



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號：1117

2018

Interim Results Announcement



连续五年荣获世界食品品质评鉴大会

金奖

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Part 1 /Business Review

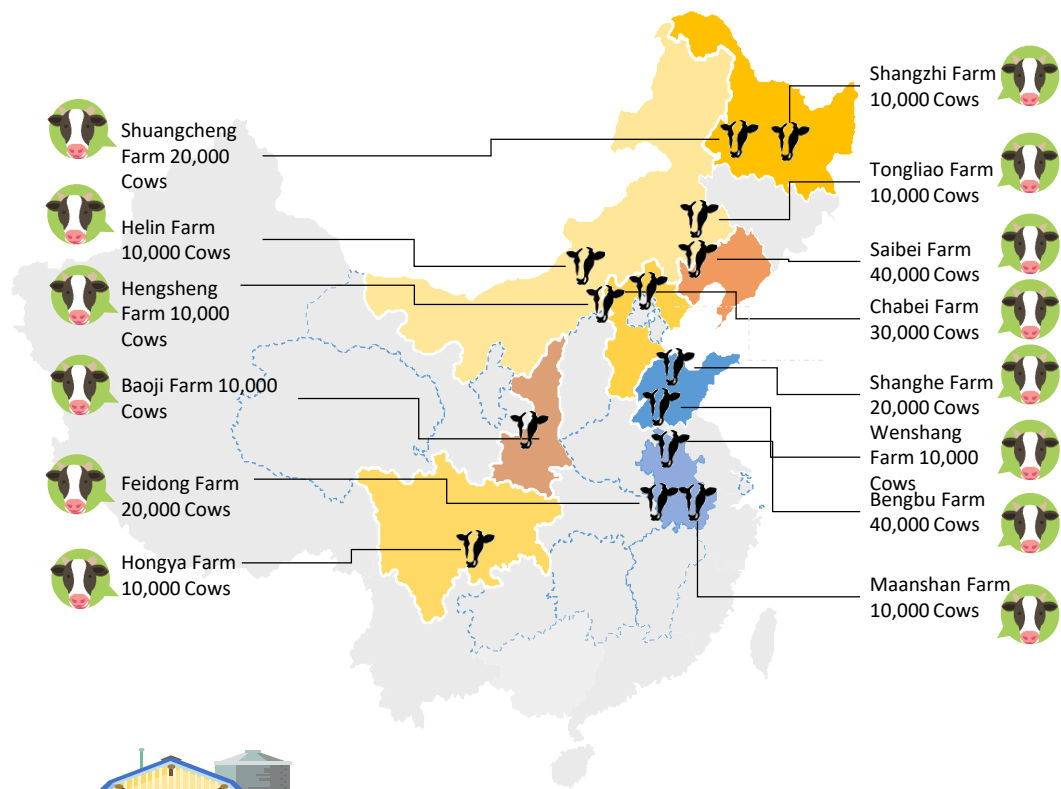
2018 Interim Results Review

RMB : Million	1H2018	1H2017	Changes
Normal Operating Profits of Raw Milk Business	-22	-282	-92.2%
Normal Operating Profits of Liquid Milk Products Business	4	-150	-103.0%
Normal Operating Profits	-18	-432	-95.83%
One-off Share Option Expenses		-93	NA
Non-recurring loss of Liquid Milk Products Business ⁽¹⁾	-73	-156	-53.4%
Unallocated Foreign Exchange Losses	-53	-6	710.3%
Net Profit ⁽²⁾	-143	-687	-79.2%
Cash EBITDA ⁽³⁾	731	437	67.3%

Note : (1) Non-recurring Losses of Liquid Milk Products Business includes impairment of trade receivables, impairment Loss on disposal of PP&E and Gains on disposal of subsidiary .

(2) Net profit = Operating Profits of Raw Milk Business + Operating Profits of Liquid Milk Products Business+ Unallocated Foreign Exchange Losses

(3) Cash EBITDA is Profits before Finance Costs and Tax after adding back: i) Depreciation; ii) Amortization; iii) Loss Arising from Changes in Fair Value Less Costs to sell of dairy cows; iv) Other Gains and Losses; v) Impairment losses, net of reversal.



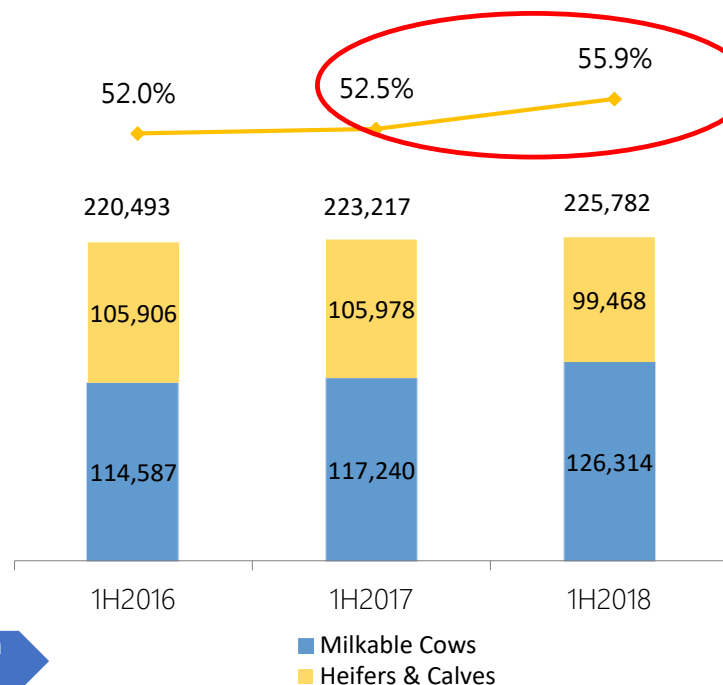
Our farms locate at 7 provinces in China, evenly in South and North of China.



Herd Size & Proportion of Milkable Cow

Herd Size (head)

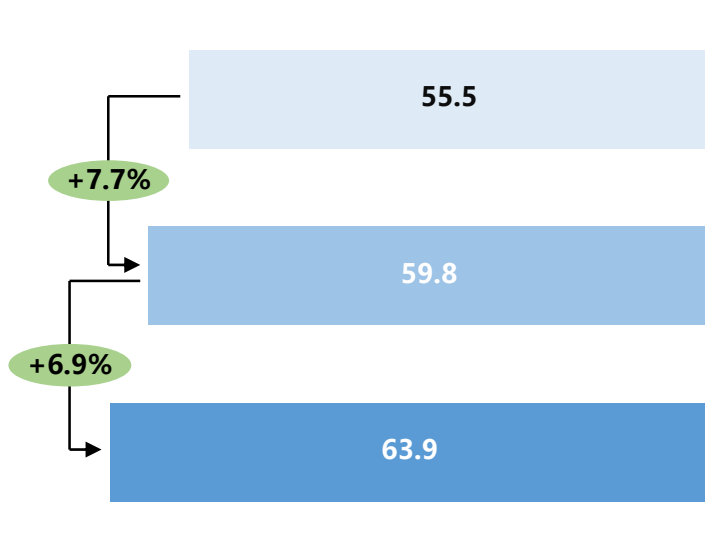
Percentage of Milkable Cows has increased **340 bps**





