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MODERN FARMING  
现代牧业

**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

**HIGHLIGHTS**

With the corporate vision of “establishing a whole dairy value chain, innovating with digital intelligence, and becoming a global dairy farming leader”, while focusing on the core business of raw milk and driven by digitalization and ecological approaches, the Group’s businesses cover the entire dairy value chain of the dairy industry’s upstream sectors, including breeding, forage plantation, feeds, dairy farming and dairy value chain internet trading platform. As the domestic consumer market recovers gradually, the Group started to see a rapid release of raw milk production capacity. With its cost advantage and leveraging on an organic synergy between new and the conventional businesses, the Group substantiates a stable and continuous business development with high quality.

**Strong Growth in Core Business:** Raw milk production being the core business of the Group, has performed solidly. During the period, the herd size, AMY, total milk yield and sales revenue of raw milk have all recorded a significant growth. As of 30 June 2023, the Group had invested in and operated 42 dairy farming companies in mainland China, and the number of dairy cows reached 418,596 heads, representing a yoy increase of 35,903 heads over the same period last year or a yoy increase of 9.4%. The AMY per milkable dairy cow reached an industry-leading level of 12.6 tons as at the end of the period, representing a yoy increase of 2.4%, and it is expected to grow continuously. Total milk yield reached 1.249 million tons during the period, representing a yoy increase of 8.4%, with sales revenue amounting to RMB5,044 million, representing a yoy increase of 3.8%.

**Robust Financial Fundamental with Decreasing Leverage:** During the period, the Group’s persistent strengthening of cost reduction and cash flow control internally and the active exploration of upstream and downstream synergies externally to cope with the operation pressure from the industry, resulted in a significant yoy increase of 70% in net cash inflow from operating activities to RMB2.18 billion (compared to RMB1.28 billion for the same period last year) and net free cash inflow of approximately RMB900 million (compared to that of net outflow of RMB560 million for the same period last year). The Group’s overall financial foundation is solid and resilient, and all business segments continue to grow healthily.

**Rapid Development of New Business:** Along with last year’s successful acquisition of Aiyangniu and development of Liangyuan Technology, Modern Feed, Modern Grassland and Meng Yuan Genetics etc., the Group’s businesses have expanded to the operation of industry value chain internet trading platform, forage and feed production and premium cow semen sectors. These new businesses collectively contributed sales revenue of RMB1.59 billion for the Group, representing a yoy increase of 105%. These new businesses have brought new sources of profit to the Group, and strengthened the vertical layout and security of industry value chains, while synergising with the core business to build an industry-leading digital technology moat.

**Excellent ESG Performance:** The Group treated ESG as an integral part of its core competitiveness. We keep focusing on the dual synergy of “ecological industrialisation • industrial ecologicalisation” development, which integrated the economic development and environmental conservation to the Group’s business. During the period, the Group has been awarded the “Green Development Typical Case” by the China Dairy Industry Association. The Group’s domestically pioneered medium-temperature anaerobic fermentation and waste treatment system is an excellent case of low-carbon emission reduction and has successfully been included in the report of the United Nations Global Compact.

**Stable Rating Outlook:** During the period, Modern Dairy was again assigned a “BBB” investment grade credit rating by Standard & Poor’s with a stable outlook, making it the first Chinese dairy farming enterprise in the PRC to receive such a rating, which fully demonstrates the capital market’s confidence in the Company’s performance in terms of sustained growth and financial stability. The credit rating affirms the international credit rating agencies’ recognition of the Company’s and China’s large-scale dairy farming model, and also facilitates the Company to secure more competitive financing terms.

**Excellent Product Quality:** Modern Dairy abides by the business philosophy of “cow-oriented”. From forage grass planting, cows breeding to milk processing, the Group utilises digital intelligence to carry out 24/7 all weather monitoring of each link in the whole dairy value chain to ensure the quality and safety of raw milk. During the period, the Group’s farms were certified as the “High Quality Milk Project”. Our branded pure milk was awarded the Gold Prize of the Monde Selection for ten consecutive years. In response to customer demands, Modern Dairy launched a speciality milk track and arranged A2 milk exclusive farms to provide more high-quality and safe milk products for consumers.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

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

	<b>For the six months ended 30 June</b>		
	<b>2023</b>	2022	Change
<b>FINANCIAL DATA</b>	<b>(unaudited)</b>	(unaudited)	
Revenue	<b>6,633.4</b>	5,632.1	+17.8%
Cash EBITDA <sup>(Note 1)</sup>	<b>1,271.4</b>	1,440.8	-11.8%
Net profit	<b>217.9</b>	531.1	-59.0%
Net cash from operating activities	<b>2,182.9</b>	1,282.2	+70.2%
Net free cash inflow (outflow) <sup>(Note 2)</sup>	<b>896.7</b>	(559.3)	N/A
Net asset value per share (RMB) <sup>(Note 3)</sup>	<b>1.44</b>	1.41	+2.1%
<b>KEY OPERATING DATA</b>			
Herd size (heads)	<b>418,596</b>	382,693	+9.4%
Annualised average yield (tons/head • year)	<b>12.6</b>	12.3	+2.4%
Milk yield (ten thousand tons)	<b><u>124.9</u></b>	<u>115.2</u>	<u>+8.4%</u>

Notes:

- (1) Cash EBITDA is defined as earnings before finance costs and tax having added back: i) depreciation and amortisation charged to profit or loss; ii) other gains and losses, net; iii) impairment losses under expected credit loss model, net of reversal; and iv) loss arising from changes in fair value less costs to sell of dairy cows.
- (2) Free cash flow is defined as the net cash generated from operating activities minus the net cash outflow from investment activities.
- (3) Equity attributable to owners of the Company at the period end divided by the number of ordinary shares in issue at the end of the periods, defined as of 30 June 2023 and 30 June 2022.

In this announcement, “we”, “us” and “our” refer to the Company (as defined below) and, unless the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of China Modern Dairy Holdings Ltd. (the “**Company**” or “**Modern Dairy**”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2023, together with comparative figures for the corresponding period in 2022. The interim results have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and the Group’s auditor Deloitte Touche Tohmatsu.

