

# 2019

## Annual Results Announcement



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號：1117



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01



Financial Results

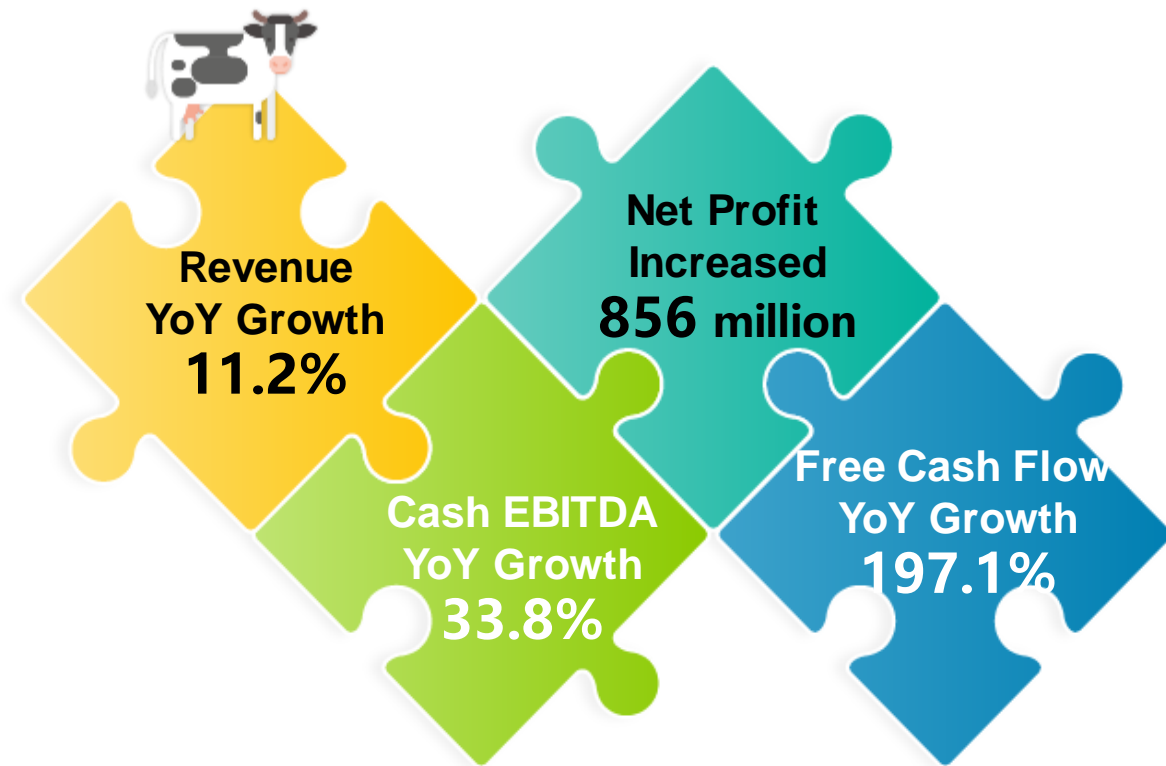




# 2019 Annual Results Review



| RMB Million                               | 2019         | 2018  | Change        |
|---|--------------|-------|---------------|
| <b>Revenue</b>                            | <b>5,514</b> | 4,957 | <b>11.2%</b>  |
| <b>Cost of Sales</b>                      | <b>3,412</b> | 3,411 | 0.03%         |
| <b>Gross Profit Margin</b>                | <b>38.1%</b> | 31.2% | +6.9ppt       |
| <b>Cash EBITDA<sup>(1)</sup></b>          | <b>2,045</b> | 1,528 | <b>33.8%</b>  |
| <b>Cash EBITDA Margin</b>                 | <b>37.1%</b> | 30.8% | +6.3ppt       |
| <b>Net Profit</b>                         | <b>350</b>   | -506  | <b>+856</b>   |
| <b>AR reversal/(provision)</b>            | <b>161</b>   | -368  | +529          |
| <b>Earnings /(loss) per share (cents)</b> | <b>5.54</b>  | -8.15 | +13.69        |
| <b>Free Cash Flow<sup>(2)</sup></b>       | <b>1,023</b> | 344   | <b>197.1%</b> |

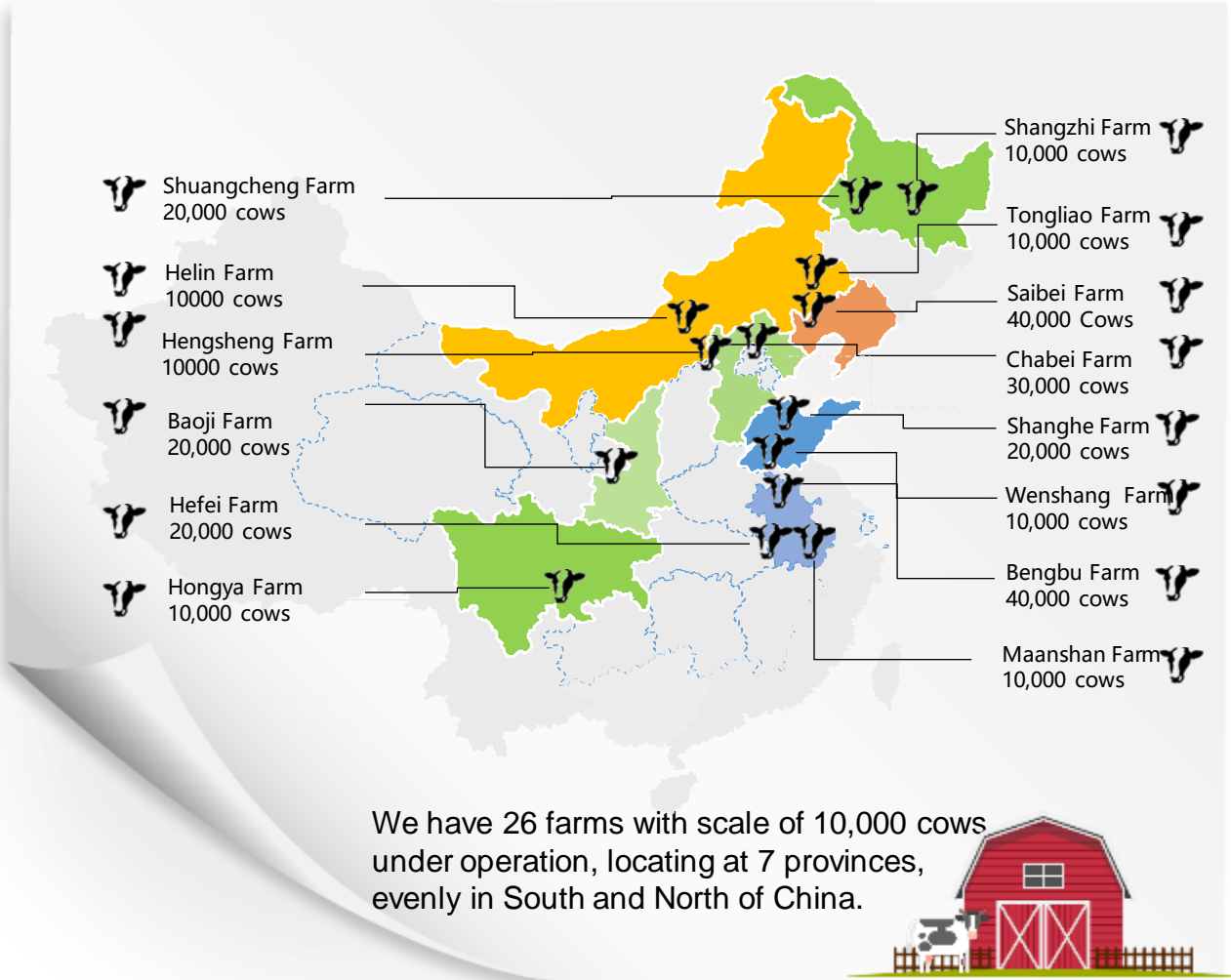


(1) Cash EBITDA is defined as profit/(loss) before finance costs and tax having added back: i) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss, ii) amortization, iii) impairment losses, net of reversal, iv) other gains and losses, net, v) loss arising from changes in fair value less costs to sell of dairy cows.

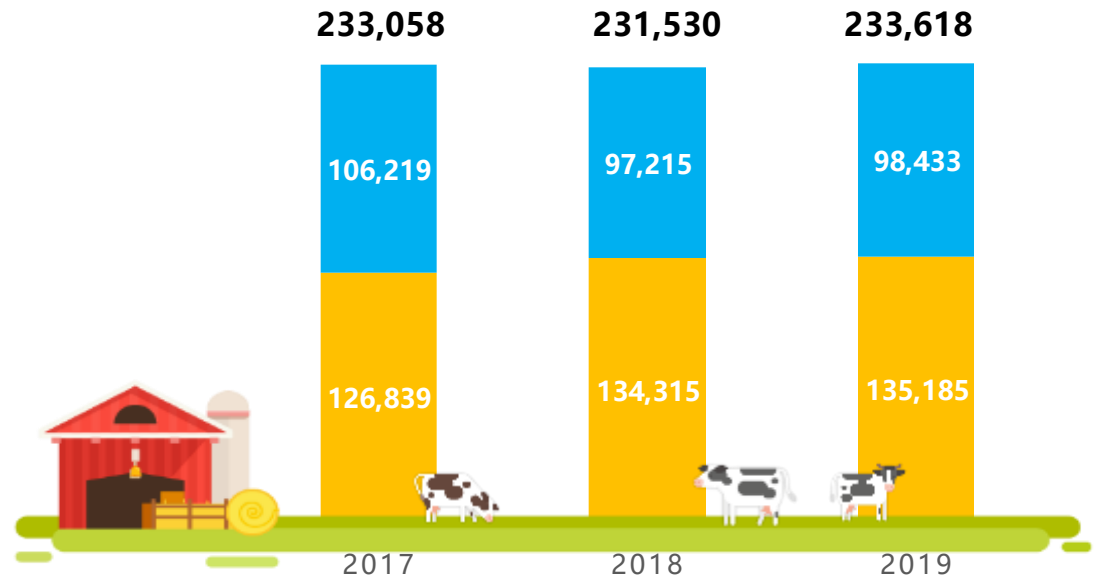
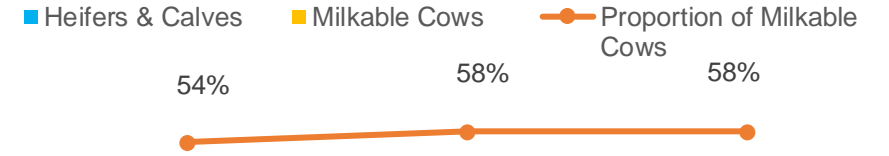
(2) Free Cash Flow is defined as net cash from operating activities having added back net cash used in investing activities.



