



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號：1117

# 2020

## Interim Results Announcement



连续七年荣获世界食品品质评鉴大会

— 金奖 —



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# Content

## 01

Financial  
Results

## 02

Business  
Updates

## 03

Industry  
Review



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01

Financial Results

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# 2020 Interim Results Review

RMB Million	1H2020	1H2019	Change
<b>Revenue</b>	<b>2,828</b>	<b>2,570</b>	<b>+10.0%</b>
Cost of Sales	-1,776	-1,672	+6.2%
Gross Profit Margin (%)	37.2	34.9	+2.3ppt
<b>Cash EBITDA<sup>(1)</sup></b>	<b>987</b>	<b>865</b>	<b>+14.1%</b>
Cash EBITDA Margin (%)	34.9	33.7	+1.2ppt
<b>Net Profit</b>	<b>226</b>	<b>134</b>	<b>+68.7%</b>
Including: One-off Gains	72	108	-33.3%
<b>Core Net Profit</b>	<b>154</b>	<b>26</b>	<b>+492.3%</b>
Earnings /(loss) per share (cents)	3.47	2.05	+1.42
<b>Free Cash Flow<sup>(2)</sup></b>	<b>632</b>	<b>351</b>	<b>+80.0%</b>

Revenue  
YoY Growth  
10%

Core Net Profit  
YoY Growth  
492%

Net Profit  
YoY Growth  
69%

Free Cash Flow  
YoY Growth  
80%



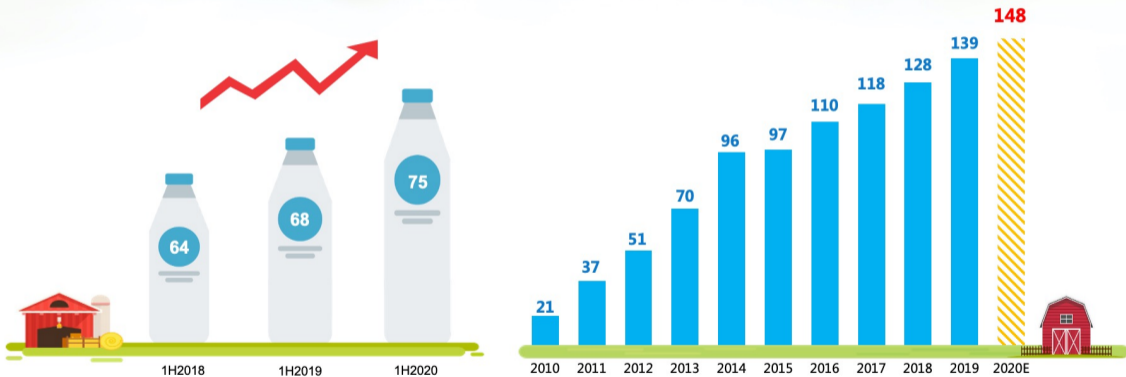
(1) Cash EBITDA is defined as profit/(loss) before finance costs and tax having added back: i) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss, ii) amortization, iii) impairment losses, net of reversal, iv) other gains and losses, net, v) loss arising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

(2) Free Cash Flow = net cash from operating activities - net cash used in investing activities.

# Steady Increase of Production Volume



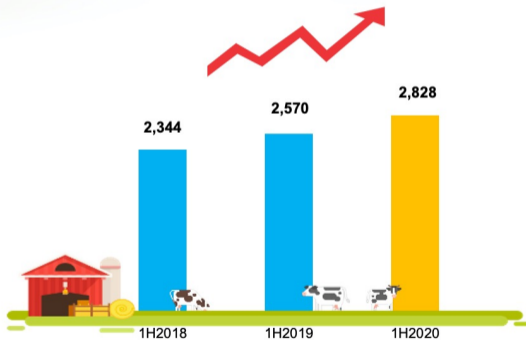
Production Volume ( 0'000 tons )