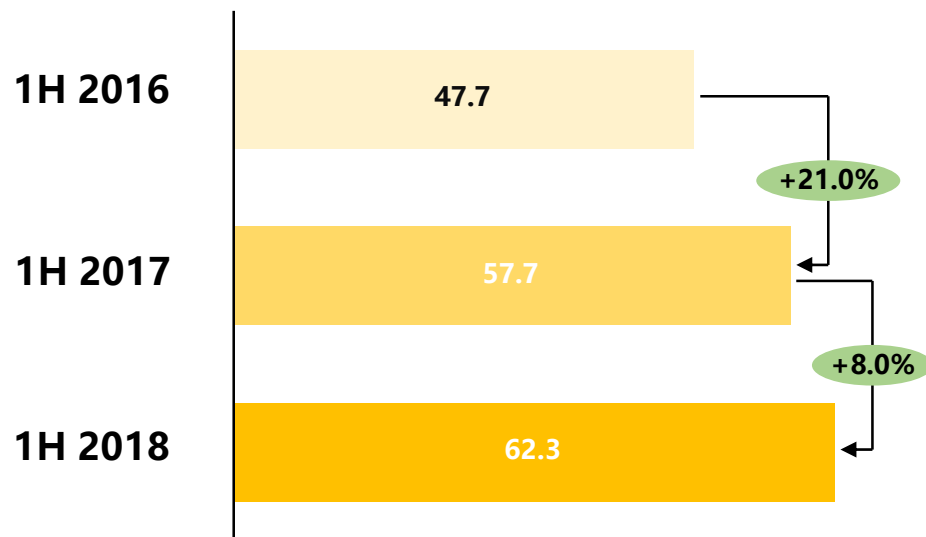
Production Volume

(0000 ton)



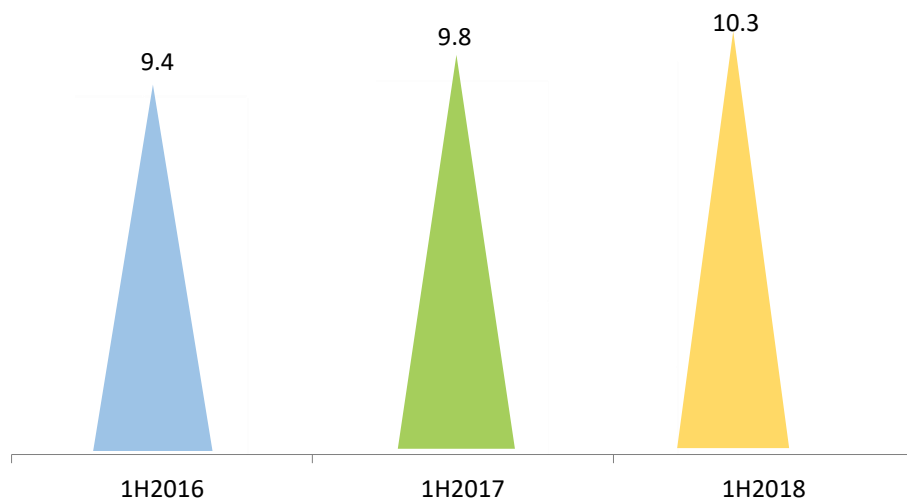
Sales Volume

(0000 ton)



Ongoing Increase of Milk Yield per Cow

(ton/head/annum)



Strong Technical Support for Future Increase of Milk Yield per Cow



Sept.-Oct.

Start OPU-IVP pilot production and embryo transfer technology training

Aug.

Carry out embryo transfer technology training.

July

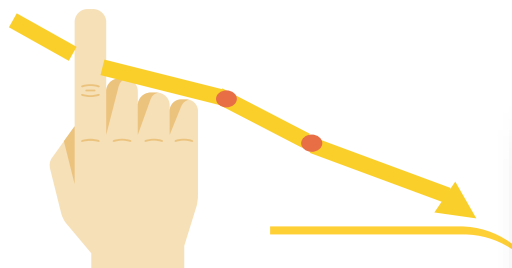
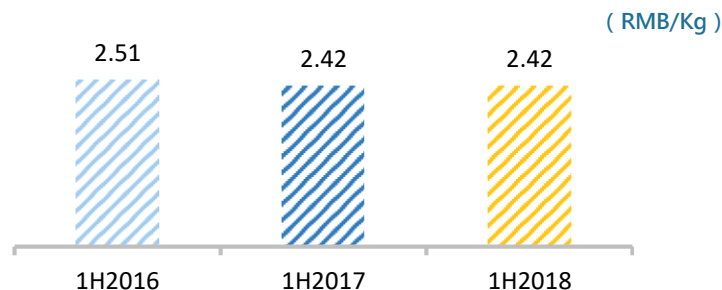
Start cooperation and set up project teams. The two sides will connect in a close way.

Nov.
Formally carry out OPU-IVP production and embryo transfer work for donor cattle.





Cash costs witnessed steady decline through multiple approaches.



• Increase Quality & Reduce Costs

Set up Roughage Department

Adjust Feed Mixture

- The feed cost of the 2nd 3rd quarters will be reduced by increasing the proportion of roughage in the daily feed from 40% to 45%.

Current Purchasing Situations

- 25% increase of tariffs and large-scale purchases from the Middle East lead to the increase of price of imported alfalfa rose by 600-800 yuan/ton in the 2nd half, resulting cash cost increase by more than 0.12 yuan. The group has established the roughage department to integrate regional resources and adjust the roughage feeding strategy to address the future problems.

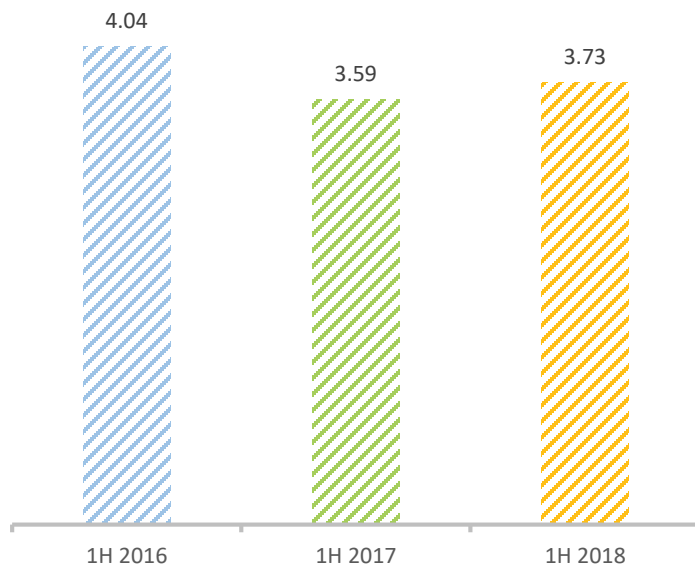
Change Purchasing Mode

- Purchase based on the needs of farms, set price based on quality to increase quality and reduce costs.
- Develop new resources based on regions and farms to achieve "strategic planning, full participation, ground investigation, and quality improvement".