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

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023	2022
		RMB’000	RMB’000
		(unaudited)	(unaudited)
Revenue	4	<b>6,633,422</b>	5,632,126
Cost of sales	7	<b>(6,428,562)</b>	(5,456,477)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		<b>1,315,892</b>	1,479,174
Gross profit		<b>1,520,752</b>	1,654,823
Loss arising from changes in fair value less costs to sell of dairy cows		<b>(534,237)</b>	(337,645)
Other income	6	<b>119,004</b>	81,238
Impairment losses under expected credit loss model, net of reversal		<b>(2,483)</b>	(981)
Selling and distribution costs		<b>(173,259)</b>	(165,577)
Administrative expenses		<b>(379,117)</b>	(318,438)
Other gains and losses, net	7	<b>(46,281)</b>	(225,409)
Other expenses		<b>(16,100)</b>	(2,510)
Share of results of associates and a joint venture		<b>5,450</b>	3,023
Profit before finance costs and tax	7	<b>493,729</b>	688,524
Finance costs	8	<b>(260,423)</b>	(153,847)
Profit before tax		<b>233,306</b>	534,677
Income tax expense	9	<b>(15,397)</b>	(3,539)
Profit for the period		<b>217,909</b>	531,138

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**

*For the six months ended 30 June 2023*

		<b>Six months ended 30 June</b>	
		<b>2023</b>	2022
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Other comprehensive (expense)/income:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)		<b>(31,269)</b>	(4,492)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u><b>10,571</b></u>	<u>3,647</u>
Other comprehensive expense for the period, net of income tax		<u><b>(20,698)</b></u>	<u>(845)</u>
Total comprehensive income for the period		<u><b>197,211</b></u>	<u>530,293</u>
Profit for the period attributable to:			
Owners of the Company		<b>209,288</b>	507,688
Non-controlling interests		<u><b>8,621</b></u>	<u>23,450</u>
		<u><b>217,909</b></u>	<u>531,138</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>188,416</b>	506,857
Non-controlling interests		<u><b>8,795</b></u>	<u>23,436</u>
		<u><b>197,211</b></u>	<u>530,293</u>
Earnings per share (RMB)	<i>11</i>		
Basic		<b>2.66 cents</b>	6.46 cents
Diluted		<u><b>2.65 cents</b></u>	<u>6.45 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<b>RMB'000</b> <b>(unaudited)</b>	<b>RMB'000</b> <b>(audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		5,778,875	5,702,907
Right-of-use assets		1,935,018	1,256,949
Goodwill		2,418,865	2,406,658
Other intangible assets		52,431	45,258
Interests in associates and a joint venture		521,657	458,917
Biological assets	12	11,207,443	10,631,171
Equity instruments at FVTOCI		74,960	106,229
Prepayments	13	55,447	29,936
Derivative financial instruments		120,585	19,154
Bank balances		433,312	236,281
Deferred tax assets		1,234	827
		<b>22,599,827</b>	<b>20,894,287</b>
<b>CURRENT ASSETS</b>			
Inventories		2,208,967	3,379,346
Trade and other receivables and prepayments	13	1,849,888	2,183,907
Derivative financial instruments		–	22,202
Pledged bank deposits		37,193	187,339
Bank balances and cash		2,377,402	2,125,628
		<b>6,473,450</b>	<b>7,898,422</b>
Assets classified as held for sale		17,551	28,644
		<b>6,491,001</b>	<b>7,927,066</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	2,844,361	3,288,701
Tax payable		8,138	5,004
Bank borrowings	15	2,907,457	4,831,164
Other borrowings	16	284,019	22,704
Lease liabilities		181,428	111,392
Long term bonds	17	35,615	34,944
Other liabilities		4,573	4,573
Derivative financial instruments		10,564	14,388
Contract liabilities		63,061	43,204
Short term debenture		–	100,522
Deferred income		17,845	11,563
		<b>6,357,061</b>	<b>8,468,159</b>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>133,940</b>	<b>(541,093)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>22,733,767</b>	<b>20,353,194</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

*As at 30 June 2023*

	<b>30 June 2023</b>	31 December 2022
<i>Notes</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(unaudited)</b>	(audited)
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>675,869</b>	675,869
Share premium and reserves	<b>10,684,158</b>	10,588,248
	<hr/>	<hr/>
Equity attributable to owners of the Company	<b>11,360,027</b>	11,264,117
Non-controlling interests	<b>419,662</b>	379,183
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>11,779,689</b>	11,643,300
	<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>		
Bank borrowings	<i>15</i> <b>5,275,285</b>	3,752,421
Other borrowings	<i>16</i> <b>252,888</b>	271,115
Long term bonds	<i>17</i> <b>3,591,159</b>	3,458,072
Lease liabilities	<b>1,569,339</b>	956,653
Derivative financial instruments	<b>23,166</b>	43,646
Deferred tax liabilities	<b>21,912</b>	22,454
Deferred income	<b>220,329</b>	205,533
	<hr/>	<hr/>
	<b>10,954,078</b>	8,709,894
	<hr/>	<hr/>
	<b>22,733,767</b>	20,353,194
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## NOTES

### 1. GENERAL INFORMATION

China Modern Dairy Holdings Ltd. (the “**Company**”) was incorporated and registered in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 26 November 2010. The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KYI-1104, Cayman Islands.

As at 30 June 2023, China Mengniu Dairy Co., Ltd. (“**Mengniu**”) and its wholly-owned subsidiary together owned 56.36% of the issued share capital of the Company. Mengniu and its subsidiaries are hereinafter collectively referred to as “**Mengniu Group**”.

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

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

### 2. BASIS OF PREPARATION

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

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for biological assets, which are measured at fair value less costs to sell and certain financial instruments, which are measured at fair values at the end of the reporting period.

Other than the 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 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.