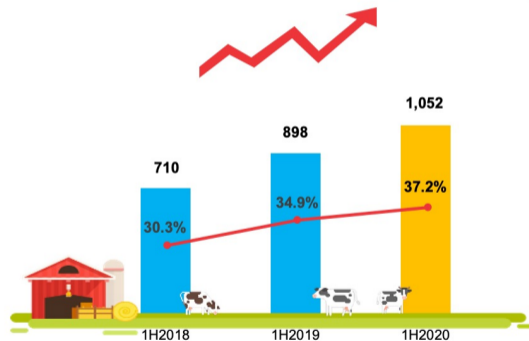
# Steady Increase of Sales and Gross Profit



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



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

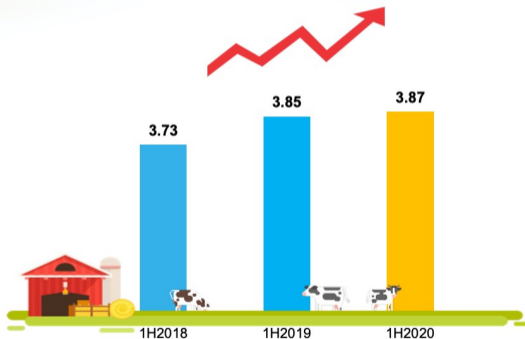


Note: (1) Sales includes external sales and sales to the associated companies with Mengniu;  
(2) Before raw milk fair value adjustments & elimination of sales and costs of internal supply of raw milk.

# ASP & Sales Volume Breakdown



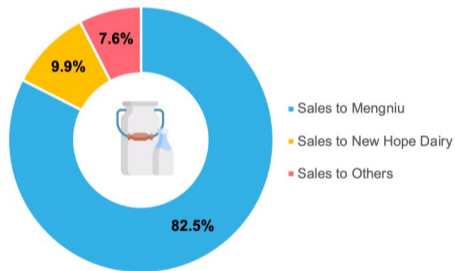
## External ASP (yuan/kg)



- ▶ Domestic raw milk price kept rising even though it was affected by the COVID-19 during the Reporting Period.



## Sales Volume Breakdown



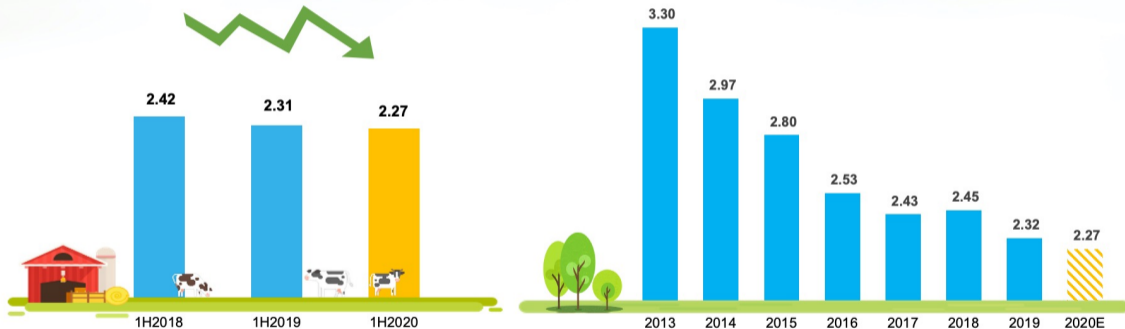
- ▶ Continue to implement long-term sales strategy with Mengniu and New Hope Dairy;
- ▶ Proactively expand third-party sales and establish core customer base.



# Continuous Decrease of Cash Cost



Cash Cost (yuan/kg)

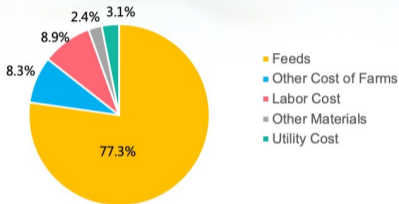


By increasing health level, unit yield and the usage amount of silage, the cash cost of milk fell to **RMB 2.27/kg**, reaching a record low.

