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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 2024**

HIGHLIGHTS

The Group's corporate vision is "deploying the whole industry chain, be innovative with digital intelligence, and be a global dairy farming leader." With raw milk production as its core business, driven by digitalization and ecological practices, the Group's business spans across the entire dairy value chain, covering breeding, forage grass, feed, dairy farming, and intelligent digital platforms, laying a solid foundation for the Group's sustained and steady development. To cope with the challenges of a tough market environment, the Group has proactively taken effective measures to reduce costs and increase efficiency, achieving significant cost savings during the period, enhancing the Group's core competitiveness and resilience against the cyclical fluctuations in the industry. During the period, the Group recorded cash EBITDA of RMB1,515 million, an increase of approximately RMB244 million or 19.2% compared to the same period in 2023.

- **Continued Raw Milk Business Growth:** The average annualized milk yield ("AMY") per milkable cow and total milk production reached record highs, and raw milk sales revenue also increased. The average AMY per milkable cow reached 13 tons, a year-on-year increase of 3.2%, leading the industry. Total raw milk sales reached 1.4 million tons, a year-on-year increase of 13.4%. Raw milk sales revenue reached RMB5.112 billion, a year-on-year increase of 1.3%. The Group's raw milk business gross profit margin increased by 2.0 percentage points compared to the same period in 2023. The gross profit of the raw milk business increased by RMB120 million compared to the same period in 2023, an increase of 8.4%.

- **Healthy Debt Structure:** The Group continued to strengthen internal cost reduction and efficiency improvement measures, taking advantage of the domestic interest rate cut window, further reducing the financing cost ratio from 3.5% in the same period last year to 3.4%. The Group's asset-liability ratio stayed relatively constant compared to the end of 2023, at 62.7%. The debt structure continued to be optimized, with long-term debt accounting for 76.2%.
- **Stable Rating Outlook:** Modern Dairy has been awarded a "BBB" investment grade credit rating by Standard & Poor's for four consecutive years, with a stable outlook, which facilitates the Group to obtain more competitive financing terms.
- **Outstanding ESG Performance:** MSCI Inc., one of the world's largest index companies, upgraded Modern Dairy's rating to BBB, marking a significant three-level jump within a year. Modern Dairy was also successfully included in the S&P Global Sustainability Yearbook (China Edition) 2024, highlighting our achievements and influence in the global sustainable development field.
- **Excellent Product Quality:** Modern Dairy's brand of pure milk has also won the gold medal at the Monde Selection Quality Awards for eleven consecutive years, demonstrating consumers' high recognition of Modern Dairy's brand and raw milk quality.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

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).

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

	For the six months ended 30 June		
	2024	2023	Change
	(unaudited)	(unaudited)	
FINANCIAL DATA			
Revenue	6,418.5	6,633.4	-3.2%
Cash EBITDA ^(Note 1)	1,515.0	1,271.4	+19.2%
(Loss) profit for the period	(207.2)	217.9	N/A
Net cash from operating activities	397.5	2,182.9	-81.8%
Net free cash (outflow) inflow ^(Note 2)	(1,092.7)	896.7	N/A
Net asset value per share (RMB) ^(Note 3)	1.35	1.44	-6.3%
KEY OPERATION DATA			
Herd size (heads)	444,859	418,596	+6.3%
Average annualised milk yield (tons/head • year)	13.0	12.6	+3.2%
Milk yield (ten thousand tons)	<u>145.0</u>	<u>124.9</u>	<u>+16.1%</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 less the net cash outflow from investing 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 reporting periods, defined as of 30 June 2024 and 30 June 2023.

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 2024, together with comparative figures for the corresponding period in 2023. 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 2024

	Notes	Six months ended 30 June	
		2024	2023
		RMB’000	RMB’000
		(unaudited)	(unaudited)
Revenue	4	6,418,499	6,633,422
Cost of sales	7	(6,148,307)	(6,428,562)
Gains arising on initial recognition of raw milk at fair value less costs to sell at the point of harvest		<u>1,407,547</u>	<u>1,315,892</u>
Gross profit		1,677,739	1,520,752
Loss arising from changes in fair value less costs to sell of dairy cows		(1,151,149)	(534,237)
Other income	6	158,442	119,004
Impairment losses under expected credit loss model, net of reversal	10	629	(2,483)
Selling and distribution costs		(214,671)	(173,259)
Administrative expenses		(359,012)	(379,117)
Other gains and losses, net	7	(53,651)	(46,281)
Other expenses		(25,443)	(16,100)
Share of results of associates and a joint venture		<u>20,300</u>	<u>5,450</u>
Profit before finance costs and tax	7	53,184	493,729
Finance costs	8	<u>(244,427)</u>	<u>(260,423)</u>
(Loss) profit before tax		(191,243)	233,306
Income tax expense	9	<u>(15,951)</u>	<u>(15,397)</u>
(Loss) profit for the period		<u><u>(207,194)</u></u>	<u><u>217,909</u></u>

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

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
	<i>Note</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
Other comprehensive (expense) income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)		(15,625)	(31,269)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>1,851</u>	<u>10,571</u>
Other comprehensive expense for the period, net of income tax		<u>(13,774)</u>	<u>(20,698)</u>
Total comprehensive (expense) income for the period		<u>(220,968)</u>	<u>197,211</u>
(Loss) profit for the period attributable to:			
Owners of the Company		(228,346)	209,288
Non-controlling interests		<u>21,152</u>	<u>8,621</u>
		<u>(207,194)</u>	<u>217,909</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(242,018)	188,416
Non-controlling interests		<u>21,050</u>	<u>8,795</u>
		<u>(220,968)</u>	<u>197,211</u>
(Loss) earnings per share (RMB)			
	<i>12</i>		
Basic		(2.91) cents	2.66 cents
Diluted		<u>(2.91) cents</u>	<u>2.65 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