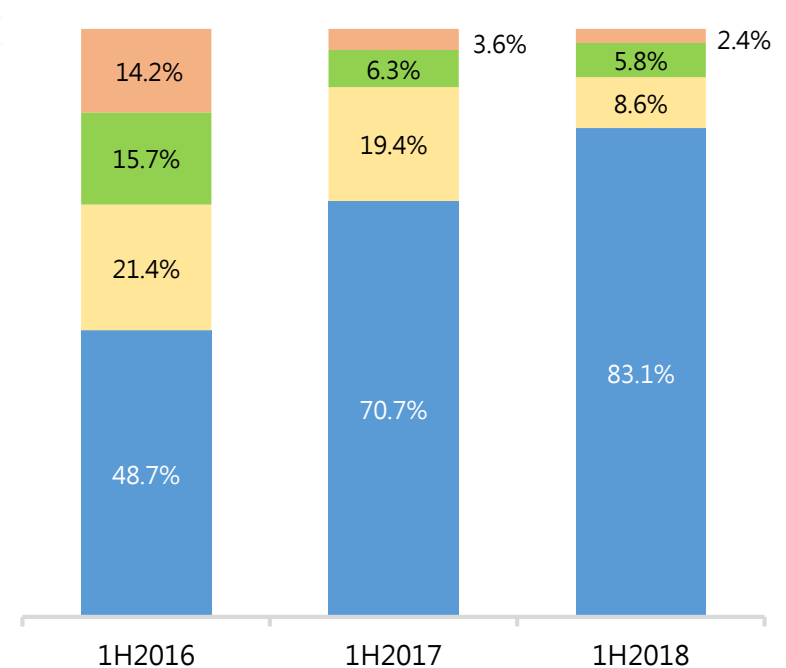


External Raw Milk Price

(RMB/Kg)



Breakdown of Raw Milk Sales



- Sprayed in Powders or Others
- Branded Liquid Milk
- Sales to Others
- Sales to MN



Raw Milk Business: Revenue, Gross Profit and Gross Profit Margin

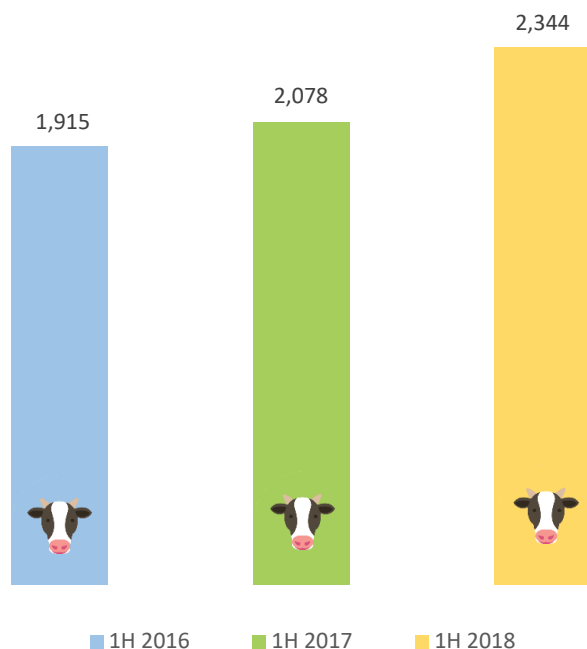


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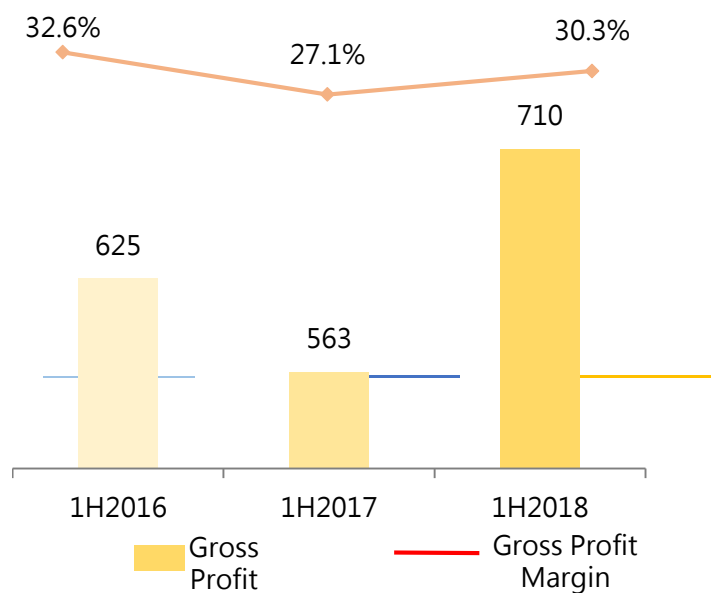
Steady Increase in Sales of Raw Milk Business ⁽¹⁾

(RMB Million)



Gross Profit and GP Margin of Raw Milk Business ⁽¹⁾

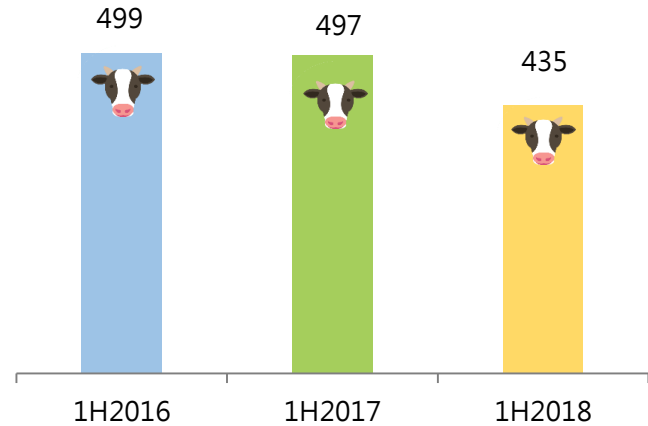
(RMB Million)



Note : (1) Before eliminating sales and costs of internal supply of raw milk.