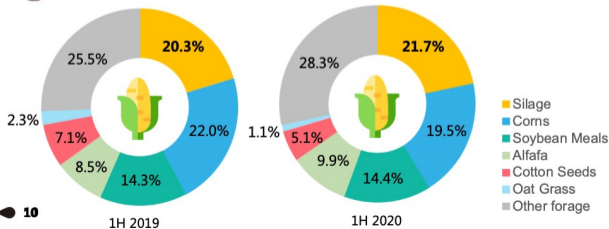


# Cash Cost Breakdown

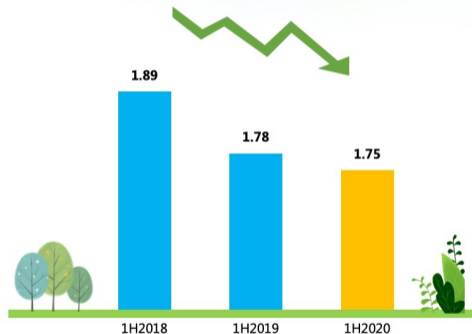
## Cash Cost Breakdown



## Cost Proportion of Main Forage



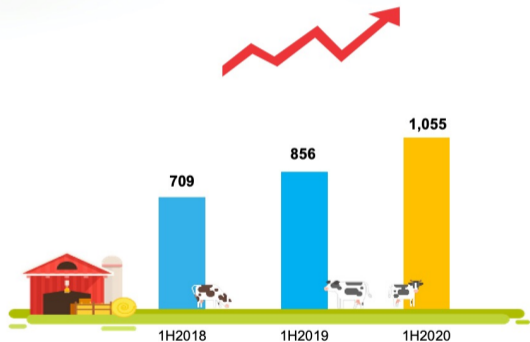
## Feed Cost (yuan/kg)



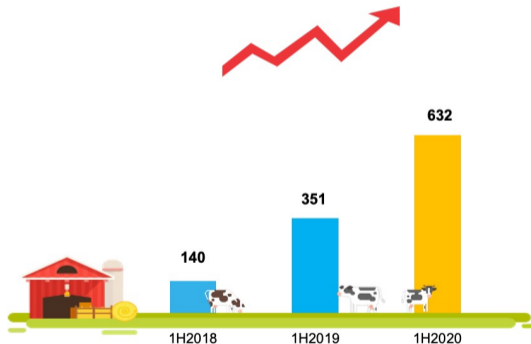
# Continuous Growth of Cash Flow



Cash flow from operating activities (Million)



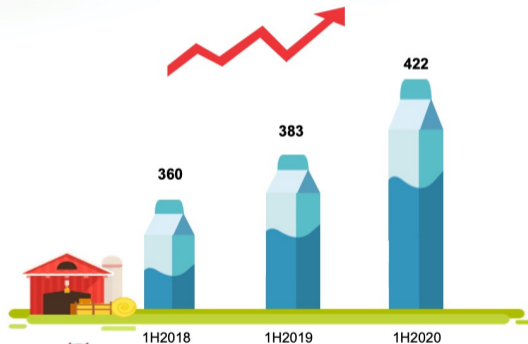
Free Cash Flow (Million)



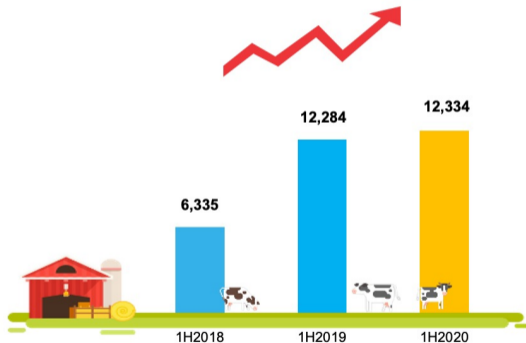
# Steady Business Growth of the Branded Milk Associates



**Sales of the Associates<sup>(1)</sup> (Million)**



**Share of Profits of the Associates<sup>(1)</sup>(Thousand)**



Notes: (1) The branded milk business was handed over to Mengniu Group for operation in the second quarter of 2018, and the Company obtained stable profits from the branded milk business through equity participation.