		30 June 2024	31 December 2023
	<i>Notes</i>	RMB'000 (unaudited)	RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		6,326,389	6,264,934
Right-of-use assets		2,428,095	2,198,546
Goodwill		2,345,737	2,417,915
Other intangible assets		37,099	40,866
Interests in associates and a joint venture		831,931	771,047
Biological assets	<i>13</i>	11,948,817	11,927,977
Equity instruments at FVTOCI		41,717	57,342
Prepayments	<i>14</i>	28,349	12,914
Derivative financial instruments		146,161	117,991
Pledged bank deposits		–	32,089
Bank balances		652,504	677,843
Deferred tax assets		5,618	6,677
		24,792,417	24,526,141
CURRENT ASSETS			
Inventories		1,930,962	2,940,968
Trade and other receivables and prepayments	<i>14</i>	1,812,548	1,935,932
Derivative financial instruments		–	460
Pledged bank deposits		1,257	9,913
Bank balances and cash		3,653,414	1,963,627
		7,398,181	6,850,900
Assets classified as held for sale		17,310	17,203
		7,415,491	6,868,103
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	3,518,424	5,534,188
Tax payable		19,772	42,309
Bank borrowings	<i>16</i>	3,055,652	2,206,484
Other borrowings	<i>17</i>	207,896	353,251
Lease liabilities		194,315	238,925
Long term bonds	<i>18</i>	33,418	35,536
Other liabilities		27,179	9,856
Derivative financial instruments		–	3,017
Contract liabilities		28,705	26,648
Deferred income		28,252	12,570
		7,113,613	8,462,784
NET CURRENT ASSETS (LIABILITIES)		301,878	(1,594,681)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,094,295	22,931,460

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

At 30 June 2024

	<i>Notes</i>	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		675,869	675,869
Share premium and reserves		10,045,935	10,525,116
		<hr/>	<hr/>
Equity attributable to owners of the Company		10,721,804	11,200,985
Non-controlling interests		1,279,949	641,779
		<hr/>	<hr/>
TOTAL EQUITY		12,001,753	11,842,764
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Bank borrowings	<i>16</i>	6,412,729	5,183,959
Other borrowings	<i>17</i>	769,694	193,974
Other payables	<i>15</i>	3,121	5,201
Long term bonds	<i>18</i>	3,356,152	3,523,467
Lease liabilities		2,009,147	1,781,170
Derivative financial instruments		11,002	17,342
Other liabilities		303,790	160,531
Deferred tax liabilities		13,176	13,389
Deferred income		213,731	209,663
		<hr/>	<hr/>
		13,092,542	11,088,696
		<hr/>	<hr/>
		25,094,295	22,931,460
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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 2024, 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, sales of breeding products and provision of platform services. 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 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 additional/change in accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”), and application of certain accounting policies which became relevant to the Group in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2023.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2024 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>

Except as described below, the application of the 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.

Impacts of Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements

The Group will apply amendments to IAS 7 and IFRS 7 *Supplier Finance Arrangements* which are mandatorily effective for the Group's annual period beginning on 1 January 2024 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2024.

The amendments add a disclosure objective to IAS 7 *Statement of Cash Flows* stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 *Financial Instruments: Disclosures* was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The application of the amendments is expected to affect the disclosures of the Group's liabilities, cash flows and the Group's exposure to liquidity risk related to the supplier finance arrangements entered into by the Group in the annual consolidated financial statements for the year ending 31 December 2024.

4. REVENUE

Disaggregation of revenue from contracts with customers

		Six months ended 30 June	
		2024	2023
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Segment	Types of goods or service		
Raw milk business	Raw milk	5,111,706	5,044,062
Integrated dairy farming solutions	Feeds and farm supplies	1,262,865	1,589,360
Integrated dairy farming solutions	Breeding products and platform services	43,928	–
		<u>6,418,499</u>	<u>6,633,422</u>
Timing of revenue recognition			
At a point in time		6,408,406	6,633,422
Over time		10,093	–
Geographical markets			
The Chinese Mainland		6,248,396	6,493,234
Other countries		170,103	140,188
		<u>6,418,499</u>	<u>6,633,422</u>

5. SEGMENT INFORMATION

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”), in order to allocate resources and to assess performance. In the current period, the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments. The previous offline feed business and digital intelligence platform business and the newly commenced sales of breeding products are reported to CODM as a whole. Information reported to CODM for the purposes of resources allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Prior year segment disclosures have been represented to conform with the current period's presentation.