# Ongoing Optimization of Herd Structure



## Herd Size & Proportion of Milkable Cows





# Stable Increase in Unit Yield for Milkable Cow



**Improve Health**



**Increase Comfortability**

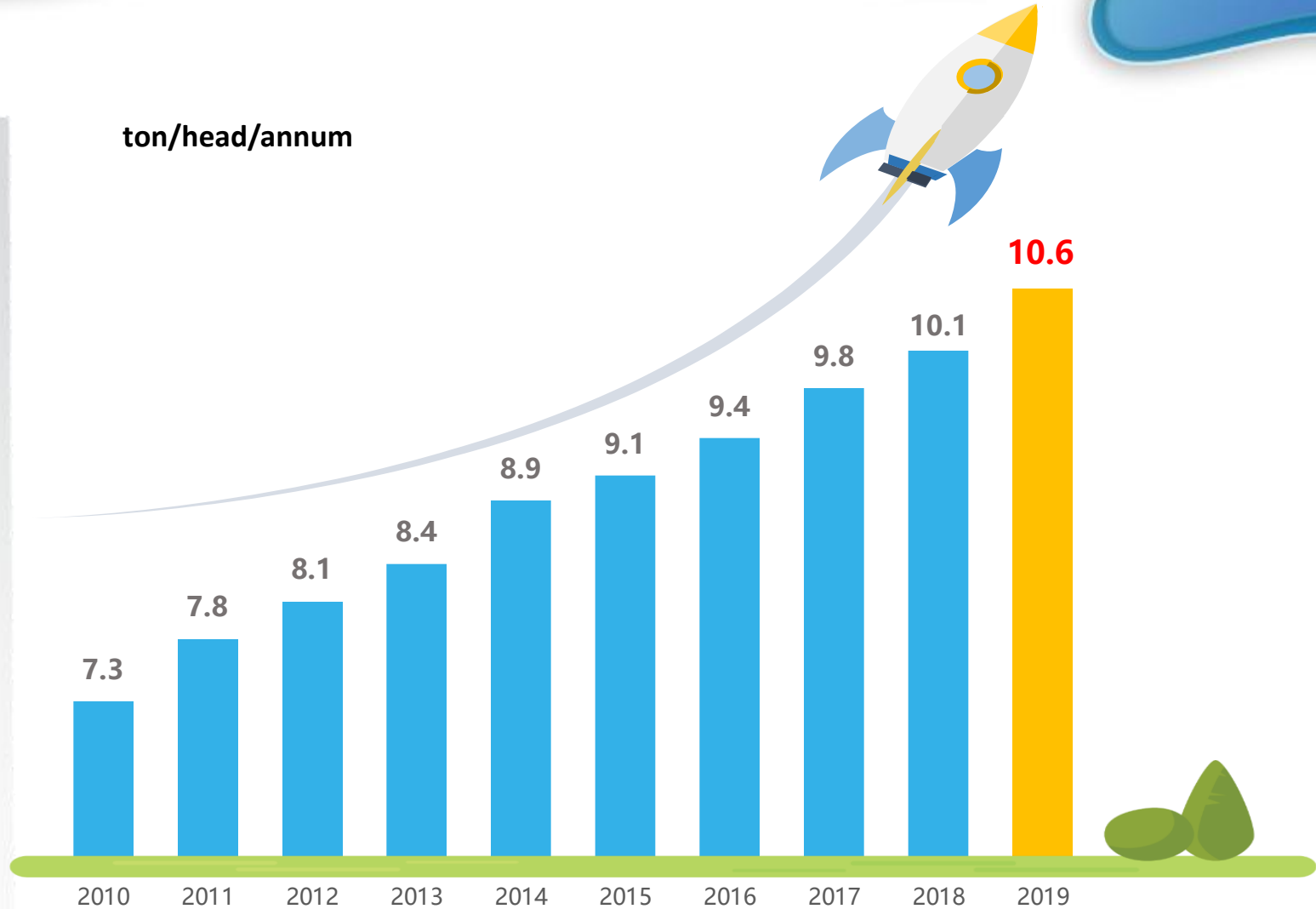


**Decrease Culling**



**Enhance Efficiency**

ton/head/annum



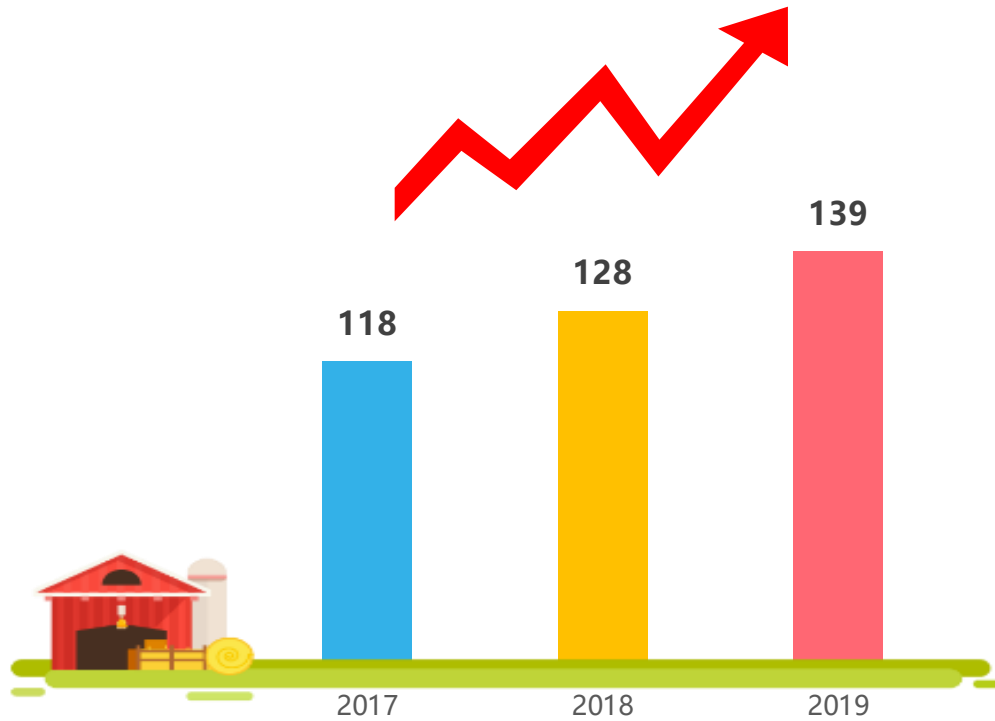


# Steady Increase of Production & Sales Volume



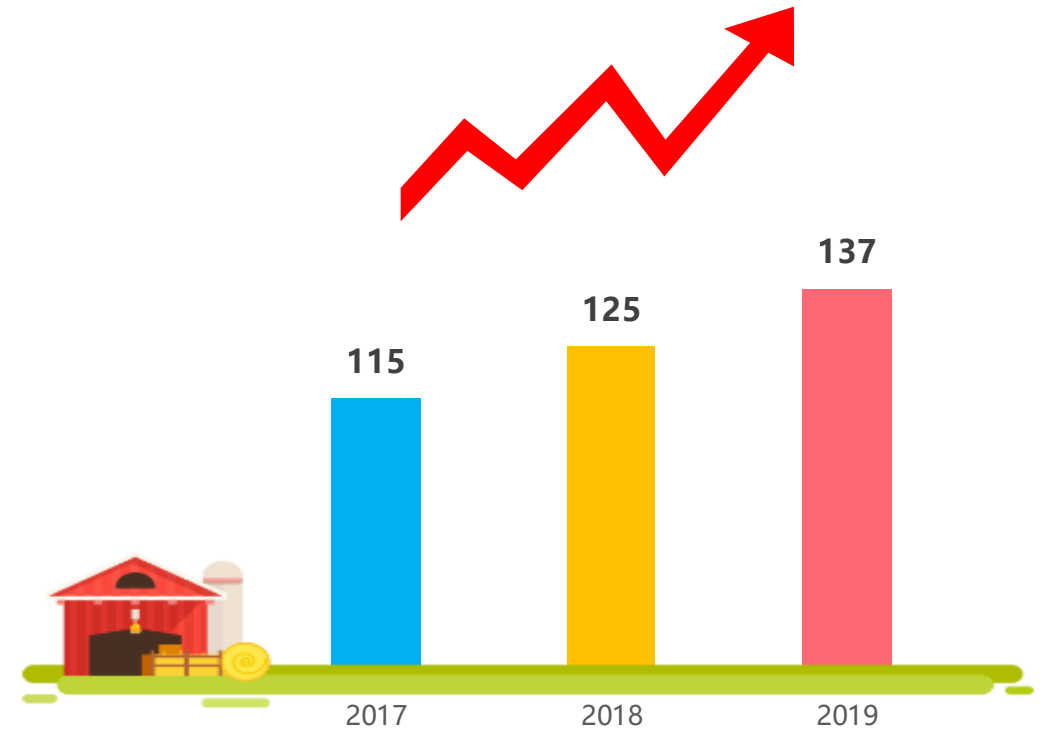
## Production Volume (0'000 tons)