## Application of new and amendments to IFRSs

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	<i>Insurance Contracts</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform-Pillar Two model Rules</i>

The application of the new and amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

## 4. REVENUE

### Disaggregation of revenue from contracts with customers

		<b>Six months ended 30 June</b>	
		<b>2023</b>	2022
		<b>RMB'000</b>	RMB'000
		<b>(unaudited)</b>	(unaudited)
Segment	Types of goods or service		
Raw milk business	Raw milk	<b>5,044,062</b>	4,858,036
Offline feed business	Feeds	<b>1,105,624</b>	774,090
Digital intelligence platform business	Feeds and farm supplies	<b>483,736</b>	–
		<b><u>6,633,422</u></b>	<u>5,632,126</u>
Timing of revenue recognition			
At a point in time		<b><u>6,633,422</u></b>	<u>5,632,126</u>
Geographical markets			
mainland China		<b>6,493,234</b>	5,507,656
Other countries		<b>140,188</b>	124,470
		<b><u>6,633,422</u></b>	<u>5,632,126</u>

## 5. SEGMENT INFORMATION

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), in order to allocate resources and to assess performance. From July 2022, the Group commenced the business of digital intelligence platform after acquisition of Inner Mongolia Ai Yang Niu Technology Co., Ltd. (“**Aiyangniu**”) on 28 June 2022, which was considered as a new reportable segment by the CODM during the current interim period. Information reported to the CODM for the purposes of resources allocation and assessment of segment performance focuses on the types and channel of goods delivered.

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

- Raw milk business – raising and breeding dairy cows to produce and sell raw milk.
- Offline feed business – trading, production and sales of feeds offline.
- Digital intelligence platform business – sales of feeds and farm supplies online through digital intelligence platform.

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

### For the six months ended 30 June 2023 (unaudited)

	Raw milk business <i>RMB’000</i>	Offline feed business <i>RMB’000</i>	Digital intelligence platform business <i>RMB’000</i>	Total reportable segments <i>RMB’000</i>	Eliminations <i>RMB’000</i>	Consolidated <i>RMB’000</i>
Segment revenue						
External sales	5,044,062	1,105,624	483,736	6,633,422	-	6,633,422
Inter-segment sales	<u>-</u>	<u>971,454</u>	<u>45,614</u>	<u>1,017,068</u>	<u>(1,017,068)</u>	<u>-</u>
Segment profit	<u>398,575</u>	<u>35,511</u>	<u>25,345</u>	<u>459,431</u>	<u>(2,221)</u>	<u>457,210</u>
Share of profit of associates						4,688
Unallocated other income						3,612
Unallocated other gains and losses						(38,950)
Unallocated expenses						<u>(193,254)</u>
Profit before tax						<u>233,306</u>

**For the six months ended 30 June 2022 (unaudited)**

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

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

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

## Geographic information

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

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

	Revenue from external customers		Non-current assets ( <i>Note</i> )	
	Six months ended 30 June 2023 <i>RMB'000</i> (unaudited)	2022 <i>RMB'000</i> (unaudited)	30 June 2023 <i>RMB'000</i> (unaudited)	31 December 2022 <i>RMB'000</i> (audited)
mainland China	6,452,374	5,436,338	21,844,734	20,429,080
USA	181,048	195,788	125,002	102,716
	<u>6,633,422</u>	<u>5,632,126</u>	<u>21,969,736</u>	<u>20,531,796</u>

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

## 6. OTHER INCOME

	Six months ended 30 June	
	2023 <i>RMB'000</i> (unaudited)	2022 <i>RMB'000</i> (unaudited)
Bank interest income	29,308	32,051
Government grants related to		
– Assets ( <i>Note</i> i)	39,688	32,029
– Income ( <i>Note</i> ii)	15,123	14,514
	<u>54,811</u>	<u>46,543</u>
Platform service	28,801	–
Others	6,084	2,644
	<u>119,004</u>	<u>81,238</u>

*Notes:*

- i. These government grants are in relation to (i) compensations of the capital expenditure incurred for purchase of plant and machinery and right-of-use assets, which are recognised over the useful life of the related assets; (ii) the purchase of inventories, which are credited to the profit or loss over the periods in which the inventories were consumed; and (iii) purchase of biological assets measured at fair value less costs to sell, which are credited to the profit or loss, when the conditions attaching to the government grant are met.
- ii. These government grants are unconditional government subsidies received by the Group for the purpose of giving immediate financial support to the Group's operation.

## 7. PROFIT BEFORE FINANCE COSTS AND TAX

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Cost of sales:		
Breeding costs to produce raw milk	3,617,480	3,294,136
Raw milk fair value adjustments included in cost of sales	1,315,892	1,479,174
Cost of feeds and farm supplies sold	<u>1,495,190</u>	<u>683,167</u>
	<b><u>6,428,562</u></b>	<b><u>5,456,477</u></b>
Other gains and losses, net:		
Net foreign exchange losses	158,758	228,545
Loss on disposal of property, plant and equipment	6,405	155
Gain on disposal of assets classified as held for sale	(4,470)	–
Gain on remeasurement of previously held interests	(5,050)	–
Fair value loss (gain) on derivative financial instruments:		
Foreign currency forward contracts	51,074	(1,416)
Foreign currency option contracts	(68,606)	(27,785)
Capped and floored cross currency swap	(91,192)	27,112
Fair value gain on structured deposits and wealth management products	(64)	(2,377)
Others	<u>(574)</u>	<u>1,175</u>
	<b><u>46,281</u></b>	<b><u>225,409</u></b>
Depreciation of property, plant and equipment	301,047	342,152
Depreciation of right-of-use assets	64,317	28,614
Amortisation of other intangible assets	5,032	–
Less: capitalised in biological assets	<u>(175,687)</u>	<u>(182,486)</u>
Depreciation and amortisation charged to profit or loss	<b><u>194,709</u></b>	<b><u>188,280</u></b>
Equity-settled share award expense	22,834	25,573
Other employee benefits costs	601,433	508,399
Less: capitalised in biological assets	<u>(157,010)</u>	<u>(121,964)</u>
Employee benefits charged to profit or loss	<b><u>467,257</u></b>	<b><u>412,008</u></b>

## 8. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	163,883	122,040
Long term bonds	40,502	37,751
Short term debenture	986	–
Lease liabilities	32,393	14,741
Other borrowings	6,924	7,702
	<u>244,688</u>	<u>182,234</u>
Total borrowing costs	244,688	182,234
Fair value loss (gain) on interest rate swaps	15,735	(28,387)
	<u>260,423</u>	<u>153,847</u>

## 9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax	15,588	3,184
Other jurisdictions	1,254	1,171
	<u>16,842</u>	<u>4,355</u>
Deferred tax:		
PRC enterprise income tax	(1,029)	(239)
Other jurisdictions	(416)	(577)
	<u>(1,445)</u>	<u>(816)</u>
Income tax expense	<u>15,397</u>	<u>3,539</u>

The Company is incorporated as an exempted company and as such is not subject to Cayman Islands taxation.