Bio-asset Fair Value Loss

(RMB Million)



 Improve Health

 Increase Comfortability

 Decrease Culling

 Enhance Efficiency



Balance Sheet Overview

RMB : Million	2018 (30 June 2018)	2017 (31 December 2017)	Changes
Biological Assets	7,681	7,751	-0.9%
Fixed Assets	4,115	4,699	-12.4%
Total Assets	15,763	16,718	-5.7%
Total Liabilities	8,849	9,629	-8.1%
Total Borrowing	7,116	7,425	-4.2%
Deb Ratio(1)	51.1%	51.6%	-0.4%
Cash Balance(2)	808	798	1.2%

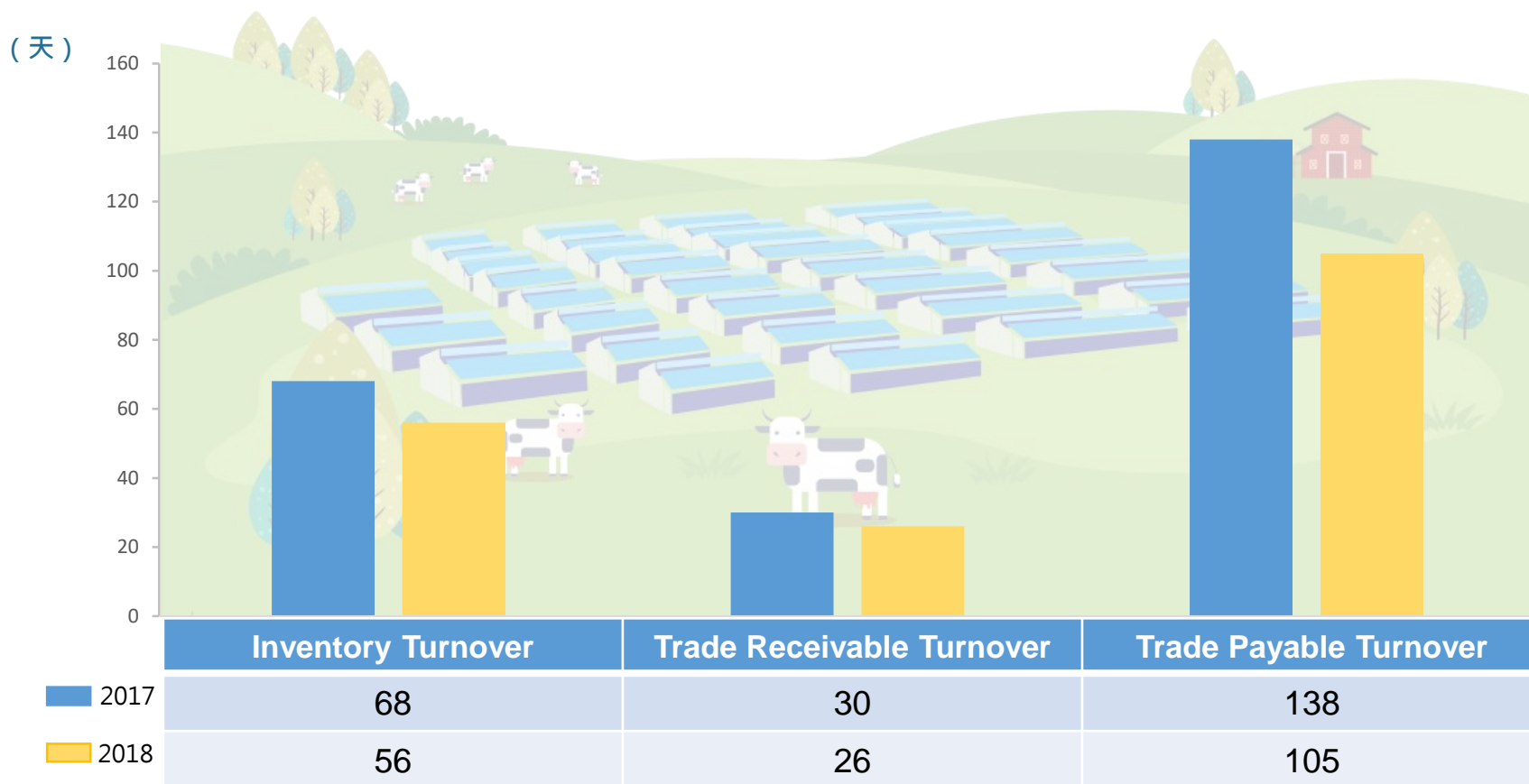


The decrease in financial leverage is due to the substantial improvement in free cash flow and the divestiture of the joint venture's liabilities.

Notes:

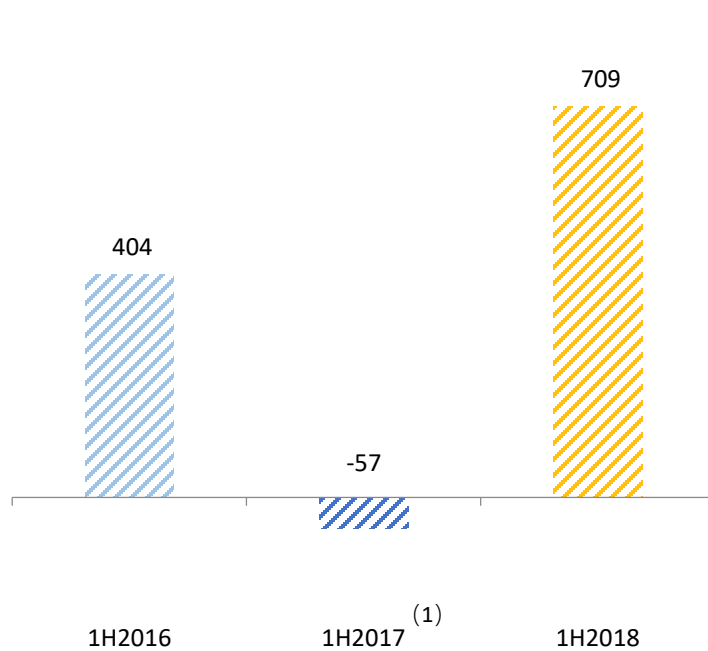
(1) Debt Ratio=Interest bearing liabilities/ (Interest bearing liabilities + book value of total equity)

(2) Including pledged bank balances



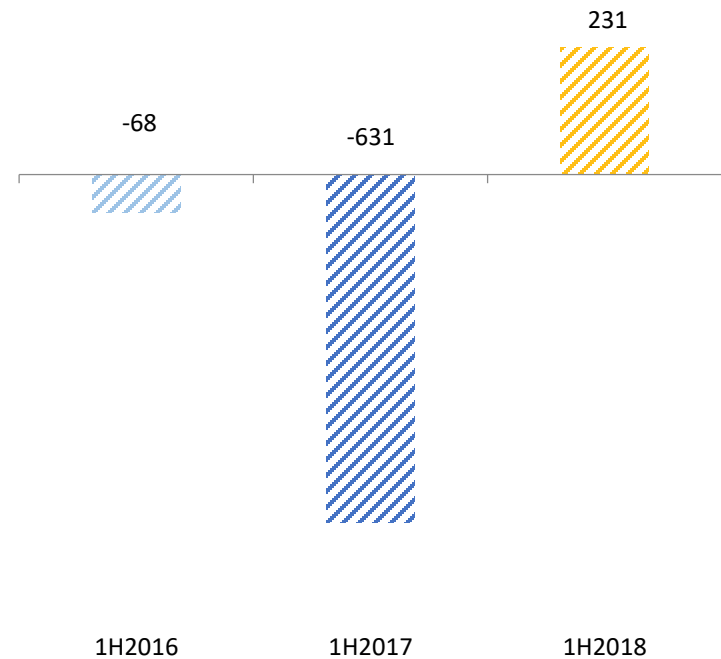
Operating Cash Flow

(RMB Million)



Free Cash Flow (2)

(RMB Million)