CAGR: 8.5%



## Sales Volume (0'000 tons)

CAGR: 9.0%



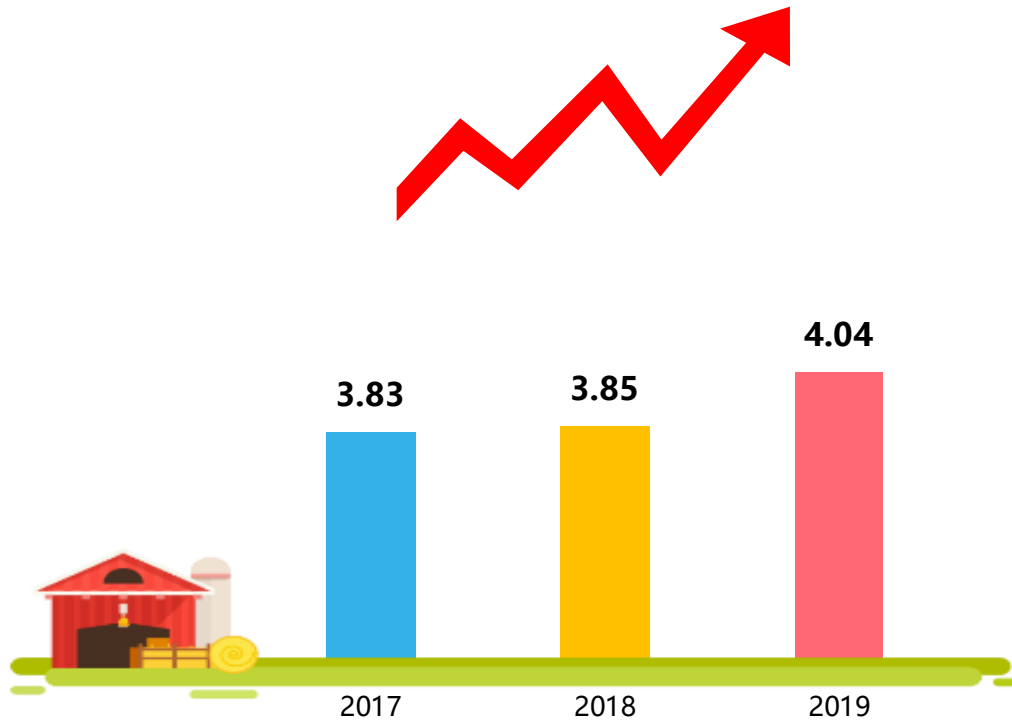




# ASP & Sales Volume Breakdown



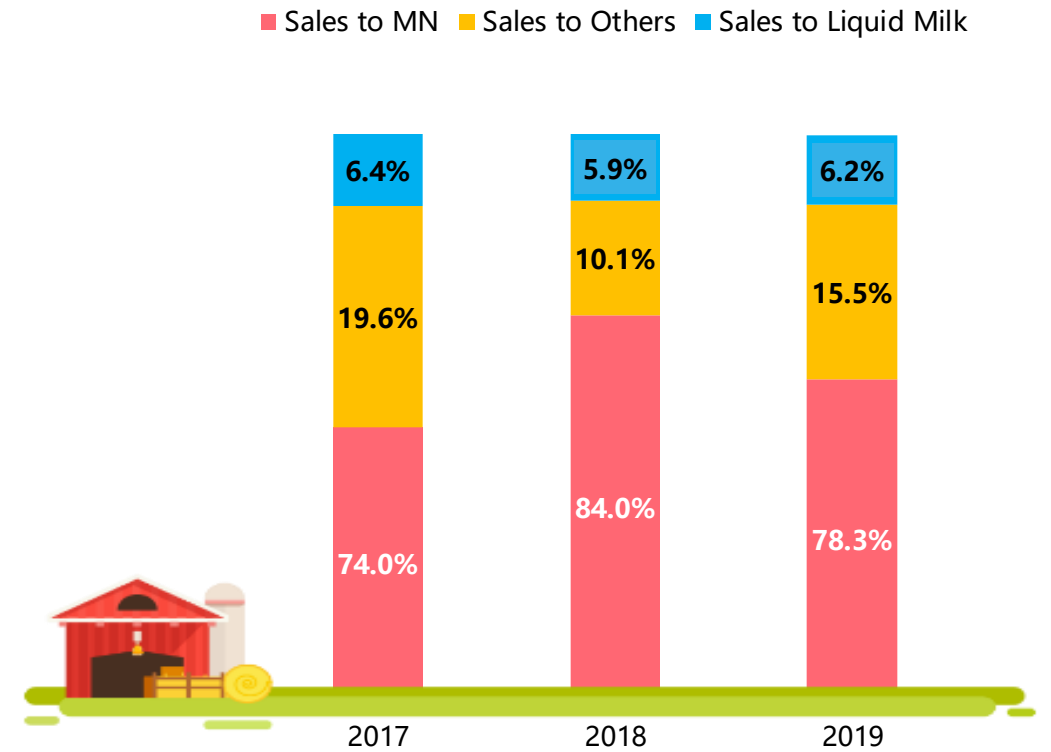
## External ASP (yuan/kg)



- ▶ Domestic raw milk price kept rising due to the decline in herd size in recent years



## Sales Volume Breakdown



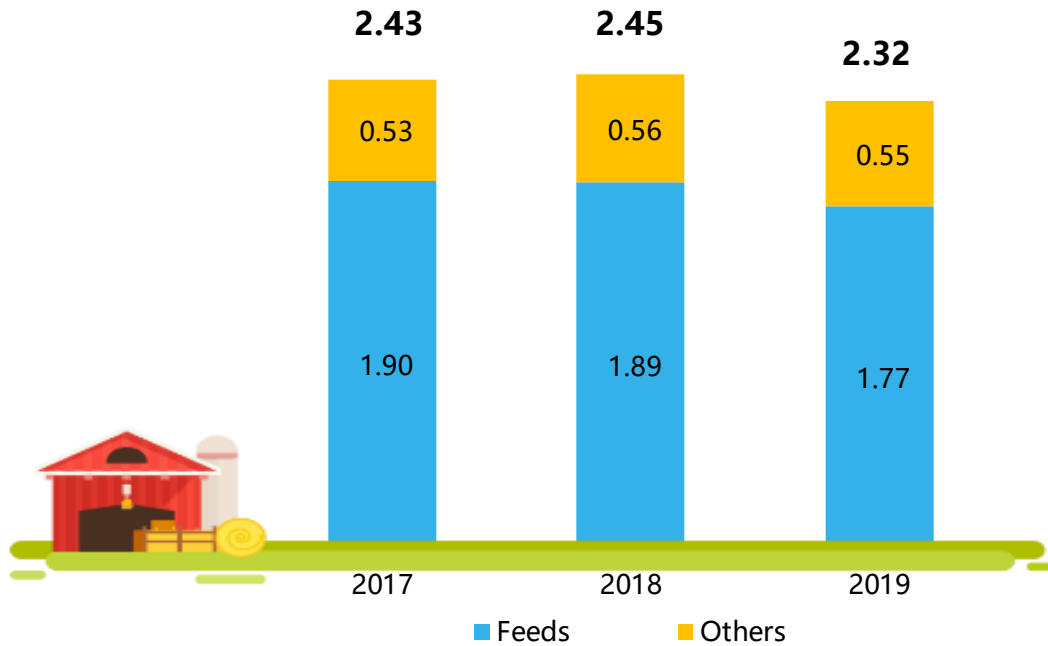
- ▶ Continue to implement long-term sales strategy with Mengniu
- ▶ Proactively expand third-party sales and establish core customer base



# Continuous Decrease of Cash Cost



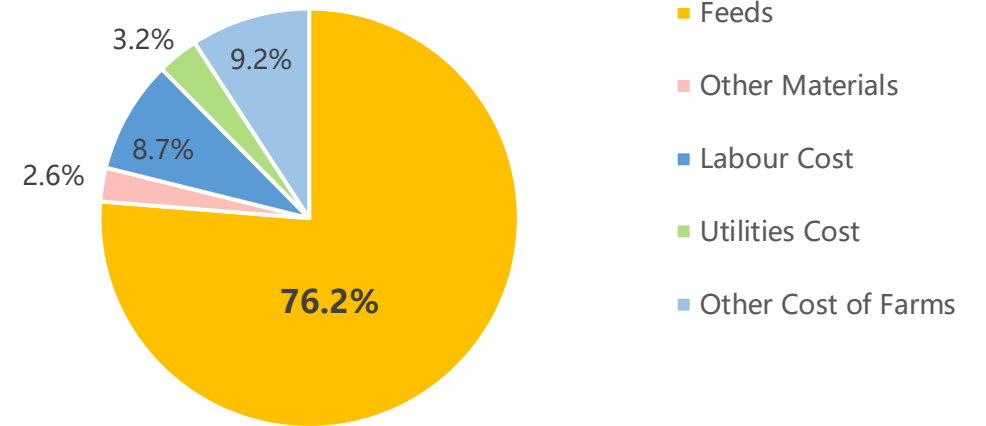
## Cash Cost (yuan/kg)



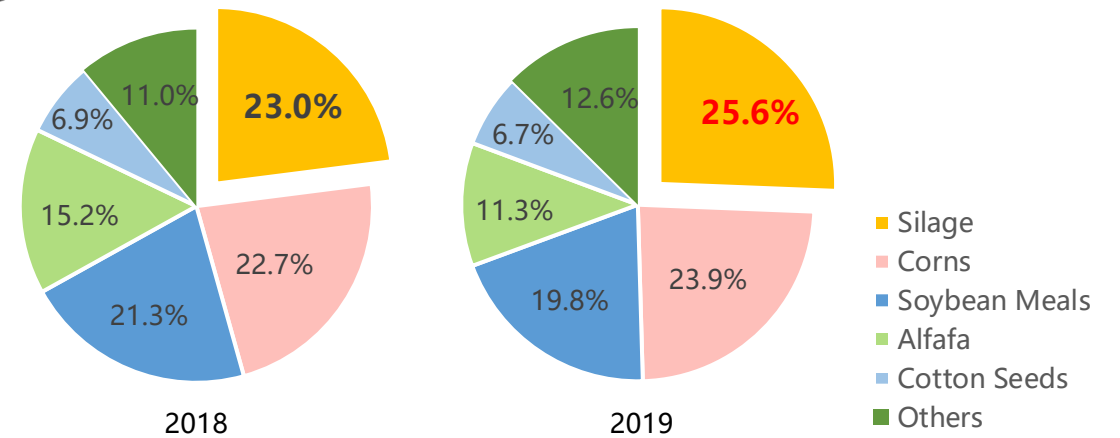
By improving health, unit yield and use of silage, the cash cost of milk fell to **RMB 2.32/kg**, reaching a record low.



## Cost Breakdown



## Feed Cost Structure



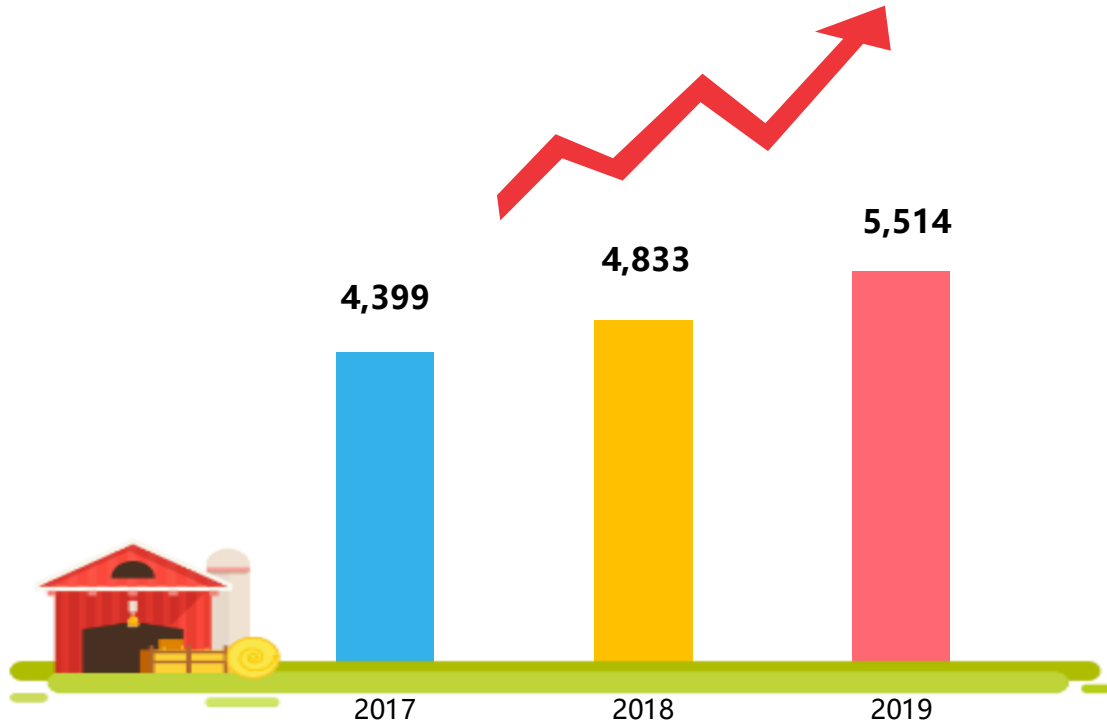


# Stable Increase of Sales & Gross Profit



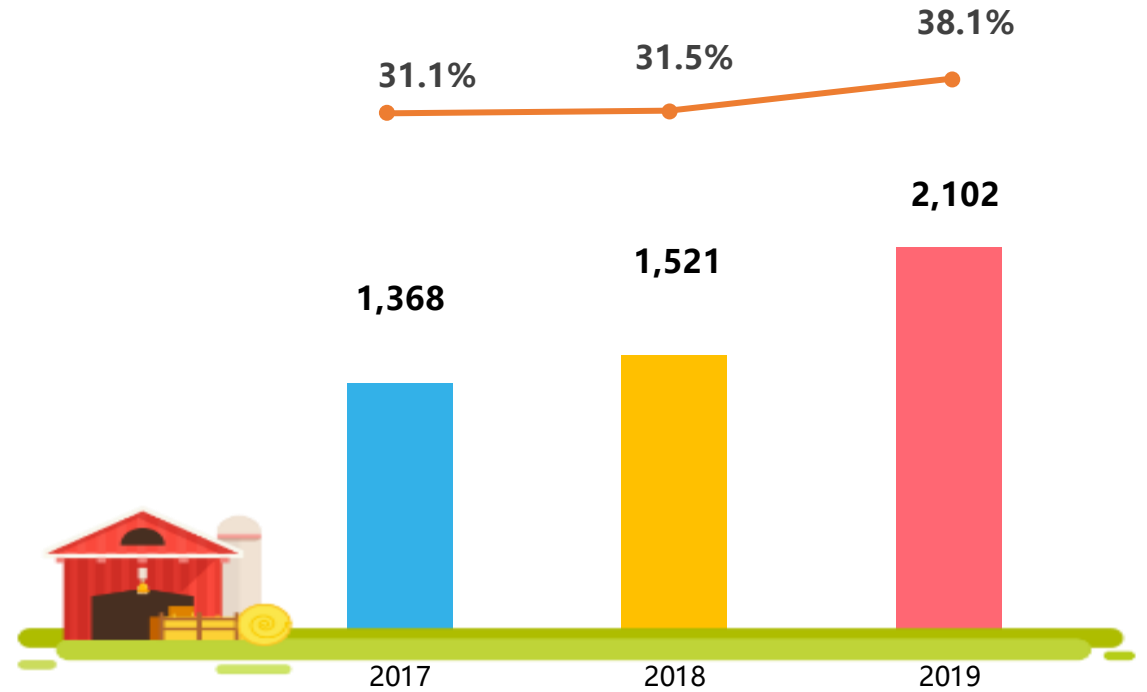
## Raw Milk Sales<sup>(1)</sup> (Million)