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

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

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, 49 subsidiaries of the Group is exempted from enterprise income tax for taxable profit from the operation of agricultural business in the PRC for the six months ended 30 June 2023 (six months ended 30 June 2022: 38).

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of the accumulated profits of the PRC subsidiaries amounting to RMB4,895,119,000 (31 December 2022: RMB4,448,225,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

## **10. DIVIDENDS**

During the current interim period, a final dividend of RMB0.0142 per share in respect of the year ended 31 December 2022 (six months ended 30 June 2022: RMB0.026 per share in respect of the year ended 31 December 2021) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB111,997,000 (six months ended 30 June 2022: RMB204,390,000) and was appropriated from the Company's distributable share premium.

## 11. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
<b>Profit</b>		
Profit for the purposes of basic and diluted earnings per share	<u>209,288</u>	<u>507,688</u>
	Six months ended 30 June	
	2023	2022
	'000	'000
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,873,334	7,855,607
Effect of dilutive potential ordinary shares:		
Share awards under the Share Award Scheme	<u>31,674</u>	<u>19,651</u>
	<u>7,905,008</u>	<u>7,875,258</u>

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

## 12. BIOLOGICAL ASSETS

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

	30 June	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Milkable cows	6,672,243	6,570,971
Heifers and calves	<u>4,535,200</u>	<u>4,060,200</u>
Total dairy cows	<u>11,207,443</u>	<u>10,631,171</u>

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



### 13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Trade receivables	1,396,732	1,633,165
Bills receivables	12,121	14,268
Less: allowance for credit losses	<u>(4,406)</u>	<u>(1,965)</u>
	<b>1,404,447</b>	1,645,468
Prepayments for feeds, materials, insurance and others	256,873	337,218
Prepayments for property, plant and equipment	25,814	29,936
Prepayments for investment in an associate	29,633	–
Input value added tax recoverable	3,270	8,364
Receivables from the original shareholders of an acquired subsidiary	30,000	30,000
Short term entrusted loans to associates	81,101	68,620
Receivables from selling biological assets	36,785	61,915
Others	<u>37,412</u>	<u>32,322</u>
	<b><u>1,905,335</u></b>	<b><u>2,213,843</u></b>
Analysed as:		
Current	1,849,888	2,183,907
Non-current	<u>55,447</u>	<u>29,936</u>
	<b><u>1,905,335</u></b>	<b><u>2,213,843</u></b>

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

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice dates at the end of the reporting period:

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Trade receivables		
– within 30 days	<b>1,205,106</b>	1,295,769
– beyond 30 days but within 90 days	<b>90,380</b>	244,447
– beyond 90 days but within 1 year	<b>96,840</b>	90,984
	<hr/>	<hr/>
Bills receivables		
– within 30 days	<b>8,613</b>	7,094
– beyond 30 days but within 90 days	<b>3,508</b>	7,174
	<hr/>	<hr/>
	<b>1,404,447</b>	1,645,468
	<hr/> <hr/>	<hr/> <hr/>

#### 14. TRADE AND OTHER PAYABLES

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

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Trade payables		
– within 60 days	<b>1,323,830</b>	1,529,259
– beyond 60 days but within 120 days	<b>397,162</b>	547,128
– beyond 120 days but within 1 year	<b>98,192</b>	50,843
– beyond 1 year	<b>20,282</b>	21,748
Bills payables (Note)	<b>53,419</b>	67,921
	<hr/>	<hr/>
	<b>1,892,885</b>	2,216,899
	<hr/>	<hr/>
Payables for acquisition of property, plant and equipment	<b>298,594</b>	277,694
Accrued staff costs	<b>275,546</b>	314,268
Advanced payments from disposal of dairy cows	<b>9,751</b>	15,017
Payables for acquisition of subsidiaries	<b>165,830</b>	263,536
Guarantee deposit	<b>128,228</b>	123,742
Payables for acquisition of non-controlling interests	<b>21,677</b>	20,894
Dividends payable	<b>5,541</b>	5,341
Payables for investment in associates	<b>1,913</b>	3,588
Others	<b>44,396</b>	47,722
	<hr/>	<hr/>
	<b>2,844,361</b>	3,288,701
	<hr/> <hr/>	<hr/> <hr/>

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

## 15. BANK BORROWINGS

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Carrying amounts repayable:		
Within one year	2,907,457	4,831,164
Between one to two years	2,003,688	1,772,370
Between two to five years	2,903,145	1,453,997
Over five years	<u>368,452</u>	<u>526,054</u>
	<u><b>8,182,742</b></u>	<u><b>8,583,585</b></u>
Less: Amounts due within one year shown under current liabilities	<u>(2,907,457)</u>	<u>(4,831,164)</u>
Amounts shown under non-current liabilities	<u><b>5,275,285</b></u>	<u><b>3,752,421</b></u>

The bank borrowings comprised:

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Fixed-rate borrowings	6,932,456	7,050,995
Variable-rate borrowings	<u>1,250,286</u>	<u>1,532,590</u>
	<u><b>8,182,742</b></u>	<u><b>8,583,585</b></u>

In February 2023, the Company entered into a facility agreement with several banks, under which the Group was allowed to borrow USD130,000,000 loan which will mature in February 2026 at a floating interest rate determined as Secured Overnight Financing Rate (“SOFR”)+1.5% per annum and the upfront fee amounted to USD1,350,000. The Group withdrew the net borrowing of USD128,650,000 (equivalent to RMB890,773,000) after deduction of the upfront fee in March 2023, and the effective interest rate is 7.38% per annum as at 30 June 2023.