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.
- Integrated dairy farming solutions business – trading, production and sales of feeds and breeding products, provision of platform and other services 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 2024 (unaudited)

	Raw milk business <i>RMB'000</i>	Integrated dairy farming solutions 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	5,111,706	1,306,793	6,418,499	-	6,418,499
Inter-segment sales	-	991,554	991,554	(991,554)	-
Segment (loss) profit	<u>(156,767)</u>	<u>71,352</u>	<u>(85,415)</u>	<u>(2,928)</u>	<u>(88,343)</u>
Share of profit of associates					11,646
Unallocated other income					2,298
Unallocated other gains and losses					20,841
Unallocated expenses					<u>(137,685)</u>
Loss before tax					<u><u>(191,243)</u></u>

For the six months ended 30 June 2023 (unaudited)

	Raw milk business <i>RMB'000</i>	Integrated dairy farming solutions 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	1,589,360	6,633,422	-	6,633,422
Inter-segment sales	<u>-</u>	<u>1,017,068</u>	<u>1,017,068</u>	<u>(1,017,068)</u>	<u>-</u>
Segment profit (loss)	<u>398,575</u>	<u>60,856</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>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss) profit before tax earned by each segment without allocation of central administration expenses, corporate income and expenses, other gains and losses 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 the Chinese Mainland 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)	
	Six months ended 30 June		30 June	31 December
	2024	2023	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(audited)
The Chinese Mainland	6,180,317	6,452,374	23,825,808	23,508,297
USA	238,182	181,048	120,609	125,902
	<u>6,418,499</u>	<u>6,633,422</u>	<u>23,946,417</u>	<u>23,634,199</u>

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

6. OTHER INCOME

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Bank interest income	38,078	29,308
Government grants related to		
– Assets (Note i)	76,684	39,688
– Income (Note ii)	15,140	15,123
	91,824	54,811
Others	28,540	34,885
	<u>158,442</u>	<u>119,004</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):

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of sales:		
Breeding costs to produce raw milk	3,564,743	3,617,480
Raw milk fair value adjustments included in cost of sales	1,407,547	1,315,892
Cost of feeds and farm supplies sold	1,162,781	1,495,190
Cost of breeding products sold and platform services	<u>13,236</u>	<u>–</u>
	<u>6,148,307</u>	<u>6,428,562</u>
Other gains and losses, net:		
Net foreign exchange losses	32,955	158,758
Loss on disposal of property, plant and equipment	7,810	6,405
Gain on disposal of assets classified as held for sale	–	(4,470)
Gain on remeasurement of previously held interests	–	(5,050)
Gain on partially redemption of long term bonds	(13,796)	–
Impairment loss on goodwill	72,471	–
Fair value loss (gain) on derivative financial instruments:		
Foreign currency forward contracts	1,508	51,074
Foreign currency option contracts	(6,340)	(68,606)
Capped and floored cross currency swap	(19,446)	(91,192)
Fair value gain on structured deposits and wealth management products	–	(64)
Gain on remeasurement of other liabilities	(20,530)	–
Loss on early termination of leases	3,639	–
Others	<u>(4,620)</u>	<u>(574)</u>
	<u>53,651</u>	<u>46,281</u>
Depreciation of property, plant and equipment	340,960	301,047
Depreciation of right-of-use assets	91,480	64,317
Amortisation of other intangible assets	4,563	5,032
Less: capitalised in biological assets	<u>(179,323)</u>	<u>(175,687)</u>
Depreciation and amortisation charged to profit or loss	<u>257,680</u>	<u>194,709</u>
Employee benefits expense:		
Salaries and allowances	531,550	499,695
Retirement benefit schemes contributions	43,942	39,924
Equity-settled share award expense	27,930	22,834
Less: capitalised in biological assets	<u>(157,897)</u>	<u>(157,010)</u>
Employee benefits charged to profit or loss	<u>445,525</u>	<u>405,443</u>

8. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on:		
Bank borrowings	147,608	163,883
Long term bonds	41,104	40,502
Short term debenture	–	986
Lease liabilities	44,485	32,393
Other borrowings	11,230	6,924
	<hr/>	<hr/>
Total borrowing costs	244,427	244,688
Fair value loss on interest rate swaps	–	15,735
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	244,427	260,423
	<hr/> <hr/>	<hr/> <hr/>

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC enterprise income tax	14,435	15,588
Other jurisdictions	733	1,254
	<hr/>	<hr/>
	15,168	16,842
	<hr/> <hr/>	<hr/> <hr/>
Deferred tax:		
PRC enterprise income tax	1,231	(1,029)
Other jurisdictions	(448)	(416)
	<hr/>	<hr/>
	783	(1,445)
	<hr/> <hr/>	<hr/> <hr/>
Income tax expense	15,951	15,397
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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 EIT for taxable profit from the operation of agricultural business in the PRC for the six months ended 30 June 2024 (six months ended 30 June 2023: 49).

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 the Chinese Mainland. 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 RMB5,236,543,000 (31 December 2023: RMB5,348,821,000) 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. **IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL**

	Six months ended 30 June	
	2024	2023
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Impairment loss (reversed) recognised in respect of:		
Trade receivables	(639)	2,441
Other receivables	<u>10</u>	<u>42</u>
	<u>(629)</u>	<u>2,483</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2023.

11. **DIVIDENDS**

During the current interim period, a final dividend of RMB0.0045 per share in respect of the year ended 31 December 2023 (six months ended 30 June 2023: RMB0.0142 per share in respect of the year ended 31 December 2022) 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 RMB34,888,000 (six months ended 30 June 2023: RMB111,997,000) and was appropriated from the Company’s distributable share premium.

The directors of the Company have determined that no dividend will be paid in respect of the interim period.

12. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Loss) profit		
(Loss) profit for the purposes of basic and diluted (loss) earnings per share	<u>(228,346)</u>	<u>209,288</u>
	Six months ended 30 June	
	2024	2023
	'000	'000
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	7,837,195	7,873,334
Effect of dilutive potential ordinary shares:		
Share awards under the Share Award Scheme	<u>–</u>	<u>31,674</u>
	<u>7,837,195</u>	<u>7,905,008</u>

The number of shares adopted in the calculation of the basic (loss) 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. The calculation of diluted loss per share for the period ended 30 June 2024 has not taken into account the effect of the share awards of the Company and the effect of the option granted to China Agricultural since the assumed vesting and exercise would result in decrease in loss per share.