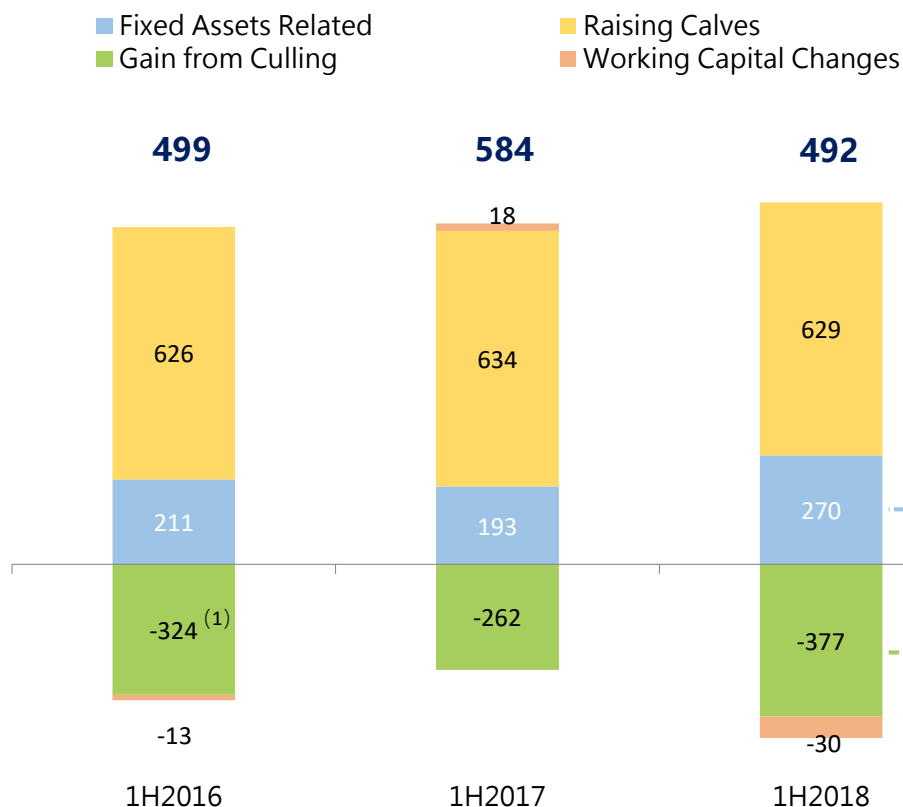


Note : (1) Including RMB 300 million silage expenditure in the year of 2016

(2) Free Cash Flow = Operating Cash – Capital Expenses + Government Grants

Capital Expenditures

(RMB Million)

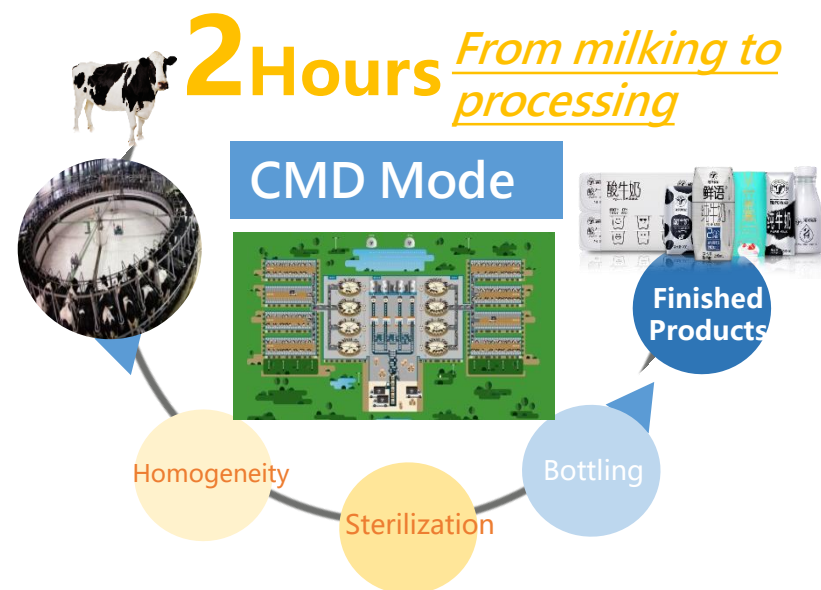
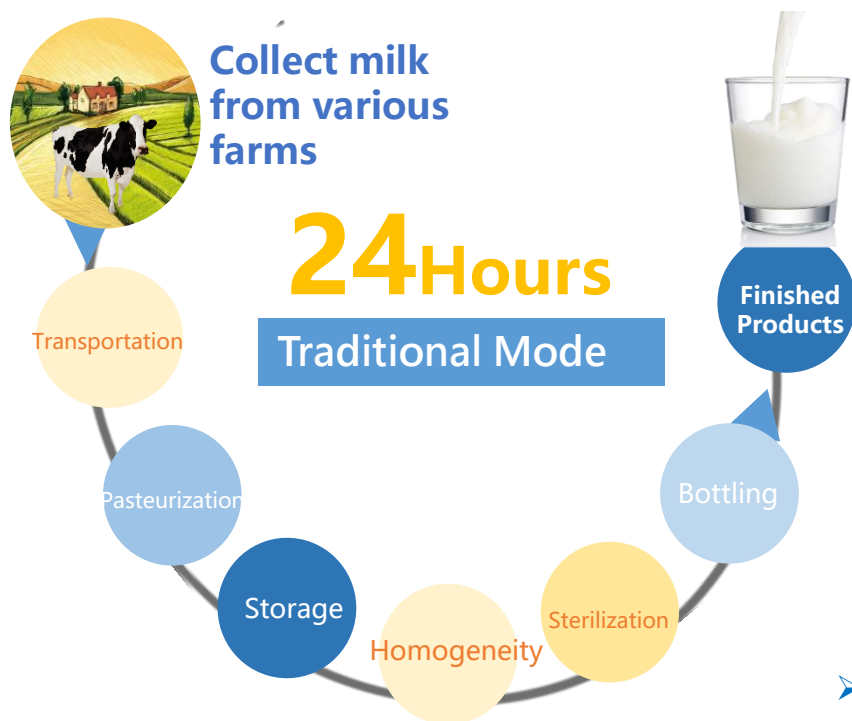


- In 2018, a total investment of **86.09 million** was made to reduce heat stress.
- Projects include fans, power distribution spray and others
- Initial effects have been achieved by July 2018

- Set up Culling Center
- Enhance Supplier Management
- Conduct Marketing Research
- Increase Selling Price



Note : (1) Including commodity cattle income of 57.9 million.