Save as set out above, the interest rate of the bank borrowings as at 30 June 2023 ranged from 1.65% to 4.20% (31 December 2022: 1.65% to 8.16%) per annum.

The Group's bank borrowings denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	<b>30 June 2023</b>	31 December 2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
USD	<b><u>930,566</u></b>	<u>1,048,268</u>

## 16. OTHER BORROWINGS

	<b>30 June 2023</b>	31 December 2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(unaudited)</b>	(audited)
Other borrowings:		
– From Mengniu	<b>285,457</b>	35,785
– From a state-owned enterprise	<b>150,530</b>	147,615
– Others	<b><u>100,920</u></b>	<u>110,419</u>
	<b><u>536,907</u></b>	<u>293,819</u>
Carrying amounts repayable:		
Within one year	<b>284,019</b>	22,704
Between one to two years	<b>93,928</b>	79,833
Between two to five years	<b>8,430</b>	43,667
Over five years	<b><u>150,530</u></b>	<u>147,615</u>
	<b><u>536,907</u></b>	<u>293,819</u>
Less: Amounts due within one year shown under current liabilities	<b>(284,019)</b>	(22,704)
Amounts shown under non-current liabilities	<b><u>252,888</u></b>	<u>271,115</u>

The interest rate of the other borrowings as at 30 June 2023 ranged from 3.35% to 7.65% (31 December 2022: 3.59% to 12.00%) per annum.

## 17. LONG TERM BONDS

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Carrying amounts repayable:		
Within one year	<b>35,615</b>	34,944
Between two to five years	<b>3,591,159</b>	3,458,072
	<b>3,626,774</b>	3,493,016
Less: Amounts due within one year shown under current liabilities	<b>(35,615)</b>	(34,944)
Amounts shown under non-current liabilities	<b>3,591,159</b>	3,458,072

On 15 July 2021, the Company issued bonds in an aggregate principal amount of USD500 million which will mature on 14 July 2026 (the “**USD Bonds**”). The net proceeds of the USD Bonds amounted to USD495,165,000 (equivalent to RMB3,200,760,000) after deducting the underwriting discounts and commissions. The USD Bonds bear interest at the rate of 2.125% per annum, payable semi-annually in arrears. The company intended to use the proceeds from the USD Bonds for refinancing and general corporate purposes. The carrying amounts repayable within one year are interests payable.

## 18. CAPITAL COMMITMENTS

	<b>30 June 2023 RMB'000 (unaudited)</b>	31 December 2022 RMB'000 (audited)
Capital expenditure contracted but not provided for, in respect of acquisition of property, plant and equipment	<b>72,126</b>	261,798

## **BUSINESS REVIEW**

In the first half of 2023, the Group was mainly engaged in production and sales of milk, trading, production and sales of feeds offline, and sales of feeds and farm supplies online through digital intelligence platform. Adhering to the mission of “raising healthy cows, safeguarding each and every drop of milk”, the Group is committed to deploying the whole dairy value chain, innovating with digital intelligence, and becoming a global dairy farming leader on the basis of expanding and strengthening the dairy farming business.

While maintaining our focus on the core business of raw milk, our Group is continuously exploring new business areas such as feed trading business, digital intelligence platforms, forage and feeds, forage plantation and premium cow semen sectors. Our Company’s new businesses have laid a solid foundation for the core business, forming an interlocking business structure, exerting significant synergies and allowing the Group to be more competitive.

During the period, the key production and operation indicators of core raw milk business have demonstrated an obvious improvement as compared to the same period of 2022. New business segments have also achieved encouraging growth, continuously contributing to the Group’s profitability.

## **OPERATIONAL PERFORMANCE**

During the period, the Group firmly implemented the three-year strategic plan, implemented cost-orientated strategies, focused on “three-JIAN” (diligence, simplification, synergism) (in Chinese pinyin: Qín Jiǎn, Jiǎn Huà, Jiǎn Shǎo), reduced four types of expenditures, and implemented eight major initiatives, with aim to achieve low operating costs, accomplish high operating indicators, attain high economic efficiency, and secure high reward for employees. Thanks to the concerted efforts of the management and all employees, the performance of the Group’s main operating indicators was better than expected. The average annualised milk yield (“**AMY**”) of milkable cow was 12.6 tons per head (2022: 12.3 tons per head), and the total milk yield was 1,249 thousand tons (2022: 1,152 thousand tons) during the period, representing a year-on-year (“**yoy**”) increase of 8.4%.

During the period, the Group’s sales revenue recorded RMB6,633.4 million (2022: RMB5,632.1 million), representing a yoy increase of 17.8%. Among which, the sales revenue of raw milk amounted to RMB5,044.1 million (2022: RMB4,858.0 million), representing a yoy increase of 3.8%. The sales revenue of the new business segments amounted to RMB1,589.4 million, a yoy increase of 105.3%. Among which, the sales revenue generated from the feeds and forage business amounted to RMB1,105.6 million, representing a yoy increase of 42.8%. The Group successfully acquired Inner Mongolia Aiyangniu Technology Co., Ltd. (“**Aiyangniu**”) in June 2022 and expanded its business to the internet trading platform (digital intelligence platform) for the industry value chain. Revenue of the platform business achieved RMB483.7 million during the period.

## Herd Size

	As at	
	30 June 2023 Heads (unaudited)	30 June 2022 Heads (unaudited)
<b>Dairy cows</b>		
Milkable cows	204,086	196,287
Heifers and calves	<u>214,510</u>	<u>186,406</u>
Total	<u><b>418,596</b></u>	<u><b>382,693</b></u>

As at 30 June 2023, the Group invested in and operated 42 farm companies with 418,596 dairy cows (as at 30 June 2022: 382,693 heads), representing a yoy increase of 9.4% in mainland China, in line with the Group's overall herd expansion strategies. The proportion of milkable cows to the total number of dairy cows decreased by 2.5 ppt to 48.8% as at 30 June 2023 (as at 30 June 2022: 51.3%) 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. The growth of the heifers and calves could help maintaining a steady growth of the Group's raw milk production in the future. We will continue to improve the genetics of dairy cows so as to increase the proportion of the core herd, thereby achieving a steady growth in production.