# Balance Sheet Overview




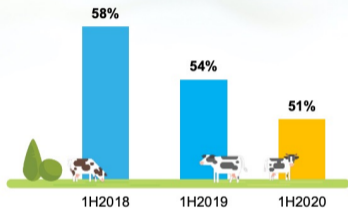
RMB Million	1H2020	FY2019	Change
<b>Biological Assets</b>	<b>7,357</b>	<b>7,459</b>	-1.4%
<b>Fixed Assets</b>	<b>3,284</b>	<b>3,455</b>	-5.0%
<b>Total Assets</b>	<b>15,223</b>	<b>15,724</b>	-3.2%
<b>Total Liabilities</b>	<b>7,783</b>	<b>8,516</b>	-8.6%
<b>Total Equity</b>	<b>7,440</b>	<b>7,208</b>	+3.2%
Net Asset Value per Share <sup>(1)</sup> (RMB yuan)	1.14	1.11	+2.7%
<b>Total Interest-bearing Borrowings</b>	<b>6,215</b>	<b>6,590</b>	-5.7%
Interest-bearing Debt Ratio <sup>(2)</sup> (%)	45.5	47.8	-2.3ppt
<b>Debt-to-asset Ratio<sup>(3)</sup> (%)</b>	<b>51.1</b>	<b>54.2</b>	-3.1ppt

Notes: (1) Net Asset Value per Share = Equity attributable to owners of the Company/ Year-end Number of Shares Outstanding;  
 (2) Interest-bearing Debt Ratio = Interest-bearing Debts/ (Interest-bearing Debts + Equity)  
 (3) Debt-to-asset Ratio = Total liabilities/Total Assets.

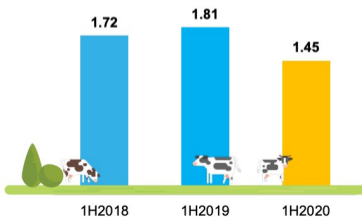


# Continuous Decrease in Interest-bearing Debts

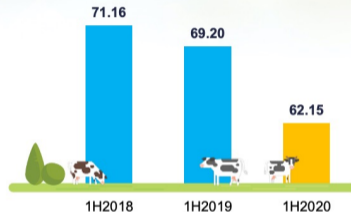
 **Debt-to-asset Ratio (%)**



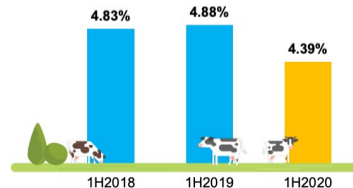
 **Finance Costs (00 Million)**



 **Interest-bearing Debts (00 Million)**



 **Finance Rate (%)**







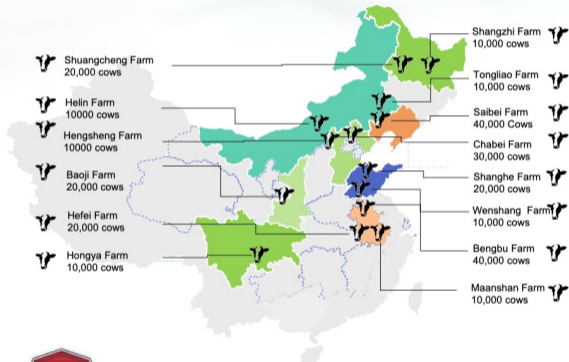
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02

Business Updates

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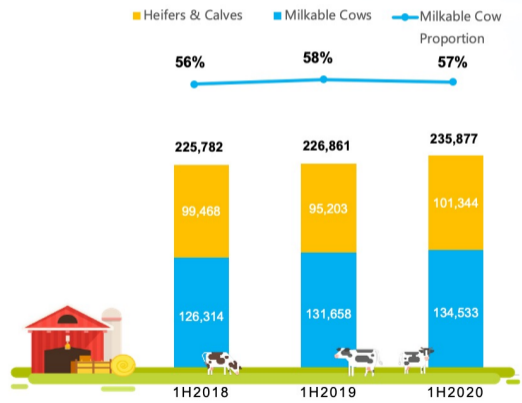
# Increase in Herd Size & Dairy Cow Number



The Company has 26 farms with scale of about 10,000 cows each, located in 7 provinces, evenly distributed in the South and North of China.