- CMD' s integration of **Planting, Breeding and Processing**, reduce the two heat treatments and maximize milk' s bioactive substances and nutrients.
- The only domestic enterprise with integration mode of Planting, Breeding and Processing recognized by **SGS**



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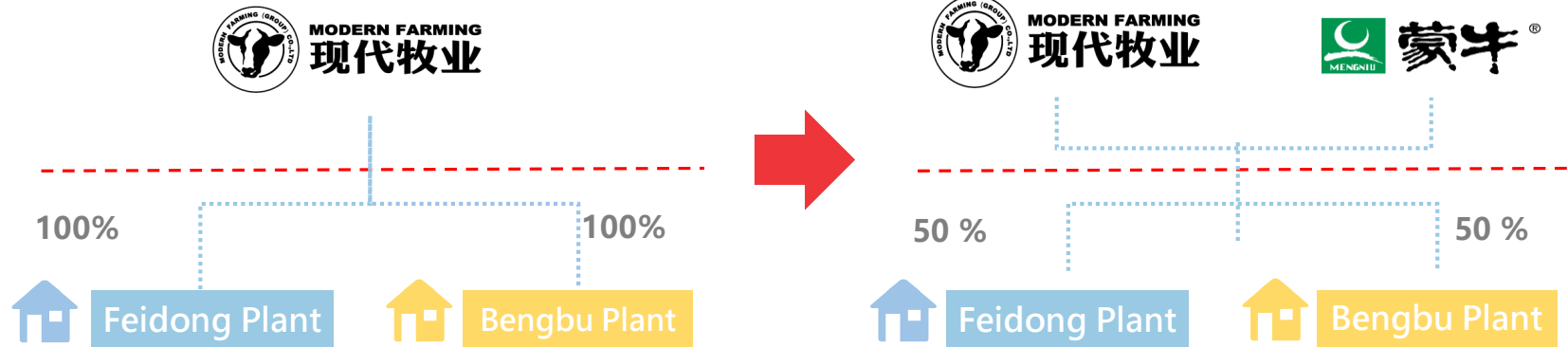


Part 2 /Latest Development

Establish Joint Venture

Shareholding Structure
before the JV

Shareholding Structure
after the JV



Further develop synergy with Mengniu and re-build the brand.



Leverage on Mengniu's brand building experiences and utilize its advanced management system to enhance our brand image.

High Nutrition

- Rich in feed nutrients, trace elements and amino acids, and also contains functional active substances such as flavonoids, which can improve animal immunity and disease resistance.

类别	粗蛋白	粗脂肪	钙	粗纤维	总磷	水
构树叶	26.1	5.2	3.4			
构树干物质	24.98	4.32	2.02	43.89	0.42	
风干物质	21.42	2.64	2.7	10	0.44	5.15
叶和嫩梢	21.35	3.69	2.02	37.52	0.43	

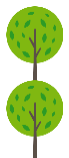
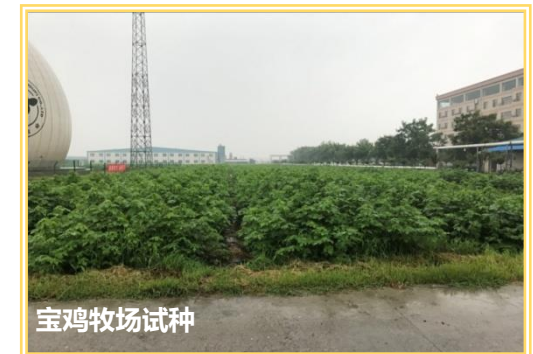
Strong Adaptation

- Pesticides and chemical fertilizers are not needed during the growth process of hybrid mulberry trees. They can grow in drought, ridge thin, saline-alkali, rocky desertification, desertification and their mines, with rapid reproduction, high yield and resistance to felling.



Low Planting Cost

- Hybrid paper mulberries are fast-growing and high-yielding. They can be harvested in the same year and for 15 consecutive years. The demand for water is small. It can be planted in saline, alkali, desert and arid regions.



In 2018, we purchased Lankao Zhongkehua Biotechnology Co., Ltd. with shareholding structure of 14%;



Hybrid paper mulberry can replace imported alfalfa and reduce dependence on imported feed .



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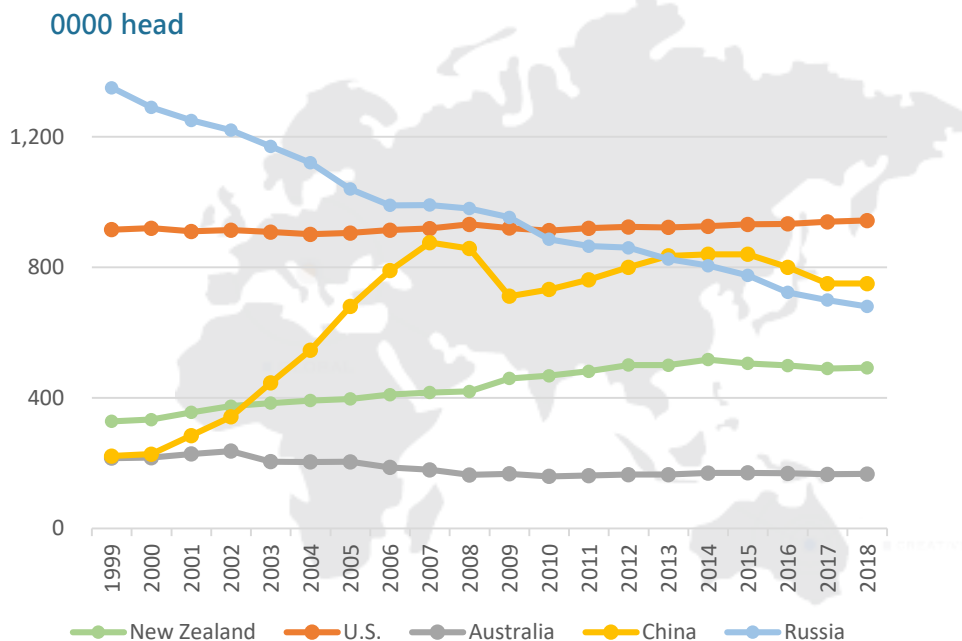