## Milk Yield

The milk yield of each milkable cow is affected by a number of factors, such as the number of lactation, breed, comfort level, health condition, genetics and feed mix. Under effective herd management, the AMY of milkable cows was 12.6 tons per head on average, and the total milk yield was 1,249 thousand tons during the period, representing a yoy increase of 8.4%.

## FINANCIAL OVERVIEW

### SALES REVENUE

#### Business Analysis

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Raw milk business	<b>5,044,062</b>	4,858,036
New business	<b>1,589,360</b>	774,090
Consolidated revenue	<b><u>6,633,422</u></b>	<b><u>5,632,126</u></b>

During the period, the Group recorded sales revenue of RMB6,633.4 million (2022: RMB5,632.1 million), representing a yoy increase of 17.8%. Among which, the sales revenue of raw milk amounted to RMB5,044.1 million (2022: RMB4,858.0 million), representing a yoy increase of 3.8%. The sales revenue of the new business segments amounted to RMB1,589.4 million, representing a yoy increase of 105.3%. Among which, the sales revenue generated from feeds and forage business amounted to RMB1,105.6 million, representing a yoy increase of 42.8%.



## Raw Milk Business

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

	Six months ended 30 June					
	2023 (unaudited)			2022 (unaudited)		
	Sales revenue	Sales volume	ASP	Sales revenue	Sales volume	ASP
	<i>RMB'000</i>	<i>tons</i>	<i>RMB/kg</i>	<i>RMB'000</i>	<i>tons</i>	<i>RMB/kg</i>
Raw milk	<u>5,044,062</u>	<u>1,233,400</u>	<u>4.09</u>	<u>4,858,036</u>	<u>1,135,080</u>	<u>4.28</u>

The total revenue from the sales of raw milk increased by 3.8% yoy to RMB5,044.1 million during the period (2022: RMB4,858.0 million). The increase was mainly due to the overall impact of the decrease in ASP of raw milk and the increase in sales volume of raw milk.

ASP of raw milk declined by 4.4% yoy to RMB4.09/kg during the period (2022: RMB4.28/kg). This was mainly due to the downward trend of selling prices in the domestic raw milk market.

Total sales volume of raw milk increased by 8.6% yoy to approximately 1.233 million tons during the period (2022: 1.135 million tons), mainly due to the rise in AMY per milkable cow and the increase in the number of milkable cows.

## New Business

During the period, sales revenue of the new business segments amounted to RMB1,589.4 million, representing a yoy increase of 105.3%. Among the new business segments, sales revenue generated from the feeds and forage business amounted to RMB1,105.6 million (2022: RMB774.1 million), representing a yoy increase of 42.8%. The Group successfully acquired Aiyangniu in June 2022 and expanded its business to the operation of internet platform for livestock industry. During the period, revenue of the digital intelligence platform business achieved RMB483.7 million. The management expects that the new business segments will continue to contribute profits to the Group.

## COST OF SALES

The Group's cost of sales consisted of cost of raw milk and new business sales. The following table sets forth the breakdown of the cost of sales of our products during the period:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Raw milk business	<b>3,617,480</b>	3,294,136
New business	<b>1,495,190</b>	683,167
Total cost of sales	<b><u>5,112,670</u></b>	<b><u>3,977,303</u></b>

During the period, the Group's cost of sales amounted to RMB5,112.7 million (2022: RMB3,977.3 million), representing a yoy increase of 28.5%, mainly due to the increase in sales scale of raw milk and new businesses.

Among which, the cost of sales of raw milk business amounted to RMB3,617.5 million (2022: RMB3,294.1 million), representing a yoy growth of 9.8%, mainly due to the increase in the sales of raw milk and the increase of feed prices.

During the period, the prices of key bulk raw materials remained at a high level. The Group implemented various measures to streamline the procurement process so as to reduce purchasing costs. The Company has lowered operating costs through improving the formula, adjusting the feed mix, enhancing the health of cows, raising AMY per milkable cow, broadening sources of income and reducing expenditure concurrently. During the period, the Group kept the average unit cost of raw milk before inter-segment offset at RMB2.95/kg (2022: RMB2.90/kg). The Group's cost-control ability maintains an industry-leading level, where the average feed cost of raw milk amounted to RMB2.39/kg (2022: RMB2.26/kg), representing a yoy increase of RMB0.13/kg, mainly due to the increase in feed prices.

During the period, the cost of sales of new businesses amounted to RMB1,495.2 million (2022: RMB683.2 million), representing a yoy increase of 118.9%, mainly due to the growth in sales scale of new businesses, which is in line with the growth in sales revenue of new businesses.

## GROSS PROFIT AND PROFITABILITY

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

	<b>Six months ended 30 June</b>			
	<b>2023 (unaudited)</b>		<b>2022 (unaudited)</b>	
	<b>Gross profit</b>	<b>Gross profit</b>	<b>Gross profit</b>	<b>Gross profit</b>
	<b><i>RMB'000</i></b>	<b>margin</b>	<b><i>RMB'000</i></b>	<b>margin</b>
Raw milk business	<b>1,426,582</b>	<b>28.3%</b>	1,563,900	32.2%
New business	<b>94,170</b>	<b>5.9%</b>	90,923	11.7%
Total	<b><u>1,520,752</u></b>	<b><u>22.9%</u></b>	<b><u>1,654,823</u></b>	<b><u>29.4%</u></b>

During the period, gross profit of the Group's raw milk business amounted to RMB1,426.6 million (2022: RMB1,563.9 million), representing a yoy decrease of 8.8%, which was mainly due to the decrease in the ASP of raw milk. Gross profit margin of the Group's raw milk business stood at 28.3% (2022: 32.2%), representing a yoy drop of 3.9 ppt. The gross profit of the Group's new business was RMB94.2 million (2022: RMB90.9 million).

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

As at 30 June 2023, the biological assets of the Group were valued at RMB11,207.4 million (as at 31 December 2022: RMB10,631.2 million) by an independent qualified professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Losses arising from changes in the dairy cow fair value less costs to sell of dairy cows were RMB534.2 million (2022: RMB337.6 million) for the period, representing a yoy increase of 58.2%, mainly due to the decrease in market price of beef, the decrease in selling price of raw milk and the increase in feed costs during the period.