CAGR: 12.0%



## Raw Milk Gross Profit & GP Margin<sup>(2)</sup> (Million)

CAGR: 24.0%



Note: (1) Sales includes external sales and sales to branded liquid milk,  
 (2) Before raw milk fair value adjustments & elimination of sales and costs of internal supply of raw milk.



# Balance Sheet Overview



| RMB Million                              | 2019   | 2018   | Change  |
|--|--------|--------|---------|
| Biological Assets                        | 7,459  | 7,717  | -3.3%   |
| Fixed Assets                             | 3,455  | 3,921  | -11.9%  |
| Total Assets                             | 15,724 | 15,946 | -1.4%   |
| Total Liabilities                        | 8,516  | 9,392  | -9.3%   |
| Total Equity                             | 7,208  | 6,554  | +10.0%  |
| Net Asset Value per Share <sup>(1)</sup> | 1.12   | 1.07   | +4.7%   |
| Total Borrowings                         | 6,590  | 7,148  | -7.8%   |
| Debt Ratio <sup>(2)</sup>                | 48.2%  | 52.6%  | -4.4ppt |

Note: (1) Net Asset Value per Share = Year-end Net Asset Value/ Year-end Number of Shares Outstanding,  
(2) Debt Ratio = Interest-bearing debts/ (Interest-bearing Debts + Equity)

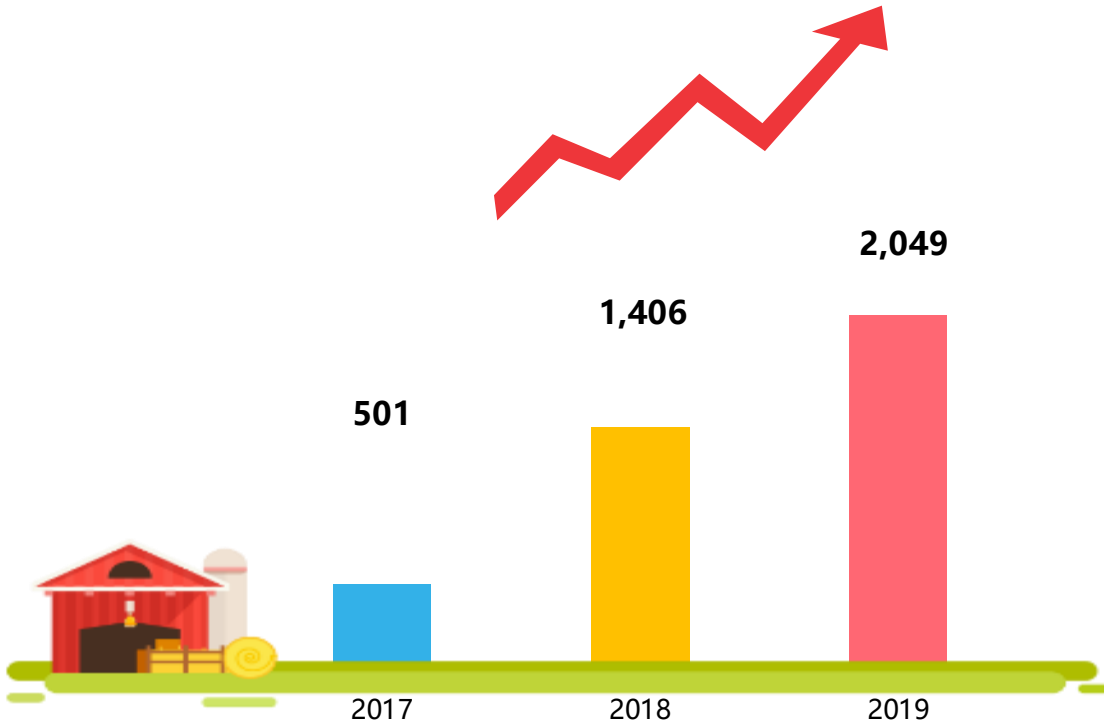




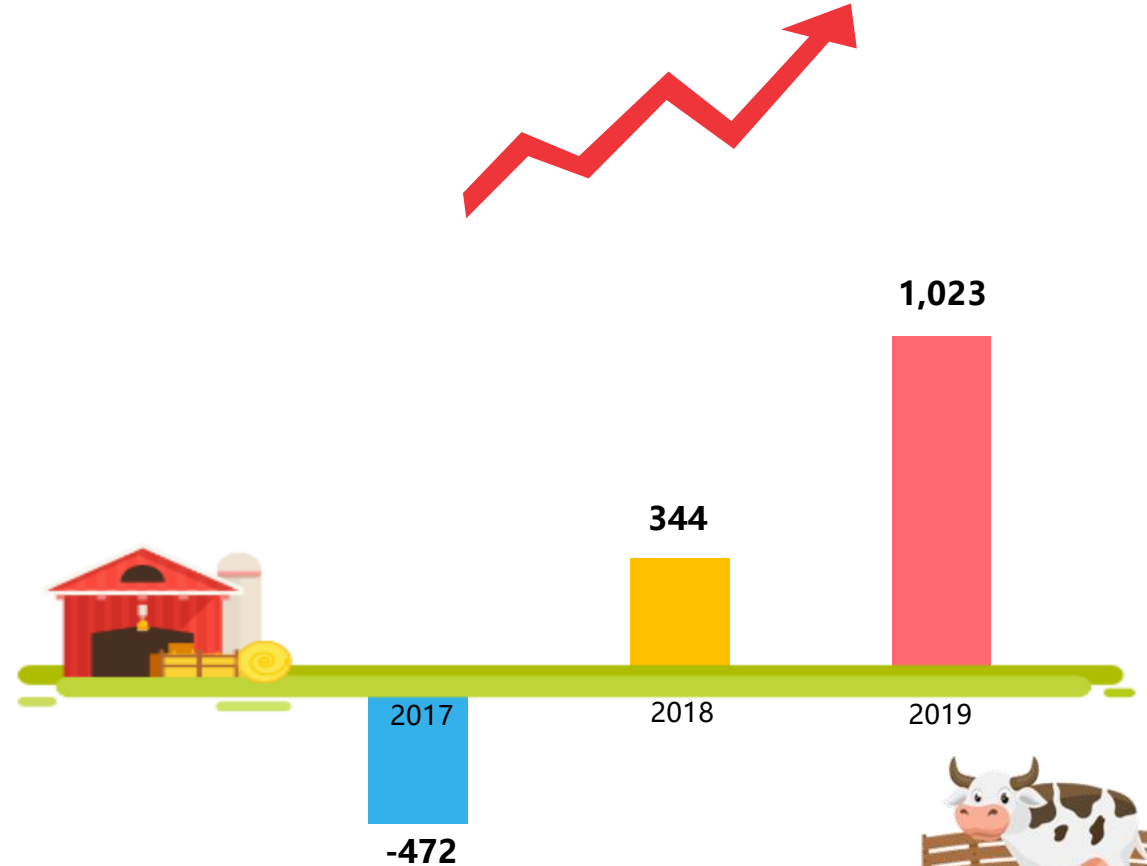
# Strong Cash Flow



## Net Cash Inflow from Operating Activities<sup>(1)</sup> (Million)



## Free Cash Flow<sup>(1)</sup> (Million)



Note: (1) Includes the realization of distributors' pledged shares of 380 million yuan in cash in 2019.

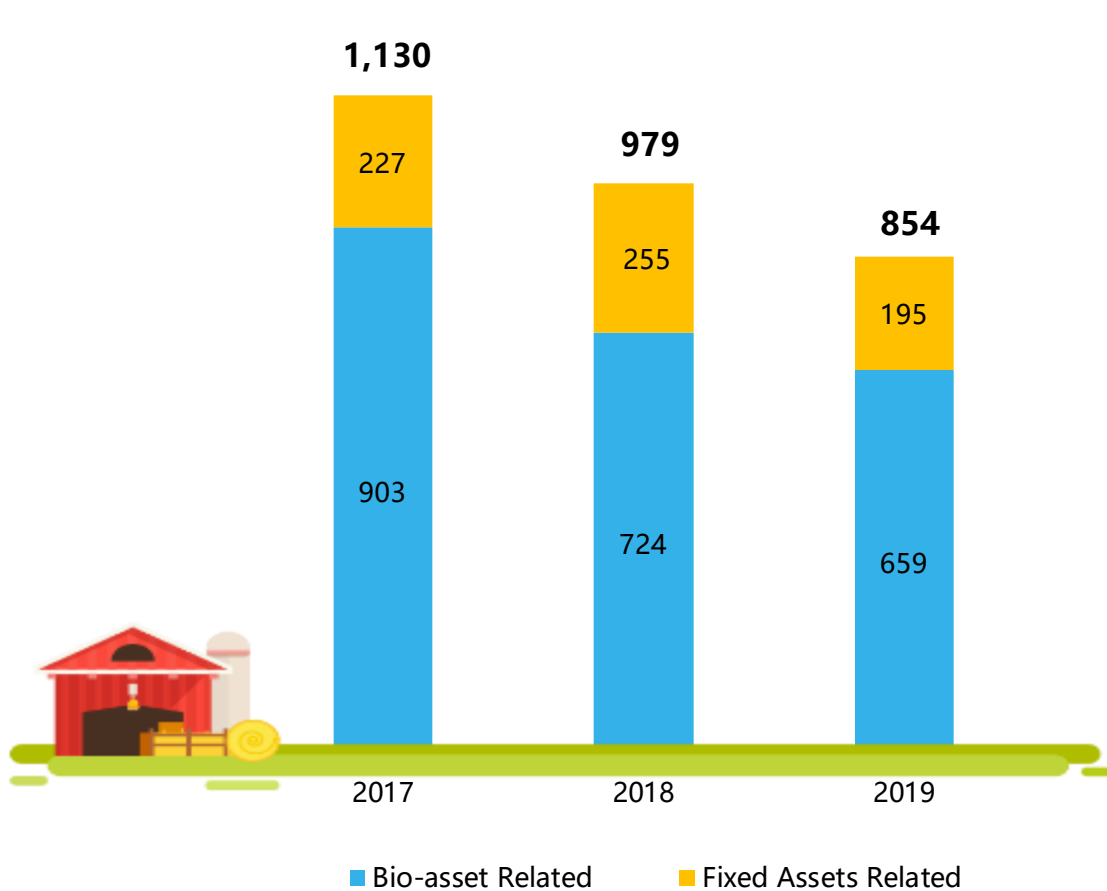




# Continuous Decrease of Capex



## Capex (Million)



- Improve Asset Utilities Efficiency and Life Span
- Proper Control of Feeding Costs
- Increase Sales Rate & Price of Culled Cows