Part 3 / Industry Overview

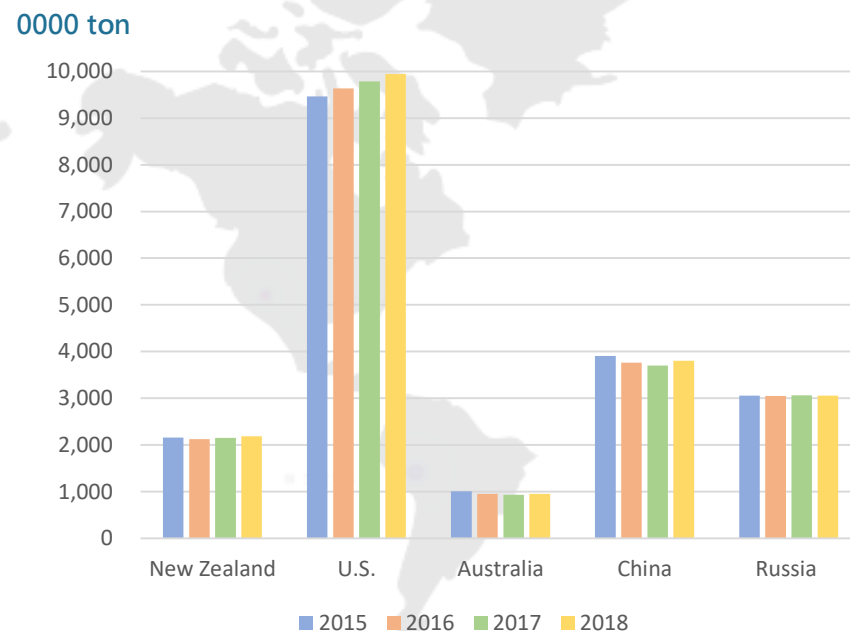
Global Dairy Data Overview



Number of Dairy Cows in Main Global Production Areas ⁽¹⁾



Stable Raw Milk Production Volume in Main Areas ⁽²⁾

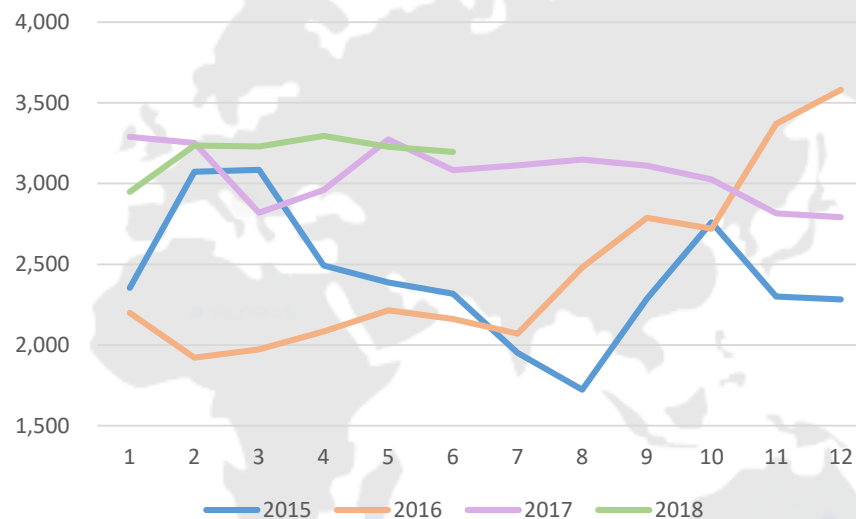


Source : (1) United States Department of Agriculture (2) CLAL



International Raw Milk Price Stabilized in 1H 2018⁽¹⁾

美元/吨



Domestic Raw Milk Price Still Weak in 1H 2018⁽²⁾

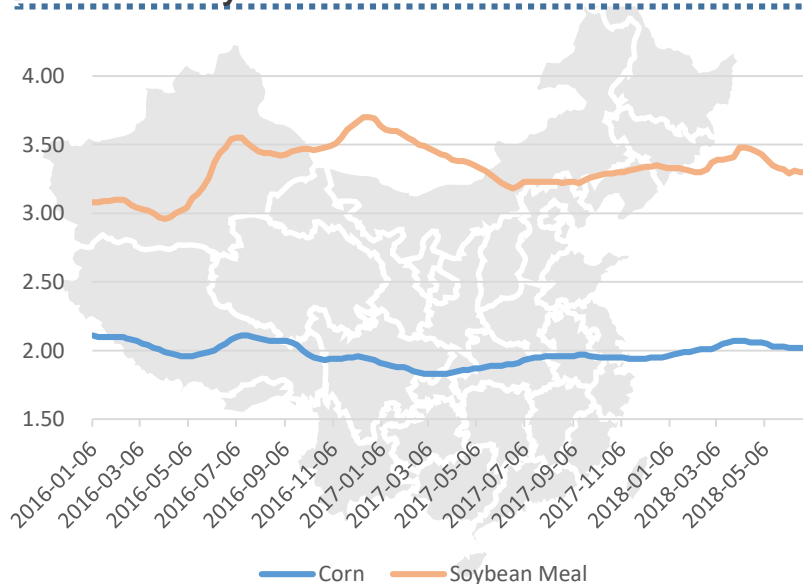
元/公斤



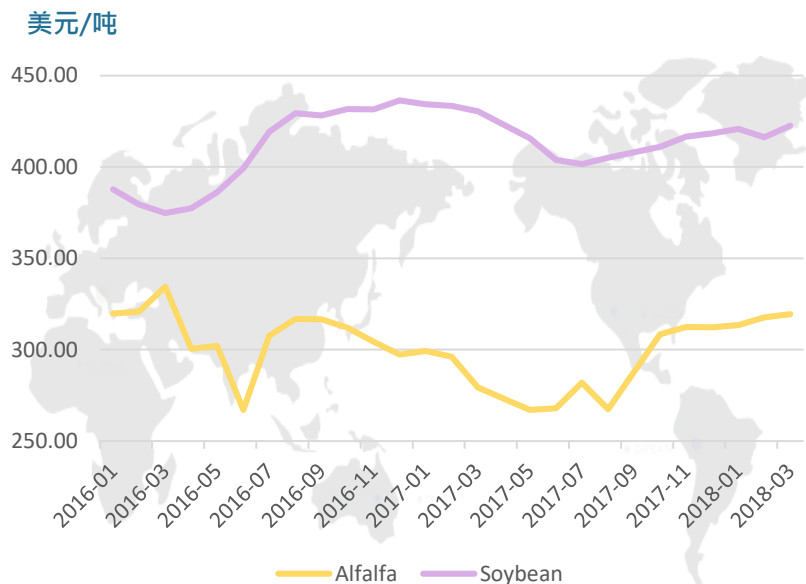
- ▶ Raw milk price is expected to enter the upward cycle in 2H 2018.