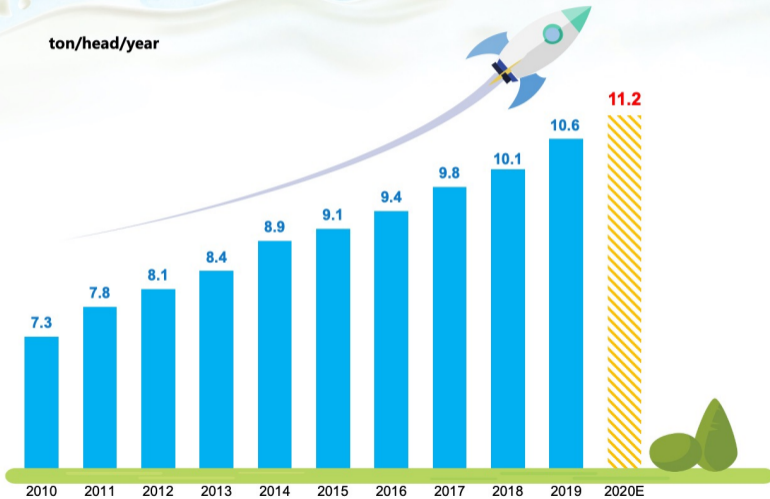


## Herd Size & Proportion of Milkable Cows



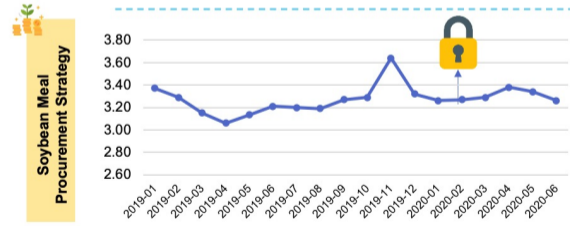
# Unit Yield of Milkable Cows Reached a Record High

ton/head/year



- 
- ✓ Improve Health
  - ✓ Improve Comfort
  - ✓ Optimize Cow Genes
  - ✓ Alleviate Heat Stress

# Upgrade on Feed Procurement Strategy



To Increase in Quality and Quantity of the Silage

**Expected to Purchase**  
**1.50 million tons**  
**Silage Corns in 2020**

**Dry matter: 33-38%**

**Starch ≥ 34%**

**NDF < 38%**

**ADF ≤ 25%**

With the increase in the dry matter and starch content in silage corns, the increasing feed costs were absorbed.



Strategically closing orders at low prices to reduce the impact of market fluctuations;  
 Directly purchasing from oil plants to eliminate middle stages and procurement costs.

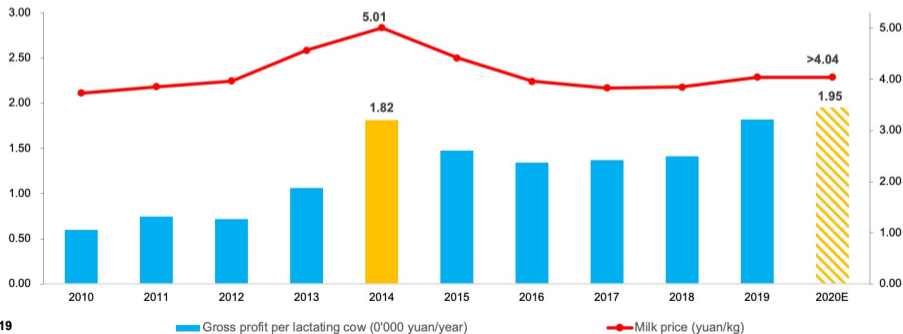
# Significant Improvement in Internal Efficiency

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

- **Gross Profit per Lactating Cow:** Under the premise that milk price for 2020 is not lower than that for 2019, the GP/lactating cow will exceed that for 2014 when the milk price was high, with profitability of per lactating cow to be significantly improved;
- **Unit Yield of Milkable Cows:** It is expected to increase from 7.3 tons for 2010 to 11 tons for 2020, to reach a record high.