13. 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 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Milkable cows	7,598,385	7,384,921
Heifers and calves	<u>4,350,432</u>	<u>4,543,056</u>
Total dairy cows	<u>11,948,817</u>	<u>11,927,977</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.

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Trade receivables	1,279,368	1,549,119
Bills receivables	10,056	6,657
Less: allowance for credit losses	<u>(18,468)</u>	<u>(19,107)</u>
	1,270,956	1,536,669
Prepayments for feeds, materials, insurance and others	252,743	198,359
Prepayments for property, plant and equipment	28,349	12,914
Input value added tax recoverable	9,836	4,666
Short term entrusted loans to associates	181,827	94,786
Receivables from selling biological assets	50,160	36,785
Guarantee deposit receivables	22,362	29,624
Others	<u>24,664</u>	<u>35,043</u>
	<u>1,840,897</u>	<u>1,948,846</u>
Analysed as:		
Current	1,812,548	1,935,932
Non-current	<u>28,349</u>	<u>12,914</u>
	<u>1,840,897</u>	<u>1,948,846</u>

Trade receivables at the end of the reporting period principally represent receivables from sales of raw milk, feeds and farm supplies. 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 and farm supplies.

The following is an aged analysis of trade receivables and bills receivable, 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:

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Trade receivables		
– within 30 days	1,047,397	1,360,978
– beyond 30 days but within 90 days	163,725	126,007
– beyond 90 days but within 1 year	31,382	43,027
– beyond 1 year but within 2 years	18,396	–
	<hr/>	<hr/>
Bills receivables		
– within 30 days	10,056	572
– beyond 30 days but within 90 days	–	6,085
	<hr/>	<hr/>
	<u>1,270,956</u>	<u>1,536,669</u>

15. TRADE AND OTHER PAYABLES

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Trade payables	1,272,976	1,373,517
Trade payables under supplier finance arrangements (<i>Note i</i>)	1,298,363	3,022,045
Bills payables (<i>Note ii</i>)	2,895	41,870
	<u>2,574,234</u>	<u>4,437,432</u>
Payables for acquisition of property, plant and equipment	437,822	481,547
Accrued staff costs	293,967	358,533
Advanced payments from disposal of dairy cows	8,295	8,418
Payables for acquisition of subsidiaries	11,985	29,101
Guarantee deposit	117,534	159,955
Others	77,708	64,403
	<u>3,521,545</u>	<u>5,539,389</u>
Analysed as:		
Current	3,518,424	5,534,188
Non-current	3,121	5,201
	<u>3,521,545</u>	<u>5,539,389</u>

Notes:

- i. These supplier finance arrangements permit certain suppliers of the Group to be paid a discounted amount by certain financial companies earlier than the due date. As the arrangements do not permit the Group to extend payment terms from financial companies by paying financial companies later than the credit period which the Group would have paid its suppliers, the Group considers amounts payable to financial companies should be classified as trade payables. In the condensed consolidated statement of cash flows, settlements of these trade payables are included within operating cash flows based on the nature of the arrangements.
- ii. Bills payables are with maturities within twelve months from the respective issuance dates.

The credit period granted by suppliers for trade purchases is generally within 180 days (31 December 2023: 180 days). The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Within 180 days	2,513,760	4,357,309
Beyond 180 days but within 360 days	39,066	26,751
Beyond 360 days but within 720 days	18,513	11,502
	<u>2,571,339</u>	<u>4,395,562</u>

16. BANK BORROWINGS

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Carrying amounts repayable:		
Within one year	3,055,652	2,206,484
Between one to two years	2,688,706	2,364,698
Between two to five years	3,495,466	2,634,750
Over five years	228,557	184,511
	<u>9,468,381</u>	<u>7,390,443</u>
Less: Amounts due within one year shown under current liabilities	<u>(3,055,652)</u>	<u>(2,206,484)</u>
Amounts shown under non-current liabilities	<u>6,412,729</u>	<u>5,183,959</u>

The bank borrowings comprised:

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Fixed-rate borrowings	8,558,989	6,233,012
Variable-rate borrowings	909,392	1,157,431
	<u>9,468,381</u>	<u>7,390,443</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 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 7.52% per annum as at 31 December 2023. The Company early repaid USD40,000,000 (equivalent to RMB282,232,000) in 2023 and USD90,000,000 (equivalent to RMB639,351,000) in January 2024.

Save as set out above, the interest rate of the bank borrowings as at 30 June 2024 ranged from 1.50% to 4.20% (31 December 2023: 1.50% 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:

	30 June 2024 RMB’000 (unaudited)	31 December 2023 RMB’000 (audited)
USD	–	636,807

17. OTHER BORROWINGS

	30 June 2024 RMB’000 (unaudited)	31 December 2023 RMB’000 (audited)
Other borrowings:		
– From Mengniu	681,162	255,998
– From a state-owned enterprise	198,028	194,349
– Others	98,400	96,878
	<u>977,590</u>	<u>547,225</u>
Carrying amounts repayable:		
Within one year	207,896	353,251
Between one to two years	231,166	–
Between two to five years	340,500	5,418
Over five years	198,028	188,556
	<u>977,590</u>	<u>547,225</u>
Less: Amounts due within one year shown under current liabilities	<u>(207,896)</u>	<u>(353,251)</u>
Amounts shown under non-current liabilities	<u>769,694</u>	<u>193,974</u>

The interest rate of the other borrowings as at 30 June 2024 ranged from 3.80% to 6.00% (31 December 2023: 3.35% to 7.65%) per annum.