Price of Domestic Corn and Soybean Meal Remained Flat ⁽¹⁾

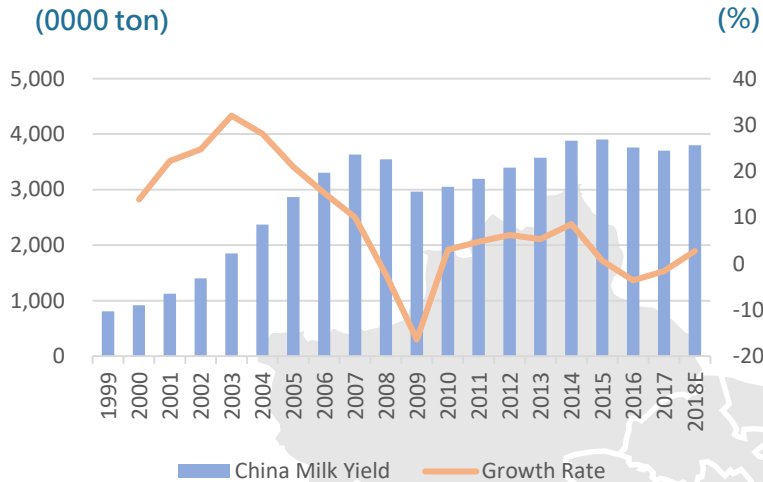


Price Imported Alfalfa and Soybean are on the Rise ⁽²⁾

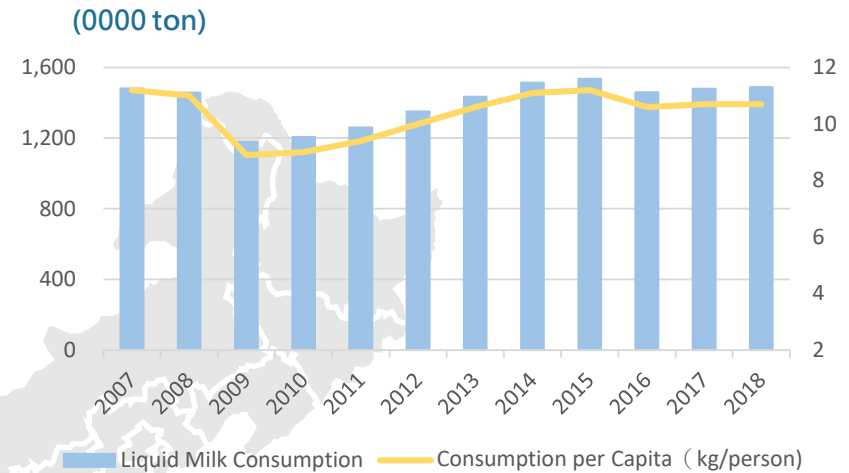


- ▶ The company is committed to adjusting the feed structure, to increasing the purchase volume of domestic alfalfa, to expanding import channels, and to continuously optimizing fine feed ratio and improving the yield;
- ▶ The annum feed cost is expected to maintain at last year's level.

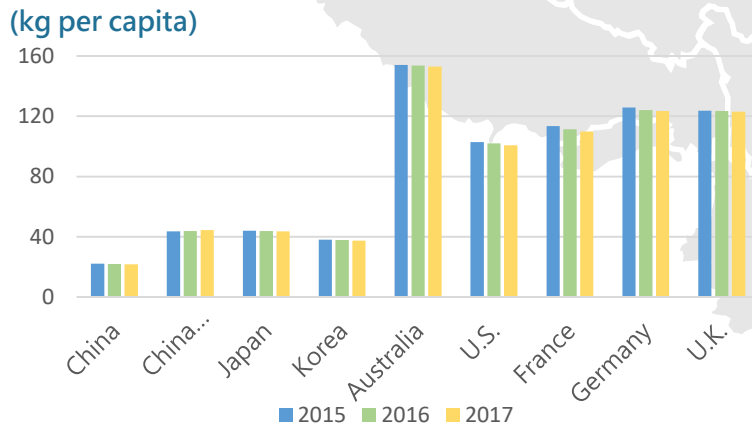
Growth Rate of Domestic Milk Yield Decrease ⁽¹⁾



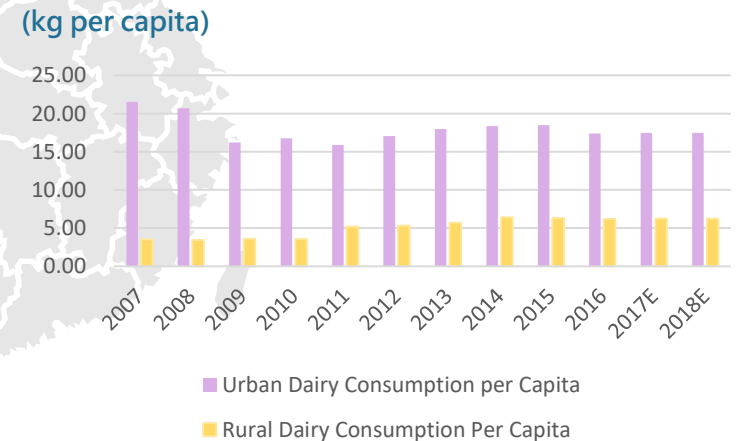
Stable Increase of Consumption of Domestic Liquid Milk ⁽²⁾



Domestic Dairy Consumption per capita has huge Growth Opportunities ⁽²⁾

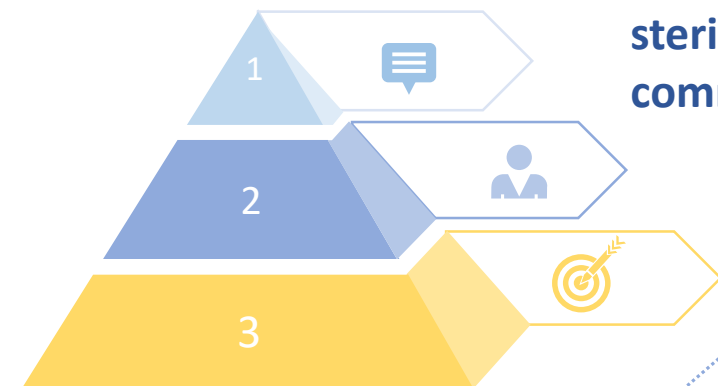


Rural Dairy Consumption per Capita has Huge Potential ⁽³⁾





On 28 Feb 2018, the first consultation paper on New National Standard for raw milk, pasteurized milk, sterilized milk and reconstituted milk is published for comments.



Highlights of the New Standard

- 1. Raw Milk Grading System:**
Classify the Protein, Fat, Microbe and Somatic Cell in raw milk into Outstanding, Good and Pass Grade.
- 2. Specification on Processing:**
Introduce praline and lactulose, two by-products of milk heat processing, to distinguish raw milk, pasteurized milk, sterilized milk, and reconstituted milk in a more scientific way.
- 3. Label of Dairy Product Packaging:**
The new standard stipulates that the packaging of pasteurized milk and sterilized milk product can identify the grade, the processing and quality parameters of raw milk used.



Industry Chain Collaboration
to Establish Sound and Sustainable Development in Dairy Industry



Enhance confidence in domestic dairy products



Drive consumption upgrading



Increase consumption of domestic raw milk



Promote development of domestic high quality farms

Note: Modern Farming is the first company whose pasteurized milk and UHT sterilized milk passed the recognition of "High-quality Milk Project"



- On 23 May 2018 · Premier Li Keqiang organized the State Council Executive Meeting to discuss the rejuvenation of dairy industry.
- On June 11, 2018, the State Council issued the "Opinions on Promoting the Revitalization of Dairy Industry to Ensure the Quality and Safety of Dairy Products"

Main Issues



- Introduce fine milk cows and build national core farms. Strengthen the production of high-quality forage materials. Develop standardized large-scale farming and high-quality raw milk production base.



General Secretary Xi Jinping attached great importance to the development of China's dairy industry. At the beginning of 2017, he proposed "to create an internationally competitive dairy industry and cultivate a world-famous dairy brand"



- Enhance supervision, revise and improve national standards on raw milk and sterilized milk, and establish a quality traceable system. Strive to significantly improve the quality and reputation of domestic infant formula milk powder within 3 years



Vice Premier Hu Chunhua further promoted the revitalization of the dairy industry. In 2018, he inspected the dairy industry in Hebei and Heilongjiang provinces, and emphasized "in-depth promotion of supply-side structural reforms to improve the quality and competitiveness of the dairy industry".



- Strengthen support for financial insurance, land use to revitalize the dairy industry





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