## Profitability Improvement per Lactating Cow





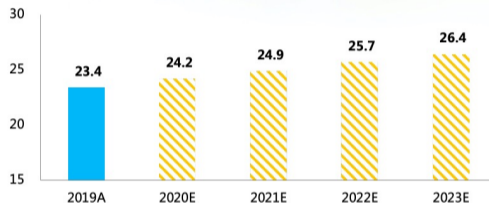
# Strategic Planning

The Company optimizes its **operation strategy** for the next few years that “moderately increase the herd size, maintain stable growth in output, gradually decrease the debts, improve the quality and lower the costs.”

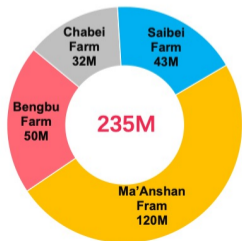
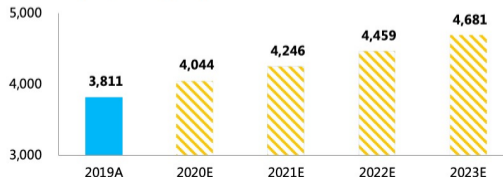
➢ Increase the **operation efficiency of existing farms** and facilities through endogenous growth of cows with **small investment** and **low financial risk**. At the same time, reducing the passive cow culling rate and improving the **efficiency of cows** will provide a solid guarantee for the increase in unit yield and output.

➢ In the future, depending on shareholders' support, external financing environment, relevant policies, and market demand, the Company would cautiously consider constructing new pastures with the operational risks under control to maintain the continuous growth in the herd size and milk output.

**Herd Size (0'0000 heads):**



**Milk Output per Day (ton):**



**Fixed Assets  
Investment Amount to  
Fill the Existing Farms**



# Branded Milk: Fifteen-year Persistence on Exclusively Producing Pasture Milk



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**Premium Pure Milk**      **7 Gold Awards (2014-2020)**

**Gold Award Pure Milk**      **2 Gold Awards (2019-2020)**

**high-calcium Milk**      **Gold Award (2020)**



**Brand Positioning:** Deploy the entire product line with **“High-quality Nutrition from Self-owned Farms”**.



**Performance Growth:** Sales of the associates grew by **10% YoY to 422 million**;

**Full Product Mix Development:** the sales of the three major products contributed over **60%**; Sales of the functional product, high-calcium milk, increased by **119% YoY**.



**Client Cultivation:** the number of franchise partners and sales they brought accounted for over **60%**;

**Channel Expansion:** **106** new third- and fourth-tier customers and **18,000** new outlets.



# Proactive Pandemic Prevention & Control to Fulfil CSR



## Operational Guarantee

- Upstream and downstream cooperation to ensure the normal sales of raw milk;
- Reinforced sterilization of production areas, continuously monitored employees' health condition, and used remote software for flexible working;
- Purchased about 1.4 million tons of silage in 2019, which provided sufficient resources for feed formula flexibility.

## Policy Support

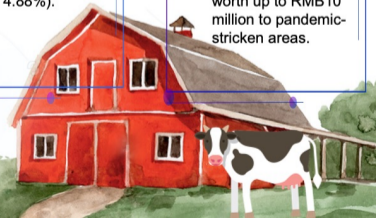
- In the early stage of the pandemic, domestic transportation and logistics were temporarily affected. Relevant state departments timely issued policies on logistics guarantee for epidemic prevention and control materials and people's livelihood guarantee materials, thus eliminating the negative impact in a short time.

## Low-interest Loan

- At the national level, low-interest loans and discount loan policies have been introduced. So far, the Company has obtained low-interest loans of 1.34 billion yuan and withdrew all of it with the average interest rate of 3.4% (2019 comprehensive interest rate of 4.88%).