18. LONG TERM BONDS

	30 June 2024 RMB'000 (unaudited)	31 December 2023 RMB'000 (audited)
Carrying amounts repayable:		
Within one year	33,418	35,536
Between two to five years	<u>3,356,152</u>	<u>3,523,467</u>
	3,389,570	3,559,003
Less: Amounts due within one year shown under current liabilities	<u>(33,418)</u>	<u>(35,536)</u>
Amounts shown under non-current liabilities	<u><u>3,356,152</u></u>	<u><u>3,523,467</u></u>

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 used the proceeds from the USD Bonds for refinancing and general corporate purposes. The carrying amounts repayable within one year are interests payable. During the current period, the Company redeemed long term bond in principal amount of USD27,150,000. The difference of RMB13,796,000 between carrying amount of the redeemed long term bond of RMB193,576,000 and the consideration paid of RMB179,780,000 is recognised in profit or loss.

BUSINESS OVERVIEW

The Group is a leader in dairy cow farming operation and raw milk production in China. We produce and provide high-quality raw milk to customers for processing into a variety of premium dairy products in China. We have established long-term and stable strategic cooperation relationships with large dairy manufacturing enterprises, joining forces to strive for the development of the dairy industry.

Pursuing the mission of “raising healthy cows, safeguarding each and every drop of milk” and being dedicated to the health of our people, the Group is committed to deploying forces throughout 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.

With the support of the solid core business of raw milk, the Group has been expanding into feeds, forage grass, intelligent digital platforms, breeding and other businesses in a steady and orderly manner, effectively adjusting the resource utilization during the period, and two major business segments: (1) the raw milk business, and (2) the integrated dairy farming solutions business, have emerged. The synergistic benefits between the segments are maximized, laying a solid foundation for the Group’s high quality and sustainable development.

BUSINESS REVIEW

Raw Milk Business

In the first half of 2024, in order to cope with the challenges from the severe market conditions, the Group actively took effective measures to reduce costs and increase efficiency. We firmly pursued the cost-orientated strategy and controlled costs in a positive and reasonable manner to further enhance its core competitiveness and its ability to resist the cyclical fluctuations in the industry. During the period, we proactively accelerated the elimination of low-yielding and inefficient cows to improve the structure of the herd size and increase dairy cow yield. Moreover, the Group has also further strengthened its quality farm management, focusing on increasing the ratio of core dairy cows and the overall health level of the dairy cows, resulting in significant improvements in key operational indicators and the solid development of the core business of raw milk.

Herd Scale

	As at	
	30 June 2024 <i>Heads</i> (unaudited)	30 June 2023 <i>Heads</i> (unaudited)
Dairy cows		
Milkable cows	225,303	204,086
Heifers and calves	<u>219,556</u>	<u>214,510</u>
Total	<u>444,859</u>	<u>418,596</u>

As at 30 June 2024, the Group invested in and operated 42 farm companies spanning 13 provinces and autonomous regions, with 444,859 dairy cows (as at 30 June 2023: 418,596 heads), representing a yoy increase of 6.3% in the Chinese Mainland and the proportion of milkable cows to the total number of dairy cows increased by 1.8 percentage point (“ppt”) to 50.6% (as at 30 June 2023: 48.8%) yoy, which is in line with the Group’s overall herd expansion strategies. We will continue to improve the feeding environment and health of dairy cows so as to increase the proportion of the core herd, thereby achieving a steady and sustainable 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 13.0 tons (2023: 12.6 tons) per head on average, representing a yoy increase of 3.2%, and the total milk yield was 1,450 thousand tons (2023: 1,249 thousand tons) during the period, representing a yoy increase of 16.1%.

INTEGRATED DAIRY FARMING SOLUTIONS

The integrated dairy farming solutions business covers the entire dairy farming value chain, including feed, forage grass, breeding and intelligent digital platforms, providing a one-stop professional service for dairy farming operators and facilitating small and medium-sized operators in the industry to improve their dairy farms operational efficiency and bring economic benefits.

Feeds and Forage Grass

High-quality feeds and forage grass are the fundamentals for the health and high yield of dairy cows, and are also one of the most important cost components in the dairy farming industry. Therefore, a high-quality, low-cost, continuous and stable supply of forage grass is crucial to farms. While ensuring the supply of high-quality forage grass for our own farms, the Group is committed to creating value in the value chain, deepening its involvement in feeds trade and pioneering forage grass planting, providing high-quality forage grass and corresponding services to domestic small and medium-sized farms, and thus promoting the sustained and stable development of the dairy farming industry of China.

In terms of feeds trading, the Group continues to develop relationships with high-quality customers, establish strategic cooperation and continuously improve product offerings; and it also actively identifies upstream suppliers and strengthens close cooperation with large domestic feeds companies to ensure high product quality, improve the stability of product supply, enhance customer stickiness, and achieve value marketing.

In terms of forage grass plantation, the Group has established four plantation bases covering an area of 66,000 mu, with an annual output of 30,000 tons of high-quality forage grass; the Group cooperated with third-party companies to improve saline-alkali land, involving an area of 15,000 mu; it cooperated with growers with a land area of over 1 million mu. In terms of feeds and forage grass production and processing, the Group owns five production and processing plants in China, and has jointly built and operated three feed production plants with large domestic feed companies. It also has high-quality alfalfa and three processing and production bases in four major states in the United States, and can supply more than 200,000 tons of high-quality forage grass annually.