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

During the period, gains arising from initial recognition at fair value less cost of sales at the point of raw milk harvest decreased by 11.0% yoy to RMB1,315.9 million (2022: RMB1,479.2 million), mainly due to the decrease in the ASP of raw milk.

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

## OTHER INCOME

During the period, other income amounted to RMB119.0 million (2022: RMB81.2 million), representing a yoy increase of 46.5%, mainly consisted of government subsidies, interest income and digital intelligence platform service income. Government subsidies mainly consisted of subsidies for agricultural projects and subsidies for the operations of the Group.

The following table sets forth the breakdown of other income of our business during the period:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	29,308	32,051
Government grants related to		
– Assets	39,688	32,029
– Income	15,123	14,514
Platform service	28,801	–
Others	6,084	2,644
	<u>119,004</u>	<u>81,238</u>
Total	<u>119,004</u>	<u>81,238</u>

## OPERATING EXPENSES

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Selling and distribution costs	173,259	165,577
Administrative expenses	379,117	318,438
	<u>552,376</u>	<u>484,015</u>
Total operating expenses	<u>552,376</u>	<u>484,015</u>

During the period, the overall operating expenses of the Group amounted to approximately RMB552.4 million (2022: RMB484.0 million). The analysis is set forth as follows:

- **Selling and Distribution Costs**

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(unaudited)</b>	(unaudited)
Transportation costs and others	<b>165,624</b>	157,784
Taxes and surcharges	<b>7,635</b>	7,793
	<hr/>	<hr/>
Total selling and distribution costs	<b><u>173,259</u></b>	<u>165,577</u>

Selling and distribution costs mainly consisted of transportation costs for sales of raw milk, transportation costs and other expenses (mainly salaries and other daily expenses of the sales department) for sales of feeds, as well as taxes and surcharges related expenses. During the period, the Group recorded selling and distribution costs of RMB173.3 million (2022: RMB165.6 million), representing a yoy increase of 4.6%.

- **Administrative Expenses**

Administrative expenses mainly included remuneration of management staff (including equity-settled share award expenses) and depreciation charges of office building, staff quarters and facilities, and other daily administrative expenses. During the period, the administrative expenses of the Group were RMB379.1 million (2022: RMB318.4 million), representing an increase of RMB60.7 million, which was mainly due to the increase in management remuneration and other daily administrative expenses due to the expansion of the Group's business scale and the corresponding increase in the number of employees.

## IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Impairment loss recognised in respect of:		
Trade receivables	2,441	956
Other receivables	<u>42</u>	<u>25</u>
	<u>2,483</u>	<u>981</u>

## OTHER GAINS AND LOSSES, NET

During the period, the Group recorded a net loss arising from other gains and losses of RMB46.3 million (2022: net loss of RMB225.4 million). Other gains and losses mainly consisted of net foreign exchange gain or loss and fair value gain/loss on derivative financial instruments.

The breakdown of other gains and losses is as follow:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other gains and losses, net:		
Net foreign exchange losses	158,758	228,545
Loss on disposal of property, plant and equipment	6,405	155
Gain on disposal of assets classified as held for sale	(4,470)	–
Gain on remeasurement of previously held interests	(5,050)	–
Fair value loss (gain) on derivative financial instruments:		
Foreign currency forward contracts	51,074	(1,416)
Foreign currency option contracts	(68,606)	(27,785)
Capped and floored cross currency swap	(91,192)	27,112
Fair value gain on structured deposits and wealth management products	(64)	(2,377)
Others	<u>(574)</u>	<u>1,175</u>
	<u>46,281</u>	<u>225,409</u>

## **FINANCE COSTS**

During the period, finance costs amounted to RMB260.4 million (2022: RMB153.8 million), among which, the finance costs generated from interest-bearing borrowings amounted to RMB212.3 million (2022: RMB167.5 million), representing a yoy increase of 26.7%, mainly due to the increase of the interest-bearing borrowings scale.

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

During the period, the profit attributable to owners of the Company amounted to RMB209.3 million (2022: RMB507.7 million), representing a yoy decrease of 58.8%.

During the period, basic earnings per share was approximately RMB2.66 cents (2022: RMB6.46 cents). Diluted earnings per share was approximately RMB2.65 cents (2022: RMB6.45 cents).

## **LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO**

The Group's total equity as at 30 June 2023 was RMB11,779.7 million (as at 31 December 2022: RMB11,643.3 million). As at 30 June 2023, the Group's net gearing ratio (calculated on the basis of the amount of total interest-bearing borrowings less cash and deposit assets as a percentage of the total equity) was 80.6% (as at 31 December 2022: 85.2%), representing a drop of 4.6 ppt as compared with that as at 31 December 2022.

As at 30 June 2023, the Group's available and unutilised credit facilities amounted to approximately RMB6,147.2 million (31 December 2022: RMB5,759.9 million). Having considered (i) forecast cash flow from operating activities of continuing operation; and (ii) existing financial resources and gearing level of the Group, the Directors believe that the Group's financial resources are sufficient to meet its debt repayment, day-to-day operations as well as contracted capital expenditures as at 30 June 2023.

## **GROUP STRUCTURE**

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

## **CAPITAL STRUCTURE**

As at 30 June 2023, the number of issued ordinary shares of the Company was 7,915,662,048 shares.

## **CONTINGENT LIABILITIES AND PLEDGE OF ASSETS**

As at 30 June 2023, no buildings or equipment of the Company (as at 31 December 2022: nil) were pledged as security for the Group's borrowings.

As at 30 June 2023, biological assets with carrying value of RMB703.2 million (as at 31 December 2022: RMB831.8 million), no time deposits (as at 31 December 2022: RMB131.4 million), trade receivables of RMB12.5 million (as at 31 December 2022: RMB19.7 million) and properties of RMB128.4 million (as at 31 December 2022: RMB127.0 million) were pledged to secure the Group's borrowings.

Saved as disclosed above, the Group did not have any significant contingent liabilities as at 30 June 2023.

## **CAPITAL COMMITMENTS**

As at 30 June 2023, the Group had capital commitments of RMB72.1 million relating to acquisition of property, plant and equipment (as at 31 December 2022: RMB261.8 million).