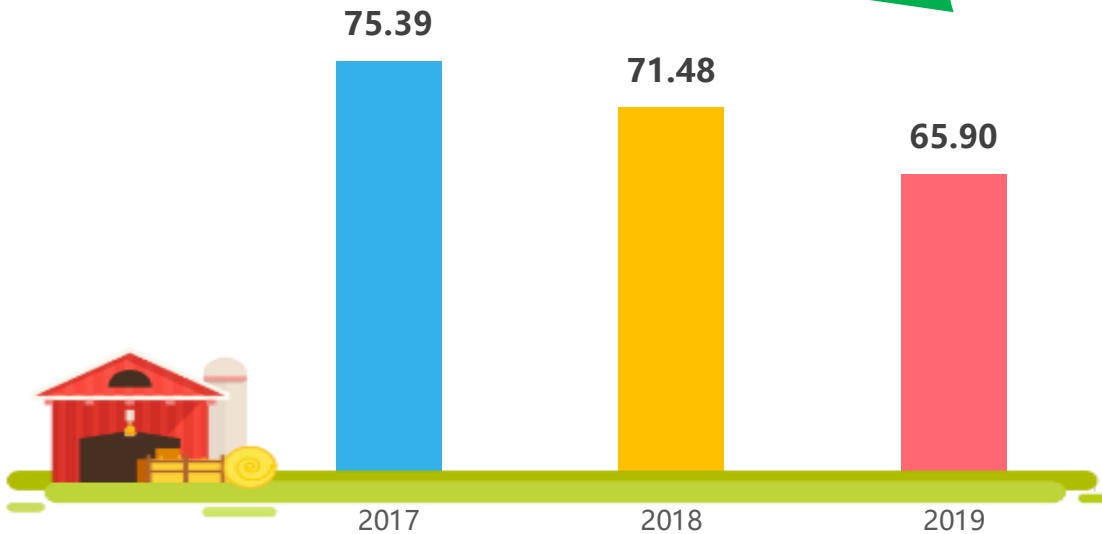


# Continuous Decrease in Interest-bearing Debts



## Interest-bearing Debts ( 00 Million)

Continuous Decrease in Interest-bearing Debt



## Focus on Dairy Farming and Enhance Operational Efficiency



Increase in ASP



Increase in Unit Yield, Production Volume & Sales Volume



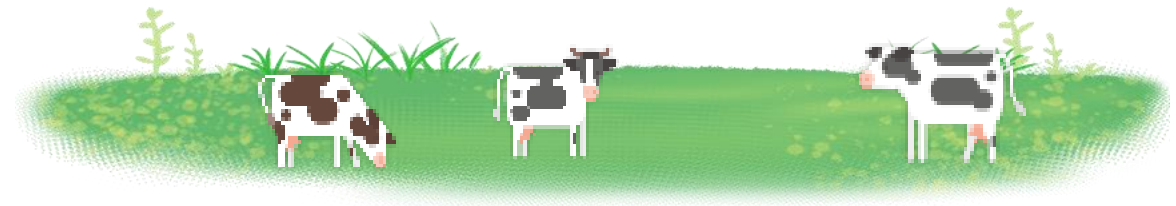
Decrease in Cash Cost



Sale of Collateral Shares & Placing



Continuous Decrease of Capex





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02



Business Updates







# Company Milestones



**2005**

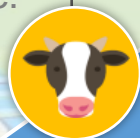
Established in Maanshan City, Anhui Province



11 Farms  
**Sales Volume: 158k tons**  
**Unit Yield: 7.3 tons**  
Proportion of Milkable Cows: 37%

**2010**

Listed on the HK Stock Exchange.



20 Farms  
**Sales Volume : 431k tons**  
**Unit Yield: 8.1 tons**  
Proportion of Milkable Cows : 44%

**2012**

The downstream branded liquid milk was launched.



The downstream milk JV factory with Mengniu was established, for collaborations to reshape the brand.

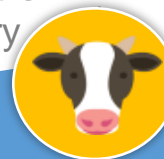
**2018**

Introduced New Hope Dairy as the second largest shareholder, establish a layout of the whole industry chain.



26 Farms  
**Sales Volume: 1.251 million tons**  
**Unit Yield: 10.1 tons**  
Proportion of Milkable Cows: 58%

**2019**



26 Farms  
**Sales Volume: 1.366 million tons**  
**Unit Yield: 10.6 tons**  
Proportion of Milkable Cows: 58%



## **New Hope Dairy Cooperation**

- It solved the problem of realizing shares' value pledged by distributors and reduced disposal risks
- Establish diverse and reliable client base for milk sales.

## **Energy Assets Projects**

- CITIC Energy Project: The first phase completed and the second phase under due diligence.
- Others: Hongya Farm signed an agreement, and the Maanshan Farm is under negotiation.

## **Tibet Assistance Program**

- Five technicians (including head of farm) sent to Tibet.
- 1,000 cows will be transported to the Qinghai Transitional Quarantine by this month.



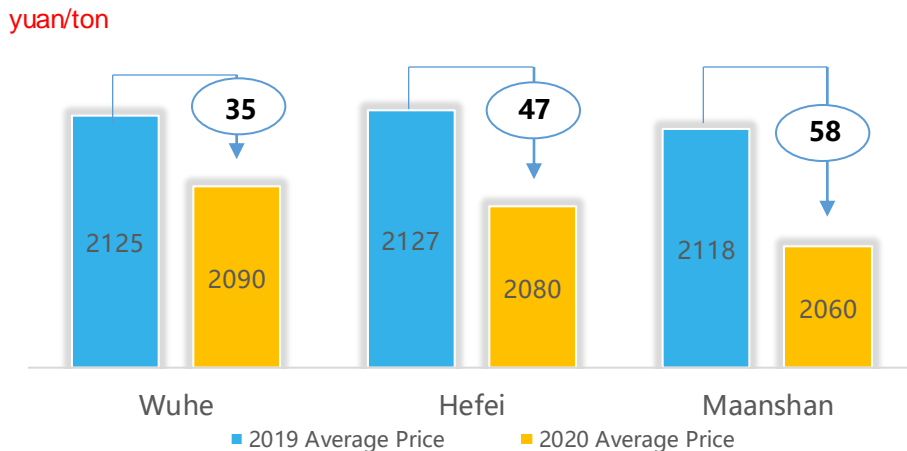
# Upgrade on Procurement Strategy



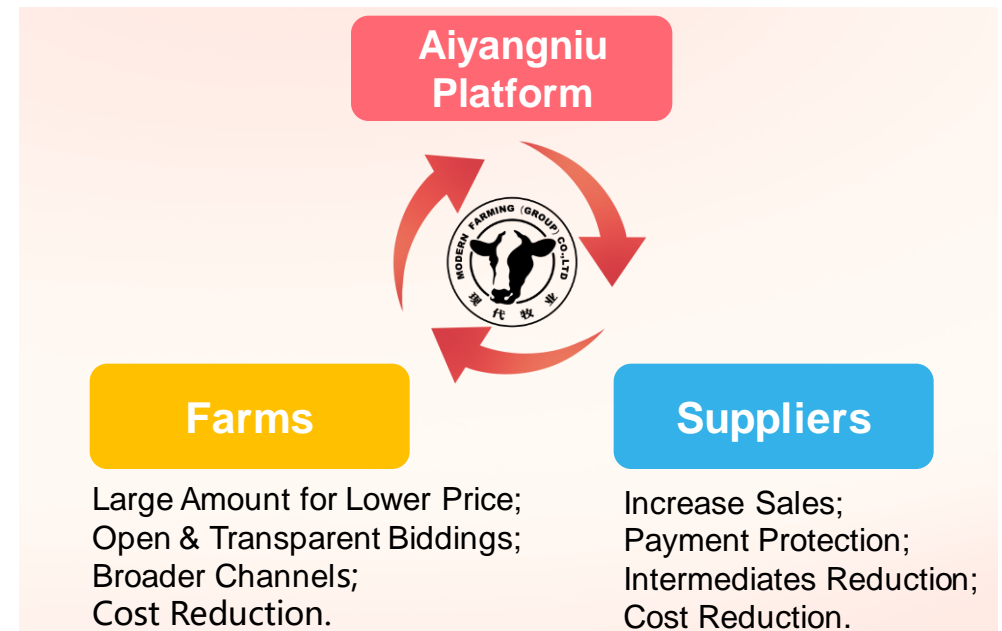
## Soybean Meals Procurement Strategy



## Corns Procurement Strategy



## Launch of Aiyangniu Procurement Platform



- ❑ **Large Amount for Lower Price:** expand excipients supplier channels through centralized procurement; reduce intermediate costs for bulk materials through open competition.
- ❑ **Transparent & Open:** price monitored through multiple aspects to prevent manipulation.
- ❑ **Rebate by Quantity:** unified price with increased rebate, showing advantages of large-scale farms.



## *Committed to Building Digitalized Farms & Improve Raw Milk Quality*



### Upgrade Raw Milk Logistics System

- ✓ Ensure transparent supervision on transportation from farms to factories;
- ✓ 24-hour online monitoring, intelligent early warning of key points during driving.



### Operation System Construction

#### **Yimu Cloud Farm Production Management System**

- ✓ Real-time input of information to facilitate data retrieval by scanning rod to improve efficiency;
- ✓ Farms Launched: **14**;
- ✓ Cover the whole group in 2020.

#### **Precision Feeding Management System**

- ✓ Based on input formula, the process of feeding-mixing-feeding is under effective supervision, the feeding errors are reduced, and accurate feeding is guaranteed;
- ✓ Farms Launched: **13**;
- ✓ Cover the whole group in 2020.

#### **Quality Management System**

- ✓ The on-site code tracking the vehicle information, and the sampling-detection-weighing-unloading online supervision improve unloading efficiency and shorten the on-site time;
- ✓ Covered the group already.

#### **Fertilization Management System**

- ✓ Fertilization data is collected online, the whole process is recorded systematically, and an electronic ledger is generated automatically to achieve fixed-point and quantitative fertilization;
- ✓ Farms Launched: **7**;
- ✓ Cover the whole group in 2020.