Intelligent Digital Platform

The Aiyangniu e-commerce platform has the mission of “making dairy farming greener, simpler and more efficient”, the vision of “gathering global resources and empowering digital intelligence to create a world-class dairy value chain sharing platform”, and the cornerstone of “the strongest financing platform, the best empowerment platform, the best resource platform and the largest e-commerce platform”. Through in-depth collaboration to reduce costs, the Group has built an integrated value chain service platform to improve supply chain and channel capabilities.

In the first half of 2024, the transaction amount through the Aiyangniu e-commerce platform reached RMB17.4 billion and there was also a significant increase in transaction amount and volume. Meanwhile, another intelligent digital system, the Yunyangniu embraces production, breeding, management and other data on dairy cows and focuses on digital farming in farms. Through digital systems and hardware links, such system breaks through data barriers, accurately forecasts the demand of dairy cows, and lays the foundation for accurate data requirements for a digitally intelligent supply chain, so as to comprehensively improve digital and intelligent breeding capabilities and technical service capabilities and understand the status of each cow, thereby opening a new era of “digital cattle breeding”. At present, the intelligent system of Yunyangniu has covered 457 farms and 1.57 million cows.

Breeding

The Group actively responded to the national call by continuously increasing investment in breeding and improving the self-owned rate of core breeding sources, and made every effort to promote the genetic improvement of dairy cows to achieve self-fulfillment and empowerment in breeding technology. The Group independently developed the “Modern No. 1” Genomic Liquid Phase Chip, filling in the domestic commercial dairy cows genomic chip market. The Group continues to promote independent breeding and cultivation of breeding bulls and build national-level core breeding farms for dairy cows, and actively participated in the genetic improvement project of millions of cows in the Ningxia Hui Autonomous Region. The Group sold approximately 360,000 units of high-quality frozen semen in the first half of 2024.

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	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Raw milk business	5,111,706	5,044,062
Integrated dairy farming solutions business	<u>1,306,793</u>	<u>1,589,360</u>
Consolidated revenue	<u><u>6,418,499</u></u>	<u><u>6,633,422</u></u>

During the period, the Group recorded sales revenue of RMB6,418.5 million (2023: RMB6,633.4 million), representing a yoy decrease of 3.2%. Among which, the sales revenue of raw milk amounted to RMB5,111.7 million (2023: RMB5,044.1 million), representing a yoy increase of 1.3%. The sales revenue of the integrated dairy farming solutions amounted to RMB1,306.8 million (2023: RMB1,589.4 million), representing a yoy decrease of 17.8%.

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 periods indicated:

	2024 (unaudited)			2023 (unaudited)		
	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/kg</i>	Sales revenue <i>RMB'000</i>	Sales volume <i>tons</i>	ASP <i>RMB/kg</i>
Raw milk	<u>5,111,706</u>	<u>1,398,437</u>	<u>3.66</u>	<u>5,044,062</u>	<u>1,233,400</u>	<u>4.09</u>

The total revenue from the sales of raw milk increased by 1.3% yoy to RMB5,111.7 million during the period (2023: RMB5,044.1 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 10.5% yoy to RMB3.66/kg during the period (2023: RMB4.09/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 13.4% yoy to approximately 1,398 thousand tons during the period (2023: 1,233 thousand tons), mainly due to the rise in AMY per milkable cow and the increase in the number of milkable cows.

Integrated Dairy Farming Solutions Business

During the period, sales revenue of the integrated dairy farming solutions amounted to RMB1,306.8 million (2023: RMB1,589.4 million), representing a yoy decrease of 17.8%. Mainly affected by the market environment, in order to control operational risks effectively, the Group proactively adjusted the sales strategy in a timely manner, increased customer screening efforts, and focused on high-quality customers. Although the revenue scale has declined in the short term, the management expects that the integrated dairy farming solutions will continue to contribute to the profits of the Group and improve the layout of the value chain, enhance the resilience of the value chain, and help the Group achieve high-quality, sustainable and stable development.

COST OF SALES

The Group's cost of sales consisted of cost of raw milk and integrated dairy farming solutions. The following table sets forth the breakdown of the cost of sales of our products for the periods indicated:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Raw milk	3,564,743	3,617,480
Integrated dairy farming solutions	<u>1,176,017</u>	<u>1,495,190</u>
Total cost of sales	<u>4,740,760</u>	<u>5,112,670</u>

During the period, the Group's cost of sales amounted to RMB4,740.8 million (2023: RMB5,112.7 million), representing a yoy decrease of 7.3%, mainly due to the decrease in sales scale of integrated dairy farming solutions.

Raw Milk Business

During the period, the cost of sales of raw milk business amounted to RMB3,564.7 million (2023: RMB3,617.5 million), representing a yoy decrease of 1.5%, mainly due to the increase in sales volume of raw milk and the decrease of feed prices.

During the period, we continued to strengthen our lean management of farms. The Company has lowered operating costs through improving formula, adjusting feed mix, enhancing health of cows, raising AMY per milkable cow, broadening sources of income and reducing expenditure concurrently. Benefited from falling prices of key bulk feedstuffs, the Group kept the average unit cost of raw milk before inter-segment offset at RMB2.58/kg (2023: RMB2.95/kg). The Group's cost-control ability maintains an industry-leading level, where the average feed cost of raw milk amounted to RMB2.02/kg (2023: RMB2.39/ kg), representing a yoy decrease of RMB0.37/kg, mainly due to the decrease in feed prices.