## Ten Million Donations

- Actively fulfilled corporate social responsibility, forged ahead together with the national people despite of the negative pandemic impact, and donated Modern Dairy's branded dairy products worth up to RMB10 million to pandemic-stricken areas.



# Digitalized Farm

- ❑ 100% completion of the switch of Yimu Cloud Farm Production Management System;
- ❑ Viewing herd information and events of each farm in real-time.

- ❑ 100% completion of the online-use of equipment management platform ;
- ❑ Comprehensive tracking of in-warehouse, maintenance, repair, and scrapping, etc., and a multi-dimensional comparative analysis.



- ❑ 100% completion of the online-use of the precise feeding system;
- ❑ Integrating data, measuring and controlling feed amount accuracy with the same standard to ensure effective implementation of the formula.

- ❑ 100% completion of overhaul and rectification of temperature and humidity (TH) control equipment;
- ❑ Ensuring the effective operation of equipment and system during heat stress period. Monitoring the temperature and humidity of the barn for 24 hours.





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Industry Review

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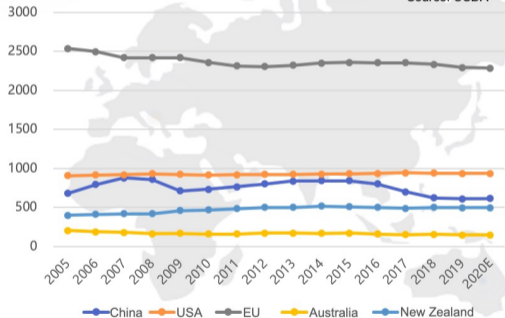


# Analysis of Global and Domestic Dairy Industry



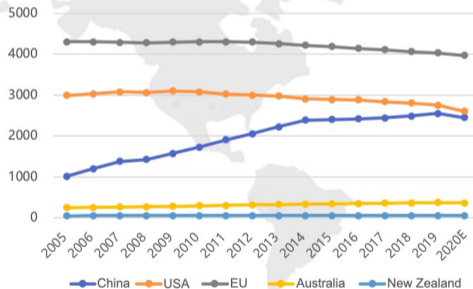
## Herd Size in Main Producing Areas ( '000 heads )

Source: USDA



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

Source: Euromonitor



- Herd size in China is gradually decreasing, while its consumption is rising;
- Herd size in New Zealand is larger than that in Australia, but the total consumption in New Zealand was less, mainly because New Zealand's milk powder is mainly used for export.



# Analysis of Global and Domestic Dairy Industry



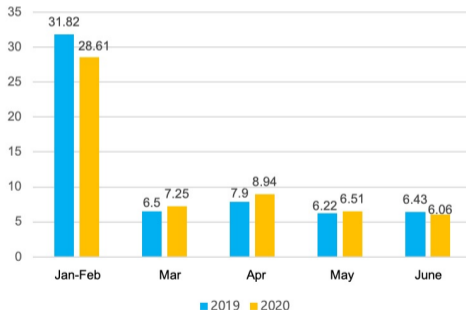
## Domestic Raw Milk Price (yuan/kg)

Source: Ministry of Agriculture



## Import Volume of Milk Powder in 1H2020 (0'000 tons)

Source: China Customs



- Since 2019 the domestic supply of raw milk has been tight with milk prices haven risen. It is predicted that the post-pandemic era will further drive the increase in milk price;
- In the first half of 2020, China imported 573,700-ton milk powders in total, down 2.5% YoY.

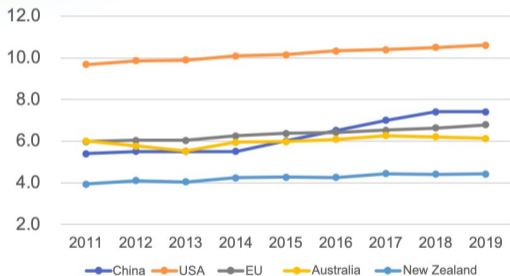


# Analysis of Global and Domestic Dairy Industry



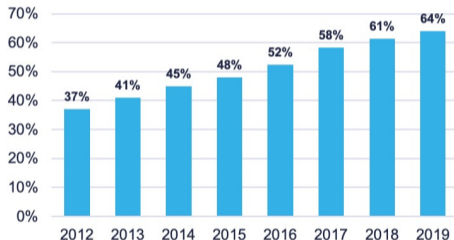
## Unit Yield of Global and Domestic Dairy Cows (ton/head/year)