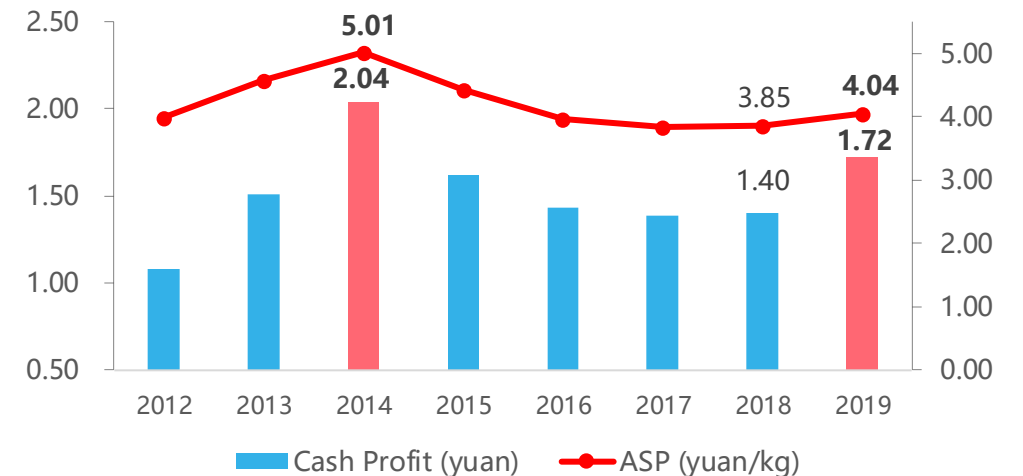
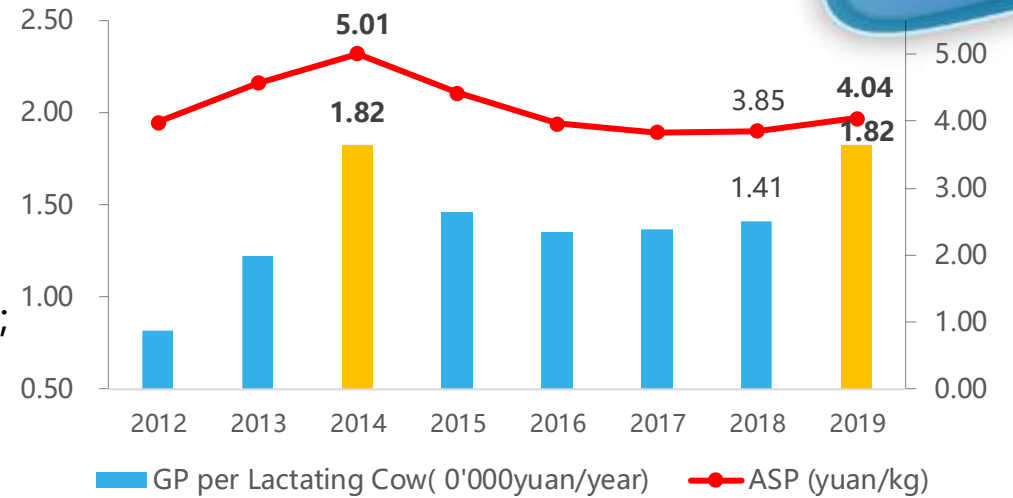


# Significant Increase in Internal Efficiency



Milk price is an important external factor for company profitability, but we focus on improving internal efficiency brought by production increment and cost control. **Internal efficiency** is the our core competitiveness.

- The gross profit per lactating cow has basically rebounded to that when milk price was high in 2014;
- The cash profit is gradually approaching to that when milk price was high in 2014;
- The unit yield increased from 8.1 tons in 2012 to 10.6 tons in 2019, a cumulative increase of 2.5 tons;
- The negative impact of lower milk prices was effectively digested through continuous production increment and cost reductions.





# Branded Milk: Producing High Quality Pasture Milk for 15 years



## Self-owned Farm High-quality Nutrition



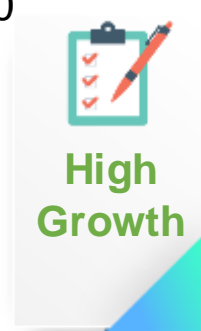
❑ **Brand Positioning: High-quality Nutrition from Self-owned Farms** for product portfolio.

❑ **Performance Growth:** stable sales of key products, rapid growth of new products with annual sales of **1.07 billion**; about **35 million** investment income from the associate, an increase of nearly **40% YoY**.

❑ **Customer Cultivation:** the proportion of exclusive partners exceeds 50%, with sales contribution exceeds **64%**; Upgrade operation model to increase partners' profitability.

❑ **New Product Development:** Product mix improved, and functional products enjoyed rapid growth; new product sales contributed **40%**.

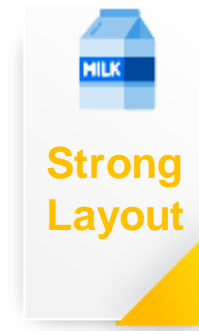
❑ **Channel Expansion:** Town-to-Village, direct operation of core customer systems, and B2B with Luckin work together; core potential channels achieve high growth; B2B, online new retail business expected to account for **20%** sales in 2020



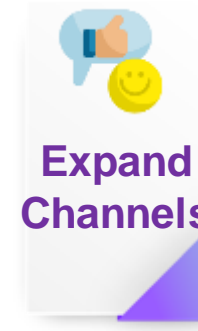
**High  
Growth**



**Fine  
Customer**



**Strong  
Layout**



**Expand  
Channels**



# Work Together to Guarantee Production



## Operational Guarantee

- ✓ Multi-party cooperation to ensure a timely supply of feed and protection materials during the epidemic, and insist on non-stop production during the epidemic to guarantee the milk consumption demand.
- ✓ Actively implement corporate social responsibility, fight the epidemic with the society to overcome difficulties, and donated Modern Farming branded milk with worth of 10 million yuan to frontline areas.

## Ten Million Donations

## Safeguard Quality

- ✓ Don't cooperate with unqualified clients
- ✓ Don't Stock Unqualified Raw Feed Materials
- ✓ Don't Feed Unqualified Raw Materials
- ✓ Don't Release Milk from Farms that Fail Inspection

## Low interest loan

- ✓ RMB 1.14 billion yuan of low-interest facilities were granted with 1.04 billion yuan withdrawn, average interest rate of 3.34%, a 1.54 ppt decrease to 2019.

## Policy Support

- ✓ Actively applied for key corporates for interest deductions, preferential electricity prices, social insurance reductions, and enjoy policy benefits for projects in the agriculture, rural areas, and farmers. Subsidies for various projects total 43.39 million yuan.



# Strategic Optimization to Improve Efficiency



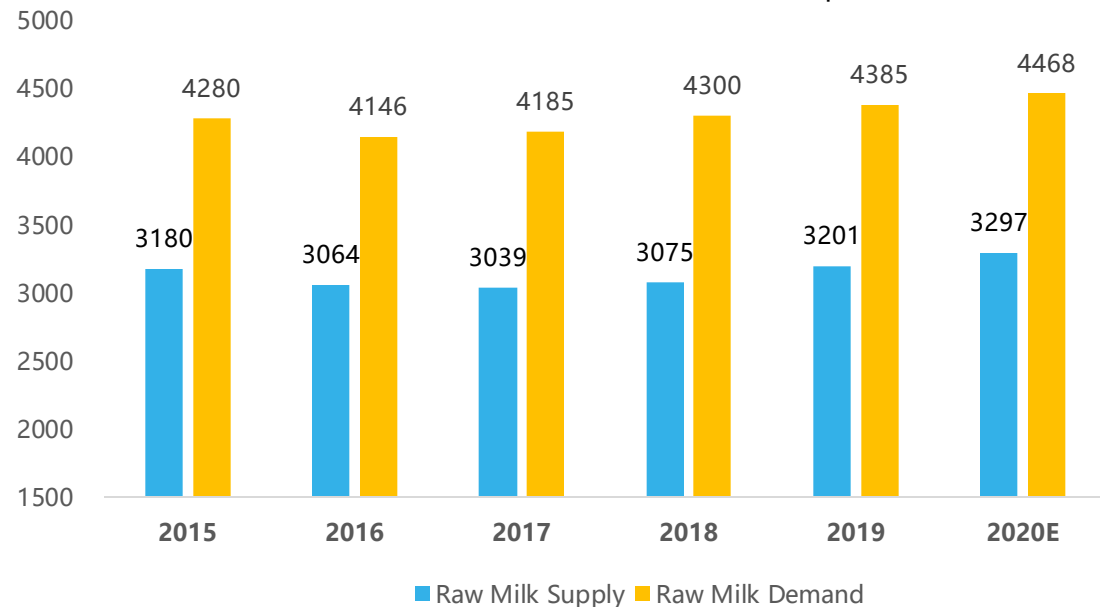
## Strategic Optimization

- The company **business strategy** in the next few years is optimized to "moderately increase the herd size, maintain a reasonable herd structure, increase unit yield, and maintain stable growth in output."



## China's raw milk supply & demand forecast (0'000 ton)

Source: National Bureau of Statistics and public information



- Based on **existing farms**, we make good use of existing facilities, and expand herd size moderately through endogenous growth to **improve efficiency**. At the same time, we will reduce passive culling rate and **improve efficiency of cows**, to ensure the growth in unit yield and production.







03



**Industry Review**

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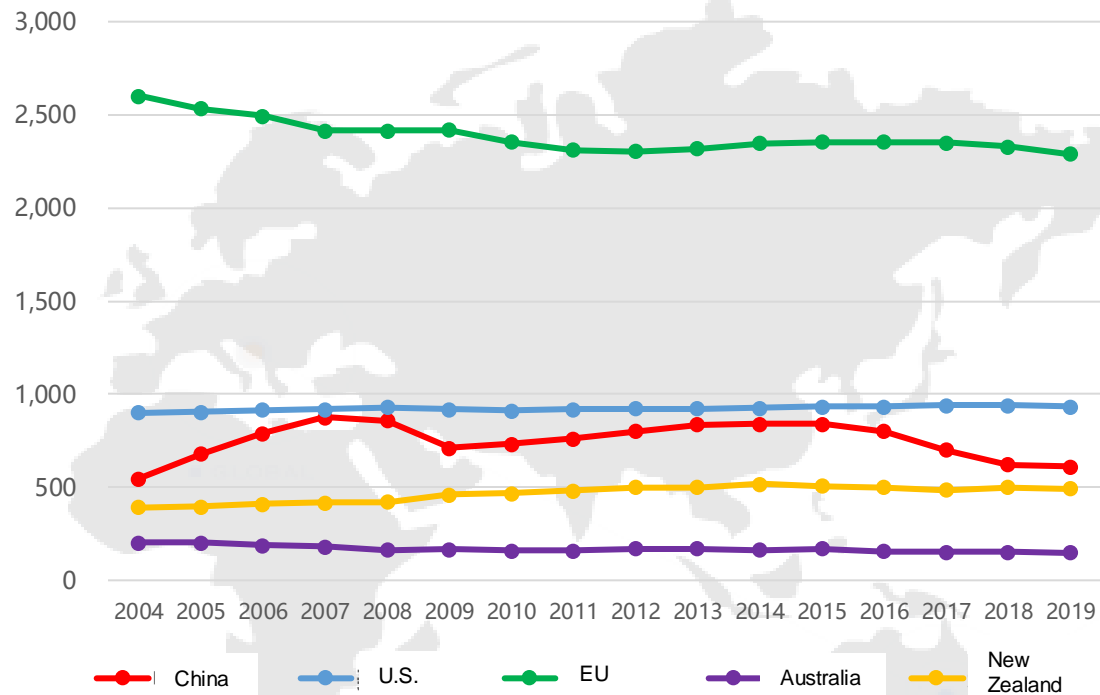