Integrated Dairy Farming Solutions Business

During the period, the cost of sales of integrated dairy farming solutions amounted to RMB1,176.0 million (2023: RMB1,495.2 million), representing a yoy decrease of 21.3%, mainly due to the decrease in sales scale of integrated dairy farming solutions, which is in line with the decrease in sales revenue of integrated dairy farming solutions.

OVERALL GROSS PROFIT AND PROFITABILITY

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

	Six months ended 30 June			
	2024 (unaudited)		2023 (unaudited)	
	Gross profit <i>RMB'000</i>	Gross profit margin	Gross profit <i>RMB'000</i>	Gross profit margin
Raw milk business	1,546,963	30.3%	1,426,582	28.3%
Integrated dairy farming solutions business	<u>130,776</u>	<u>10.0%</u>	<u>94,170</u>	<u>5.9%</u>
Total	<u>1,677,739</u>	<u>26.1%</u>	<u>1,520,752</u>	<u>22.9%</u>

During the period, gross profit of the Group's raw milk business amounted to RMB1,547.0 million (2023: RMB1,426.6 million), representing a yoy increase of 8.4%, which was mainly due to the increase in the sales volume of raw milk. Gross profit margin of the Group's raw milk business stood at 30.3% (2023: 28.3%), representing a yoy lift of 2.0 ppt. The gross profit of the Group's integrated dairy farming solutions was RMB130.8 million (2023: RMB94.2 million), representing a yoy increase of 38.9%. Gross profit margin the Group's integrated dairy farming solutions stood at 10.0% (2023: 5.9%), representing a yoy lift of 4.1 ppt.

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

During the period, losses arising from changes in the dairy cow fair value less costs to sell of dairy cows were RMB1,151.1 million (2023: RMB534.2 million) for the period, representing a yoy increase of 115.5%, mainly due to the Group proactively increased the elimination of low yield and low efficiency cattle during the period to improve the structure of the cattle herd, as well as the continuous decline in the market price of eliminated cattle.

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 increased by 7.0% yoy to RMB1,407.5 million (2023: RMB1,315.9 million), mainly due to the increase in the sales volume of raw milk.

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

OTHER INCOME

Other income mainly consisted of government subsidies, interest income and other business income. Government subsidies mainly consisted of subsidies for agricultural projects and subsidies for the operations of the Group. During the period, other income amounted to RMB158.4 million (2023: RMB119.0 million), representing a yoy increase of 33.1%, mainly due to the increase in government grants income.

The following table sets forth the breakdown of other income of our business for the periods indicated:

	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	38,078	29,308
Government grants related to		
– Assets	76,684	39,688
– Income	15,140	15,123
	91,824	54,811
Others	28,540	34,885
Total	158,442	119,004

OPERATING EXPENSES

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Selling and distribution costs	214,671	173,259
Administrative expenses	359,012	379,117
Total operating expenses	<u>573,683</u>	<u>552,376</u>

During the period, the overall operating expenses of the Group amounted to approximately RMB573.7 million (2023: RMB552.4 million). The analysis is set forth as follows:

- **Selling and Distribution Costs**

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

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Transportation costs and others	203,770	165,624
Taxes and surcharges	10,901	7,635
Total selling and distribution costs	<u>214,671</u>	<u>173,259</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 integrated dairy farming solutions, as well as taxes and surcharges related expenses. During the period, the Group recorded selling and distribution costs of RMB214.7 million (2023: RMB173.3 million), representing a yoy increase of RMB41.4 million, among which the transportation cost for sales of raw milk increased by RMB28.7 million yoy, mainly due to the growth of raw milk sales volume.

- **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 RMB359.0 million (2023: RMB379.1 million), representing a decrease of RMB20.1 million or 5.3%, as the Group continued to strengthen cost reduction and efficiency improvement, simplify processes, and reduce administrative expenses correspondingly.

IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Impairment (reversed) loss recognised in respect of:		
Trade receivables	(639)	2,441
Other receivables	10	42
	<u>(629)</u>	<u>2,483</u>

OTHER GAINS AND LOSSES, NET

Other gains and losses mainly consisted of net foreign exchange gain or loss and fair value gain/loss on derivative financial instruments. During the period, the Group recorded a net loss arising from other gains and losses of RMB53.7 million (2023: net loss of RMB46.3 million), representing an increase of RMB7.4 million yoy.

The breakdown of other gains and losses is as follow:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other gains and losses, net:		
Net foreign exchange losses	32,955	158,758
Loss on disposal of property, plant and equipment	7,810	6,405
Gain on disposal of assets classified as held for sale	–	(4,470)
Gain on remeasurement of previously held interests	–	(5,050)
Gain on partially redemption of long term bonds	(13,796)	–
Impairment loss on goodwill	72,471	–
Fair value loss (gain) on derivative financial instruments:		
Foreign currency forward contracts	1,508	51,074
Foreign currency option contracts	(6,340)	(68,606)
Capped and floored cross currency swap	(19,446)	(91,192)
Fair value gain on structured deposits and wealth management products	–	(64)
Gain on remeasurement of other liabilities	(20,530)	–
Loss on early termination of leases	3,639	–
Others	(4,620)	(574)
	<u>53,651</u>	<u>46,281</u>

FINANCE COSTS

During the period, finance costs amounted to RMB244.4 million (2023: RMB260.4 million), among which, the finance costs generated from interest-bearing borrowings amounted to RMB199.9 million (2023: RMB212.3 million).

PROFIT(LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

During the period, the loss attributable to owners of the Company amounted to RMB228.3 million (2023: profit of RMB209.3 million), representing a yoy decrease of 209.1%.