Source: USDA & Holstein Magazine



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

Source: Ministry of Agriculture



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

- Although the unit yield of dairy cows in various countries are increasing, the unit yield of dairy cows in China are increasing more significantly in recent years;
- The herd size in the scaled ranches with over 100 heads accounted for 37% in 2012 and 64% in 2019, respectively.

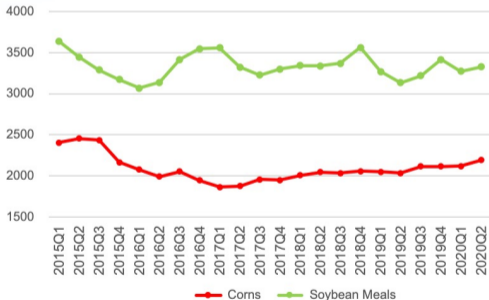


# Feed Cost Analysis



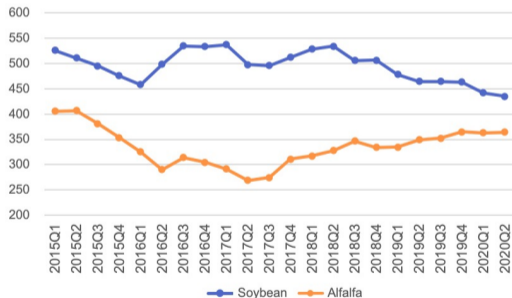
## Domestic Corn & Soybean Meal Price (yuan/ton)

Source: Ministry of Agriculture



## Imported Soybean & Alfalfa CIF Price (US\$/ton)

Source: China Customs



➤ In the first half of 2020, the prices of corn, soybean meal and imported alfalfa all increased YoY; prices of imported soybeans fell YoY.



# Industry Update

05 Feb 2020

- ✓ Issuance of the No.1 central document that the *Opinions of the CPC Central Committee and the State Council' Priorities in the Fields of "Agriculture, Rural Areas and Farmers" to Ensure the realization of a Comprehensive Well-off society as Scheduled.*

18 Jun 2020

- ✓ Release of the group standard of *"Modern Dairy Industry Evaluation - Dairy Farm Grading and Evaluation"*, drafted by 24 entities including Dairy Association of China, Mengniu, and Modern Dairy.

21 Jul 2020

- ✓ At the entrepreneur seminar, Mr. Xi Jinping emphasized: "Under the current external environment of rising protectionism, world economy downturn, and shrinking global market, we must give full play to the advantages of the domestic super-large-scale market, and help our country's economy by prospering the domestic economy and **promoting the domestic cycle**, which will bring momentum to the national economy development and drive the recovery of the world economy."

## COVID-19 Related Policies

- ✓ With the impact of the COVID-19, the Central Committee of the Communist Party of China and the State Council attached great importance to the revitalization of the dairy industry. According to incomplete statistics from the Dairy Association of China, from January to April this year, the central government and relevant ministries and commissions issued a total of 72 policies related to the dairy industry:
  - Mr. Xi Jinping: **Ensure that the epidemic prevention and control measures are implemented down to every detail and that the work for economic and social development are completed in a coordinated manner.**
  - The meeting of the Standing Committee of the Political Bureau of the Central Committee pointed out: **It is necessary to ensure the supply of residents' daily necessities such as vegetables, meat, eggs, milk, and grains.**
  - The National Development and Reform Commission released the Letter on the Specific Scope of Providing Key Guarantee Materials for Epidemic Prevention and Control on its official website. **Milk is listed as one of the key guarantee materials for epidemic prevention and control.**
  - Four associations jointly released **the Guide to the Consumption of Milk and Dairy Products for Chinese Residents.**
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