# Analysis of Global and Domestic Dairy Industry



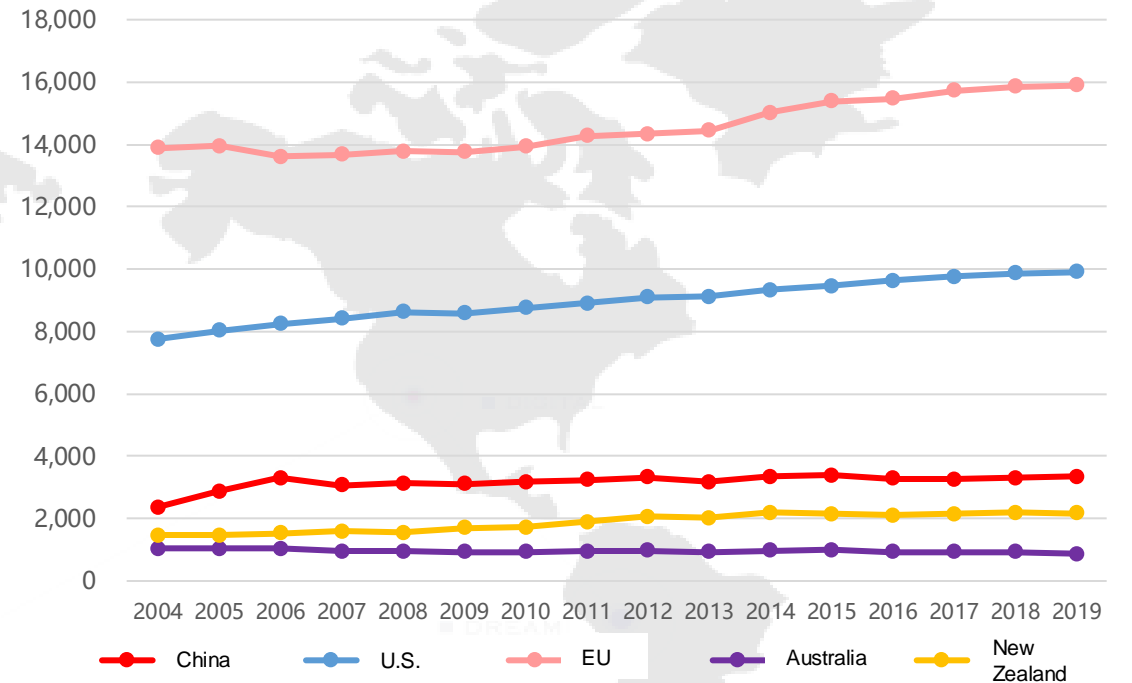
## Herd Size in Main Production Areas (0'000 heads)

Source: USDA



## Global Milk Consumption in Major Producing Areas (0'000 tons)

Source: USDA



- The herd size in main production areas has stabilized, with that in China and the EU have shown a downward trend in the past 5 years.
- The global consumption volume in major production areas is on the rise, and there is a large gap between China 's current milk consumption and that of developed countries.



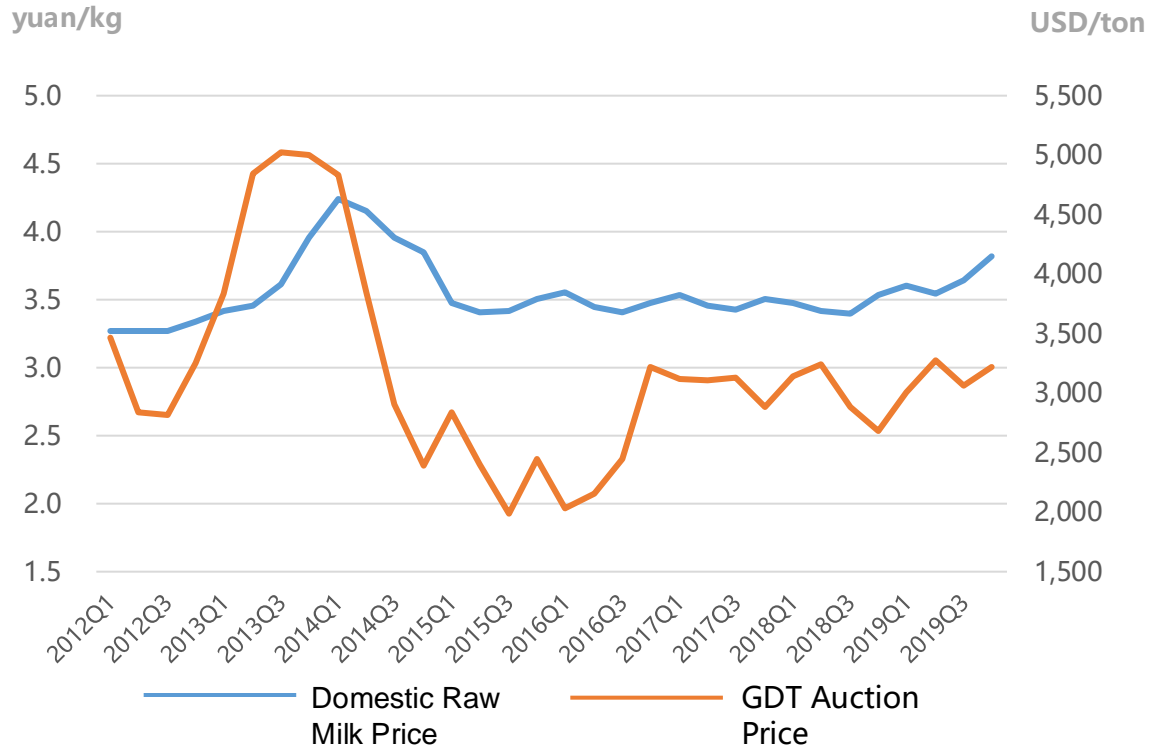


# Analysis of Global and Domestic Dairy Industry



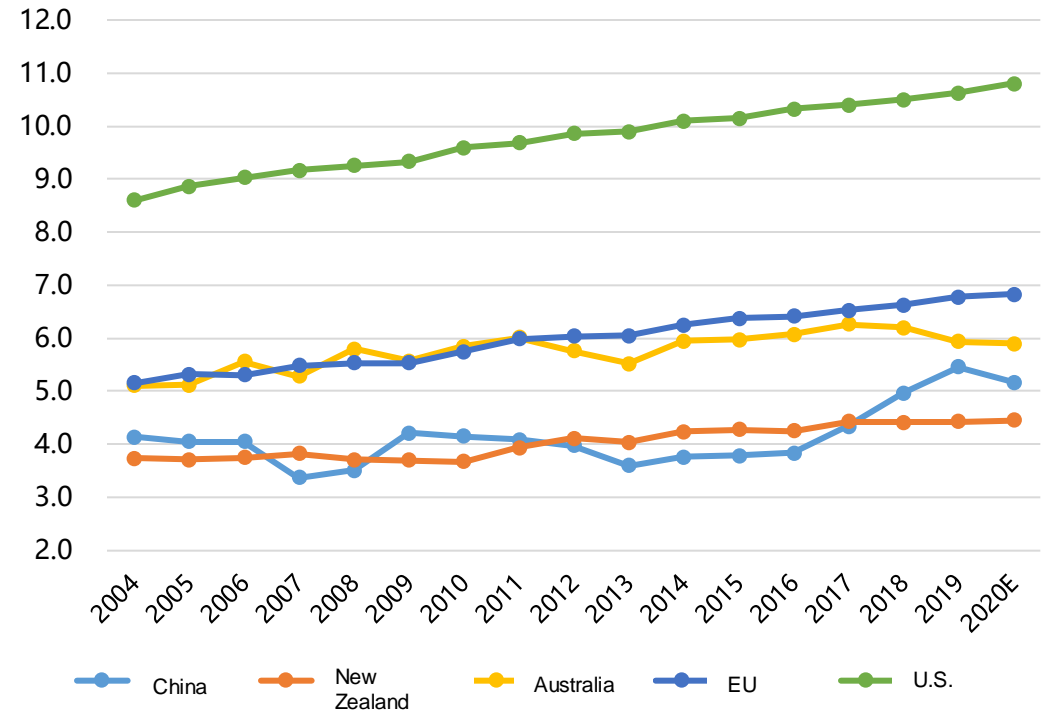
## International & Domestic Raw Milk Price

Source: Ministry of Agriculture and China Customs



## Domestic & International Unit Yield (tons / head / year)

Source: USDA



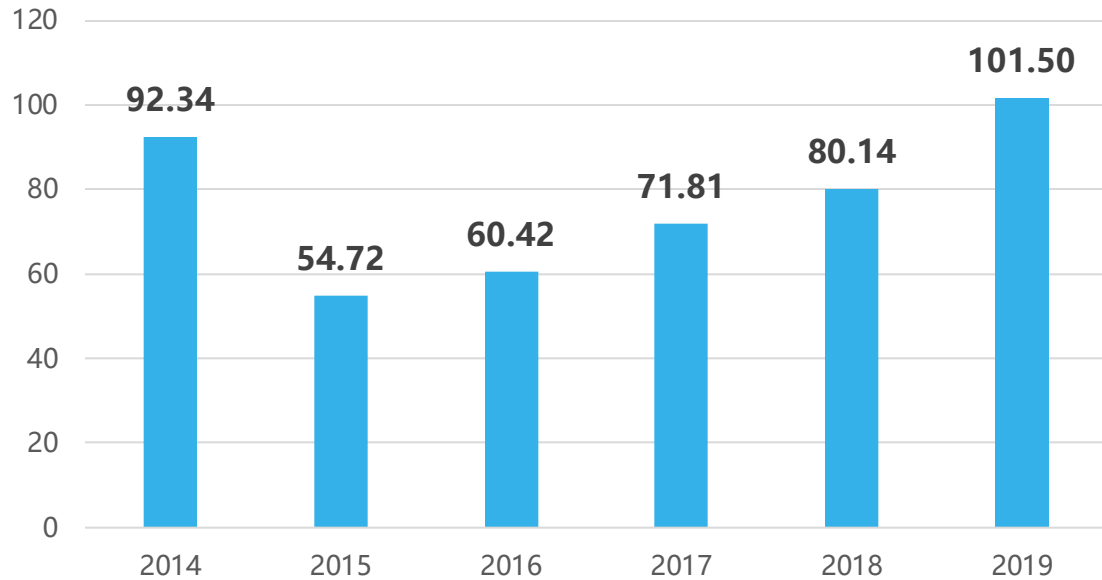


# Analysis of Global and Domestic Dairy Industry



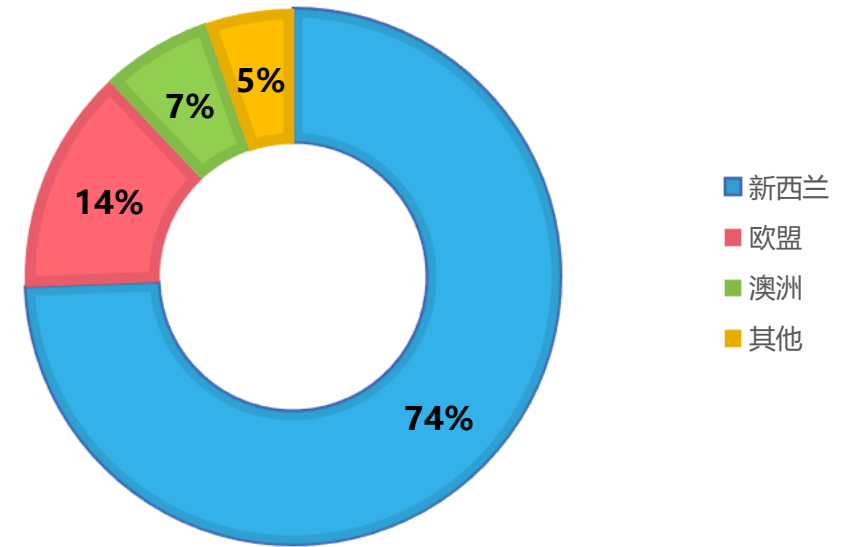
## China's Imports of WMP (0'000 tons)

Source: China Customs



## Breakdown of China's Imported Milk Powders

Source: China Customs



- China's import WMP have increased on a yearly basis. In 2019, the volume was 1.015 million tons (equivalent to 8.12 million tons of raw milk), a YoY increase of 26.6%.
- Domestic demand for dairy products continues to be strong, but the imported powder is approaching the upper limit. In the future, domestic consumer demand will still need to be met by domestic supply.





