainland China and Hong Kong, including 2,157 employees added as a result of mergers and acquisitions that took place during the Reporting Year. Total staff costs during the Reporting Year (excluding equity-settled share award expense) were approximately RMB639.3 million (2020: RMB585.6 million), including staff cost of approximately RMB35.2 million resulting from mergers and acquisitions that took place during the Reporting Year.

In 2021, the Group implemented comprehensive organizational reforms to enhance organizational capabilities, and established a sound human resources system according to the Company's strategy and organizational needs. The Group has upgraded its organizational configuration, introduced senior management talents, comprehensively improved and upgraded the salary and performance management system, implemented the happiness and welfare scheme for employees and established the talent career development system, aiming to continuously optimize employees' income and career development, provide employees with competitive salaries, a career development platform with continuous promotion and offer 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", with the business guidelines of "widening horizontally and deepening vertically" to strengthen the core dairy industry. We expect to grow the dairy herd to more than 500,000 by 2025, with an annual output of 3.6 million tons of fresh milk. To explore new business and increase new profit growth points, Modern Dairy is planning to enter the feed sector, develop the beef cattle business and the trading platform business, cultivate breeding business and integrate land, forage and resources, so that we can further improve the layout of the whole industry chain and enhance the Group's overall competitive advantages.

In February 2022, the Ministry of Agriculture and Rural Affairs issued a notice on the "14th Five-Year Plan for Improving the Competitiveness of Dairy Industry", stating that "by 2025, the national milk production should reach approximately 41 million tons, and the proportion of farms with a herd size of more than one hundred cows should reach approximately 75%". This provides specific action indicators for the future development of the upstream dairy industry. As a leading enterprise in the dairy industry, Modern Dairy is duty-bound to contribute to the development, improvement and expansion of the dairy industry. In the future, we will continue to adhere to the concept of high-quality development, the path of large-scale development and the development strategy of integrating forage grass planting, cows breeding and milk processing, so as to seize the opportunities in the industry, improve the efficiency of internal growth and create another peak in production. We will strive to develop ourselves into a global industry-leading dairy farming group led by digital and intelligent innovations, covering the whole ecological industry chain with healthy, safe and high-quality dairy cows and milk as well as strong cultural genes by 2025.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (“**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The Company has, throughout the Reporting Year and up to the date of this announcement, complied with the code provisions set out in the CG Code except for the deviation from code provisions A.6.7.

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

Save as disclosed above, the Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions of the CG Code.

On 1 January 2022, the amendments to the Corporate Governance Code (the “**New CG Code**”) came into effect and the requirements under the New CG code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the New CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the code of conduct regarding securities transactions by Directors adopted by the Company during the Reporting Year.

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

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Reporting Year, except that the trustee of the share award scheme of the Company adopted on 26 March 2018, pursuant to the rules of this scheme, purchased on the open market a total of 36,526,000 (2020: 20,000,000 shares) ordinary shares of the Company as restricted shares at a consideration of approximately HK\$54,689,000 (equivalent to RMB45,468,000) (2020: HK\$17,255,000 (equivalent to RMB15,763,000)). The Group retained a total number of 4,420,482 (2020: 5,510,525 shares) vesting shares as a consideration of approximately HK\$8,974,000 (equivalent to RMB7,584,000) (2020: HKD4,519,000 (equivalent to RMB4,129,000)) for paying the individual income tax on behalf of those selected participants under the share award schemes of the Company.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.026 (2020: RMB0.02) per ordinary share for the year ended 31 December 2021. Upon shareholders' approval at the forthcoming annual general meeting of the Company, which will be held on Wednesday, 8 June 2022 (the "AGM"), the proposed final dividend will be paid on or about Thursday, 30 June 2022 to shareholders whose names appear on the register of members of the Company on Friday, 16 June 2022.

No interim dividend was paid during the Reporting Year (2020: nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Thursday, 2 June 2022 to Wednesday, 8 June 2022, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) from Tuesday, 14 June 2022 to Thursday, 16 June 2022, both days inclusive, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM of the Company to be held on Wednesday, 8 June 2022, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 1 June 2022.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 13 June 2022.

EVENTS AFTER THE REPORTING YEAR

Reference is made to the announcement of Company dated 15 March 2022, Modern Farming (Group) entered into an equity transfer agreement with certain sellers (the "Sellers") and Inner Mongolia Aiyangniu Technology Co., Ltd. (the "Aiyangniu"), pursuant to which the Sellers agreed to sell, and Modern Farming (Group) agreed to purchase, 75% equity interests in Aiyangniu at a total consideration of RMB287,774,900 ("Aiyangniu Acquisition"). The Aiyangniu Acquisition constituted a discloseable and connected transaction of the Company under the Listing Rules. The Company will convene an extraordinary meeting for the independent shareholders to consider and approve, if thought fit, the Aiyangniu Acquisition in due course.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Director named in the paragraphs below have interests in businesses, which are considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group during the Reporting Year.

As mentioned above, each of Mr. Lu Minfang, Mr. Zhang Ping and Mr. Zhao Jiejun, held offices in Mengniu during the Reporting Year. Mengniu is a substantial shareholder of the Company and is engaged in the dairy industry. Mr. Lu Minfang and Mr. Zhang Ping are the directors of China Shengmu Organic Milk Limited which operates dairy farming business. Mr. Li Shengli was also one of the independent non-executive directors of China Zhongdi Dairy Holdings Company Limited (delisted, previous stock code: 1492), which operates dairy farming business.

The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length basis, the businesses of these entities. When making decisions, the relevant Directors, in performance of his duty as Director, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the business of the Group during the Reporting Year.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The Group's auditor, Messrs. Deloitte Touche Tohmatsu, has agreed that the figures contained in the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the same year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements as issued by the Hong Kong Institute of Certified Public Accountants. Consequently, no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors, namely Mr. LEE Kong Wai, Conway and Mr. CHOW Ming Sang and one non-executive Director, Mr. ZHANG Ping. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company, and discussed the risk management and internal control systems and financial reporting matters including the review of the audited results for the year ended 31 December 2021.

PUBLICATION OF THE ANNUAL REPORT

The annual report of the Group for the year ended 31 December 2021 will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.moderndairyir.com) in due course.

BOARD OF DIRECTORS

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.

APPRECIATION

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

On behalf of the Board
China Modern Dairy Holdings Ltd.
Mr. LU Minfang
Chairman

Hong Kong, 29 March 2022