During the period, basic loss per share was approximately RMB2.91 cents (2023: earnings of RMB2.66 cents). Diluted loss per share was approximately RMB2.91 cents (2023: earnings of RMB2.65 cents).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group's total equity as at 30 June 2024 was RMB12,001.8 million (as at 31 December 2023: RMB11,842.8 million). As at 30 June 2024, 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 79.4% (as at 31 December 2023: 74.4%), representing a lift of 5.0 ppt as compared with that as at 31 December 2023.

As at 30 June 2024, the Group's available and unutilised credit facilities amounted to approximately RMB7,035.8 million (31 December 2023: RMB6,989.0 million). Having considered (i) forecast cash flow from operating activities of continuing operation; and (ii) existing financial resources and gearing level of the Group, the Directors believe that the Group's financial resources are sufficient to meet its debt repayment, day-to-day operations as well as contracted capital expenditures as at 30 June 2024.

GROUP STRUCTURE

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

CAPITAL STRUCTURE

As at 30 June 2024, 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 2024, no buildings or equipment of the Company (as at 31 December 2023: nil) were pledged as security for the Group's borrowings.

As at 30 June 2024, biological assets with carrying value of RMB861.7 million (as at 31 December 2023: RMB695.4 million), trade receivables of RMB23.7 million (as at 31 December 2023: RMB12.9 million) and properties of RMB23.6 million (as at 31 December 2023: RMB24.0 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 2024.

CAPITAL COMMITMENTS

As at 30 June 2024, the Group had capital commitments of RMB90.9 million relating to acquisition of property, plant and equipment (as at 31 December 2023: RMB281.1 million), representing a yoy decrease of RMB190.2 million or 67.7%, mainly due to the Group's caution in new investments and strict control of capital expenditures.

MATERIAL ACQUISITIONS AND DISPOSALS

Reference is made to the announcement dated 1 February 2024 (the “**Announcement**”, terms used in this section shall have the same meanings as defined in the Announcement), that Modern Farming Wuhe, China Agricultural, Anhui Suida and Modern Farming entered into the Capital Injection Agreement and other Transaction Documents, pursuant to which China Agricultural has conditionally agreed to subscribe for approximately 25.4% of the enlarged registered capital of Modern Farming Wuhe by way of Capital Injection in cash for the sum of RMB600 million into Modern Farming Wuhe, constituting a deemed disposal of equity interest in Modern Farming Wuhe by the Company.

In connection with the Capital injection, the Company and China Agricultural entered into the Option Agreement, pursuant to which the Company agreed to grant an option to China Agricultural to subscribe for the Option Shares. The exercise price per share equals HK\$2.06 minus the aggregate of the dividend per share paid by the Company after the date of the Option Agreement and before the exercise of the option by China Agricultural. The exercise of Option is subject to the following thresholds, whichever is lower: (i) the total subscription amount of the Option Shares by China Agricultural shall not exceed RMB600 million (or the equivalent amount in HK\$); or (ii) the total number of Option Shares subscribed by China Agricultural shall not exceed 6% of the total number of Shares of the Company in issue at the time of the exercise of Option. The grant of the option and the specific mandate for issuance of the Options Shares thereunder were approved in the annual general meeting of the Company on 12 June 2024 with effective period of 12 months and shall be extended to not exceed 36 months subject to the approval of shareholders at each annual general meeting.

Saved as disclosed elsewhere in this announcement, 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 2024, 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 reporting period and up to the date of this announcement.

Foreign Exchange Risk Management

The Group mainly operates its business in the Chinese Mainland, 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 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.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had 8,819 employees in the Chinese Mainland and Hong Kong as at 30 June 2024. Total staff costs (excluding equity-settled share award expenses) for the reporting period were approximately RMB575.5 million.

Employees in the Chinese Mainland 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. Employees in Hong Kong are provided with retirement benefits, under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. The Group also grants share awards under the share award scheme of the Company, on a discretionary basis to mid-high ranked management staff in accordance to respective contributions to the Group as an incentive to retain talented employees.

PROSPECTS

Looking ahead, the Group will remain committed to its corporate vision of “deploying the whole industry chain, be innovative with digital intelligence, and be a global dairy farming leader”. We will leverage the complementary synergies among our breeding, feed, forage grass, digital platform, and core raw milk businesses to comprehensively enhance our overall business capabilities, corporate governance, operating performance, and risk resilience.

Cost reduction and efficiency enhancement are key to overcoming challenges amid the industry cycles. We will continue to advance our strategic shift from “volume-driven profitability” to “value-driven profitability” by increasing product value and optimizing our cost structure to achieve sustainable profit growth. We will adhere to four core business strategies: cost leadership, high-quality development, full value chain integration, and employee empowerment. Our management will focus on four key areas: strong profitability, high turnover efficiency, evident results, and rapid response.

Driven by innovation, we will continue to actively contribute to the revitalization of China’s dairy industry, leading the sector towards digital innovation and a sustainable development model that emphasizes low-carbon and environmentally friendly practices. We will continue to improve our full industry value ecosystem, striving to become a globally leading and socially responsible dairy farming group.

INTERIM DIVIDEND

The Board did not declare the payment of any interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

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 C1 to the Listing Rules. The Company has, throughout the period, complied with the code provisions set out in the CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix C3 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 2024, except for a total of 36,914,000 ordinary shares of the Company purchased by the trustee of the share award scheme of the Company under the rules of the scheme at a consideration of HK\$27,769,000 (equivalent to RMB25,281,000) from the open market as restricted shares for the scheme.

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 2024.

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements for the six months ended 30 June 2024 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) and the website of The Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

The 2024 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, 27 August 2024

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.