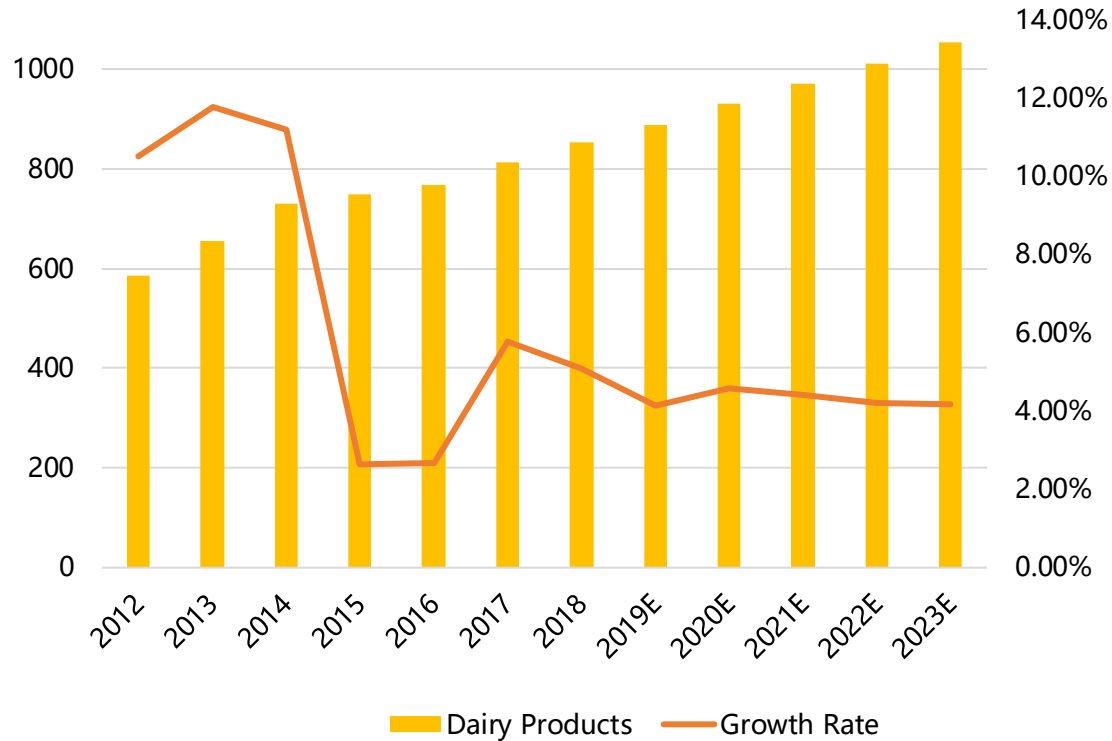
# Analysis of Global and Domestic Dairy Industry



## China's Dairy Product Consumption & Growth Rate

Source: Euromonitor

USD 000 Million

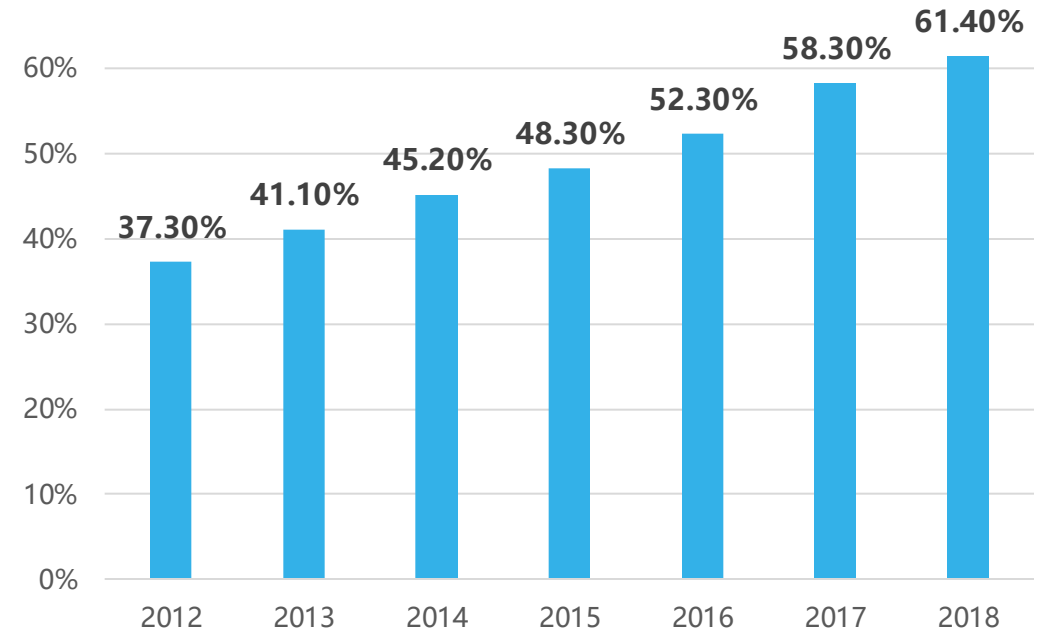


Note: (1) Large-scaled farms refer to farms with herd size over 100.



## Proportion of Domestic Scaled Farms<sup>(1)</sup>

Source: Ministry of Agriculture



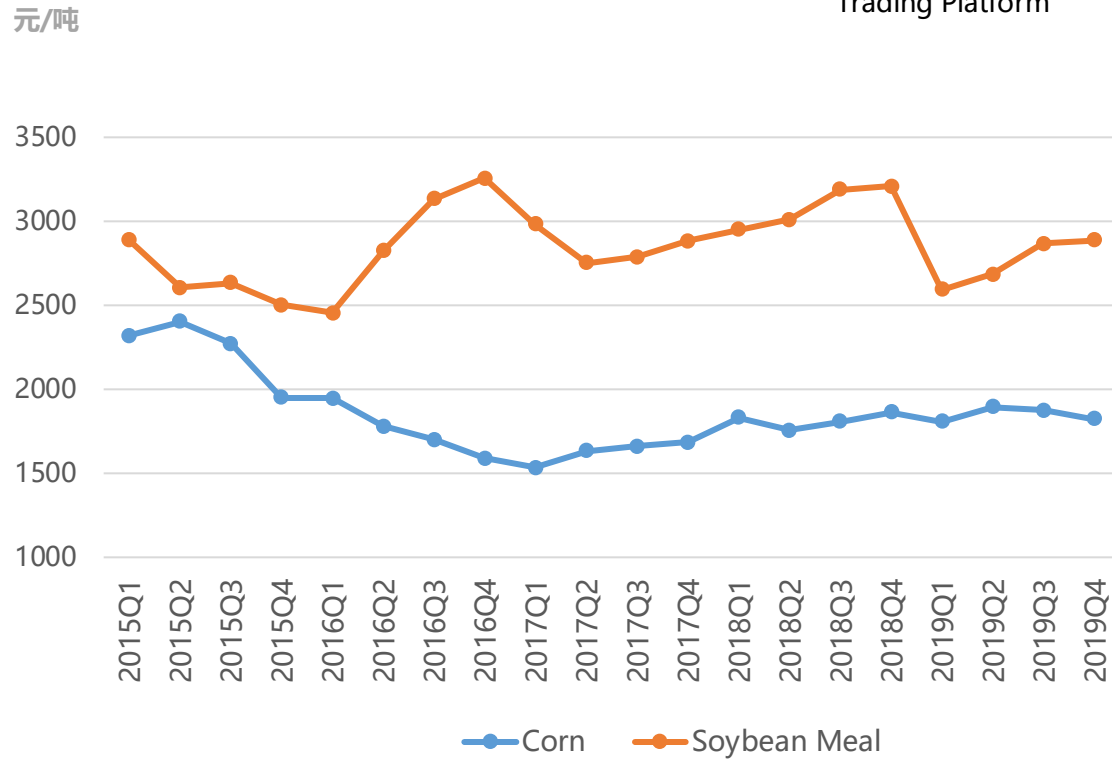


# Feed Cost Analysis



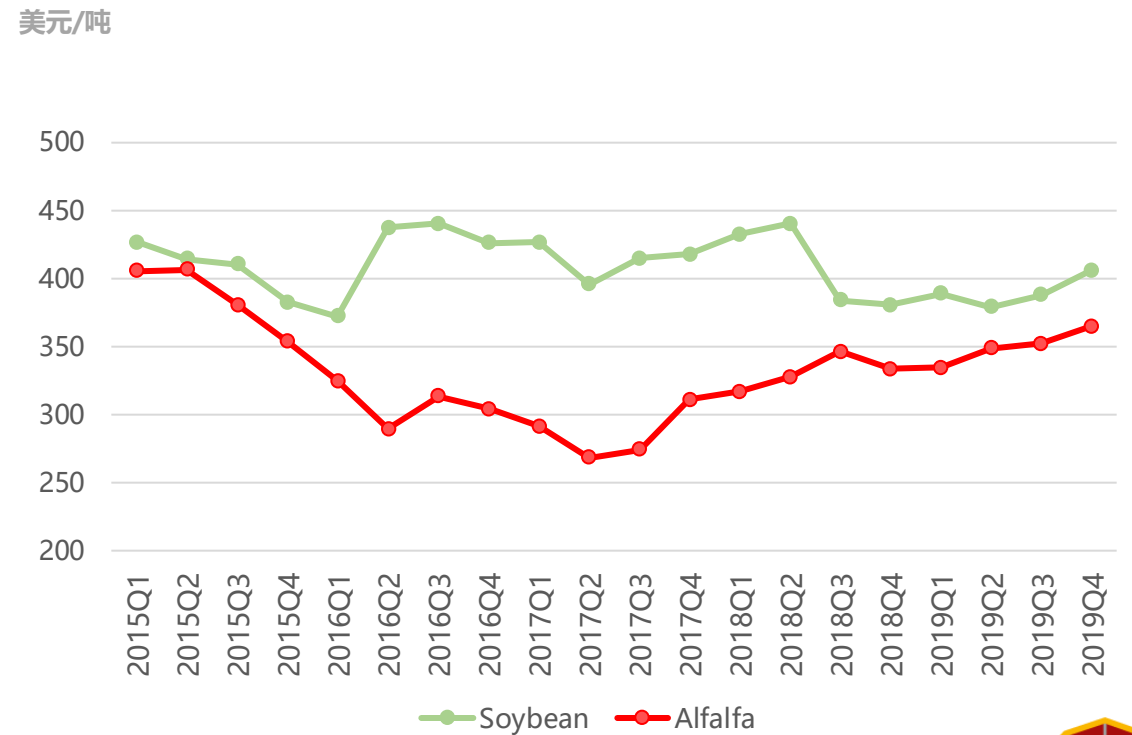
## Domestic Corn & Soybean Meal Price

Source: Dalian Commodity Trading Platform



## Imported Soybean & Alfalfa Price

Source: China Customs





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连续六年荣获世界食品品质评鉴大会

— 金奖 —

# THANK YOU