## **MATERIAL ACQUISITIONS AND DISPOSALS**

The Group did not have any significant acquisitions and disposal during the period.

## **SIGNIFICANT INVESTMENTS**

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

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

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

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

Saved as otherwise disclosed in this announcement, our Directors have confirmed that, as of 30 June 2023, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").



## **EVENTS AFTER THE REPORTING PERIOD**

Saved as disclosed elsewhere in this announcement, no other material events occurred after the end of the period and up to the date of this announcement.

## **FINANCIAL MANAGEMENT POLICIES**

The Group mainly operates its business in mainland China, and the foreign exchange risks related to its operations are not significant. Even so, the Group still strictly monitors and controls potential financial risks. The Group's major financial instruments include equity instruments at FVTOCI, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, other borrowings, long term bonds, short term debenture and derivative financial instruments. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk.

The Group was primarily subject to foreign currency risk from the movement of the exchange rates between RMB against USD. We manage the foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into foreign currency option contracts or capped and floored cross currency swap, when necessary, to manage its foreign exchange exposure.

We manage the interest rate risk (if any) by performing regular reviews of the Group's net interest rate exposures and may enter into interest rate swap contracts, when necessary, to manage its interest rate exposure.

For credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year, and monitoring procedures are in place to ensure that follow-up action if necessary is taken to recover overdue debts.

The management believes the risks associated with the financial instruments were properly managed and did not pose material impact to the Group's operation.

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

The Group had 8,817 employees in mainland China and Hong Kong as at 30 June 2023 (as at 30 June 2022: 7,876 employees). Total staff costs (excluding equity-settled share award expenses) for the period were approximately RMB601.4 million (2022: RMB508.4 million), representing a yoy increase of 18.3%.

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

In 2023, the Group continues to implement organisational changes in the frontline farms, upgrade organisational configuration and enhance organisational capabilities, introduce senior management and technical talents, improve and upgrade the performance management system and incentive plan, upgrade the employee happiness and caring plan, carry out the construction of the “four-teams” of leading managerial talents, elite professionals, up-and-coming young talents and high-end talents, implement the “Sprint Programme (奔騰計劃)” and the “Fountain Programme (源泉計劃)” (i.e. the cultivation plan for in-service managers and outstanding reserved managers), build up the Group’s internal trainers system, upgrade the qualification evaluation system for professional and technical personnel, and comprehensively implement the talent development and learning and development system. On the basis of providing employees with competitive remuneration and benefits, we continue to optimise employees’ vocational competence, build a sustainable career development platform, and realise enterprise growth driven by talent growth by broadening the boundaries of employees’ growth.

## **PROSPECTS**

With the corporate vision of “establishing a whole dairy value chain, innovating with digital intelligence, and becoming a global dairy farming leader”, the Group focused on “three-JIAN (diligence, simplification, synergism) (in Chinese pinyin: Qín Jiǎn, Jiǎn Huà, Jiǎn Shǎo)”, reduced four types of expenditures, and implemented eight major initiatives. All departments are cohesive and eager to actively respond to internal and external challenges. During the period, the core business continued to improve, the five new businesses segments achieved rapid progress against the headwind, and the development trend of “well-controlled operating costs, high achievement rates and high economic output” was maintained.

In the second half of the year, Modern Dairy will adhere to the upstream full dairy value chain layout, highly emphasizing the combination of ecology and technology, continuously upgrading various nodes in the cycle from “a blade of grass to a glass of milk”. Meanwhile, we will fully leverage the complementary synergies of breeding, feed, forage, digital intelligence platforms, and raw milk business to enhance the Group’s comprehensive business capabilities, corporate management level, operational performance, and risk resilience.

In the future, Modern Dairy will make every effort to build a “striving-system towards being the first”. While ensuring safety and maintaining integrity, we will unify mindsets, benchmark against the best, explore growth opportunities, and inspire talented individuals. We are committed to our principles of strategies, cost-leading, full dairy value chain layout, and prioritizing talents, while driving high-quality development through innovation. It will provide a strong guarantee for the continuous expansion and upgrading of the domestic Chinese dairy consumption market and lead the industry in achieving a substantial development.

We expect that the herd size of dairy cows of the Group could reach more than 500,000 heads by 2025, with an annual milk yield of 3.6 million tons. Modern Dairy will continue to actively undertake the responsibility of revitalizing the national dairy industry through leading the industry towards a sustainable development model of digital intelligence innovations and low-carbon environmental protection, and will also keep improving the ecology of the whole dairy value chain to build itself into one of the world’s leading and socially responsible dairy farming groups.

## **INTERIM DIVIDEND**

The Board did not declare the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Corporate Governance Code (“**CG Code**”) as set out in Part 2 of Appendix 14 to the Listing Rules. The Company has complied with the code provisions set out in the CG Code throughout the reporting period.

## **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 enquiries by the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the period.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2023. The trustee of the share award scheme of the Company also did not purchase any ordinary shares of the Company from the open market as restricted shares for the scheme during the period.

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

There were no changes in the information of Directors since the date of the 2022 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## **AUDIT COMMITTEE**

The Audit Committee currently comprises two independent non-executive Directors, namely Mr. Lee Kong Wai, Conway, Mr. Chow Ming Sang and one non-executive Director Mr. Zhang Ping. The Audit Committee has reviewed, with the Company's management and the external auditors the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control and system and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2023.

## **REVIEW OF INTERIM RESULTS**

The condensed consolidated interim financial statements for the six months ended 30 June 2023 of the Group 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 RESULTS ANNOUNCEMENT AND INTERIM REPORT**

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

The 2023 interim report of the Group will be published on the aforesaid websites and will be dispatched to the shareholders of the Company in due course.

## **APPRECIATION**

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

By order of the Board  
**China Modern Dairy Holdings Ltd.**  
**Zhao Jiejun**  
*Chairman*

Hong Kong, 29 August 2023

*As of the date of this announcement, the executive Directors are Mr. Sun Yugang and Mr. Zhu Xiaohui, the non-executive Directors are Mr. Zhao Jiejun (Chairman), Mr. Chen Yiyi, 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.*