



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號: 1117



连续八年荣获世界食品品质评鉴大会

— 金奖 —



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MODERN FARMING
现代牧业



01

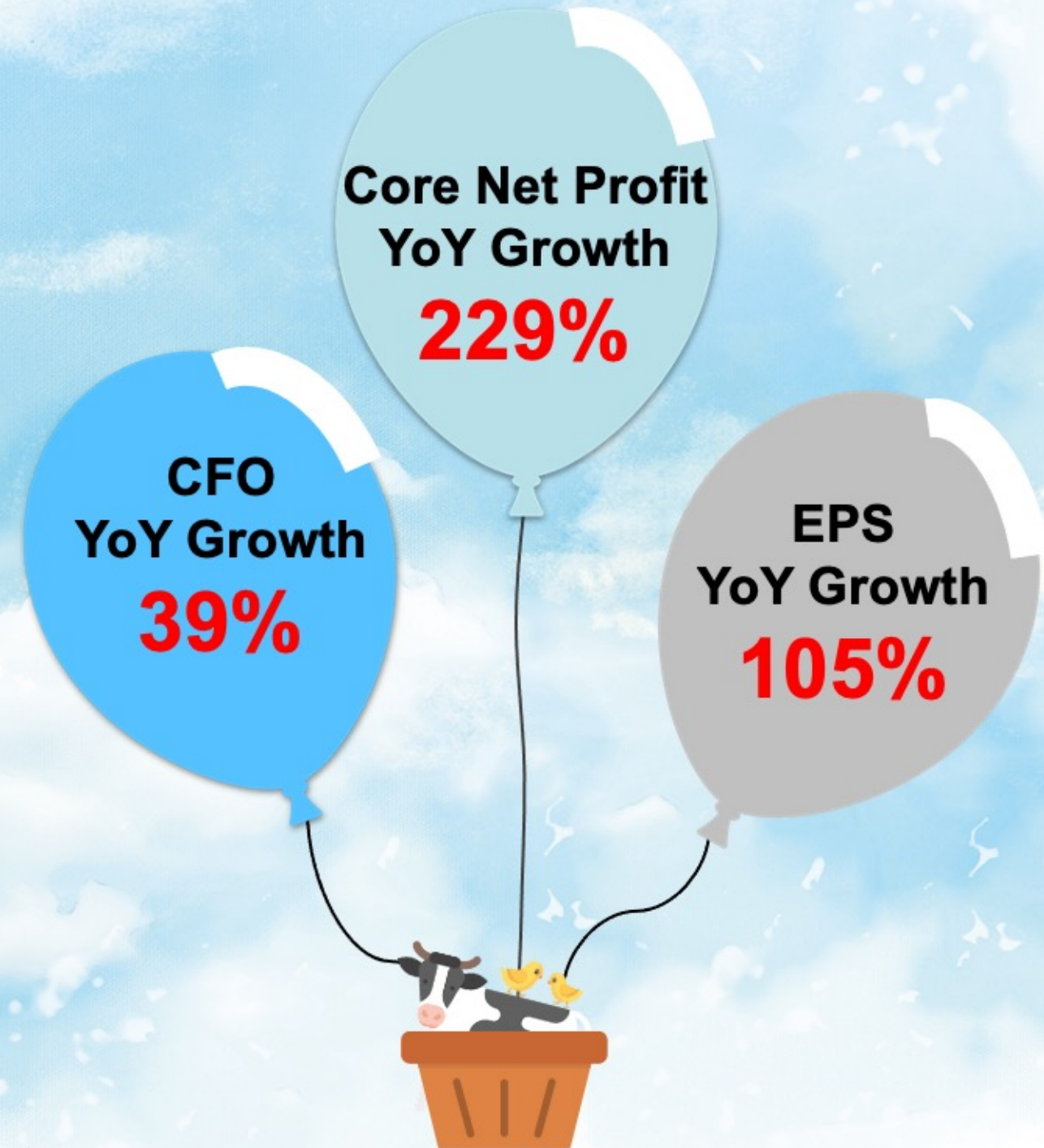
Financial Results

2020 Interim Results Review



RMB Million	1H2021	1H2020	Change
Revenue	3,180	2,828	+12%
Gross Profit	1,182	1,052	+12%
Gross Profit Margin (%)	37.2	37.2	-
Cash EBITDA⁽¹⁾	1,153	987	+17%
Cash EBITDA Margin (%)	36.3	34.9	+1.4 ppt
Net Profit	506	226	+123%
Including: One-off Gains	-	72	-100%
Core Net Profit	506	154	+229%
Earnings /(loss) per share (cents)	7.13	3.47	+105%
Cash Flow from Operating Activities (CFO)	1,465	1,055	39%

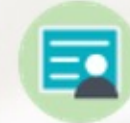
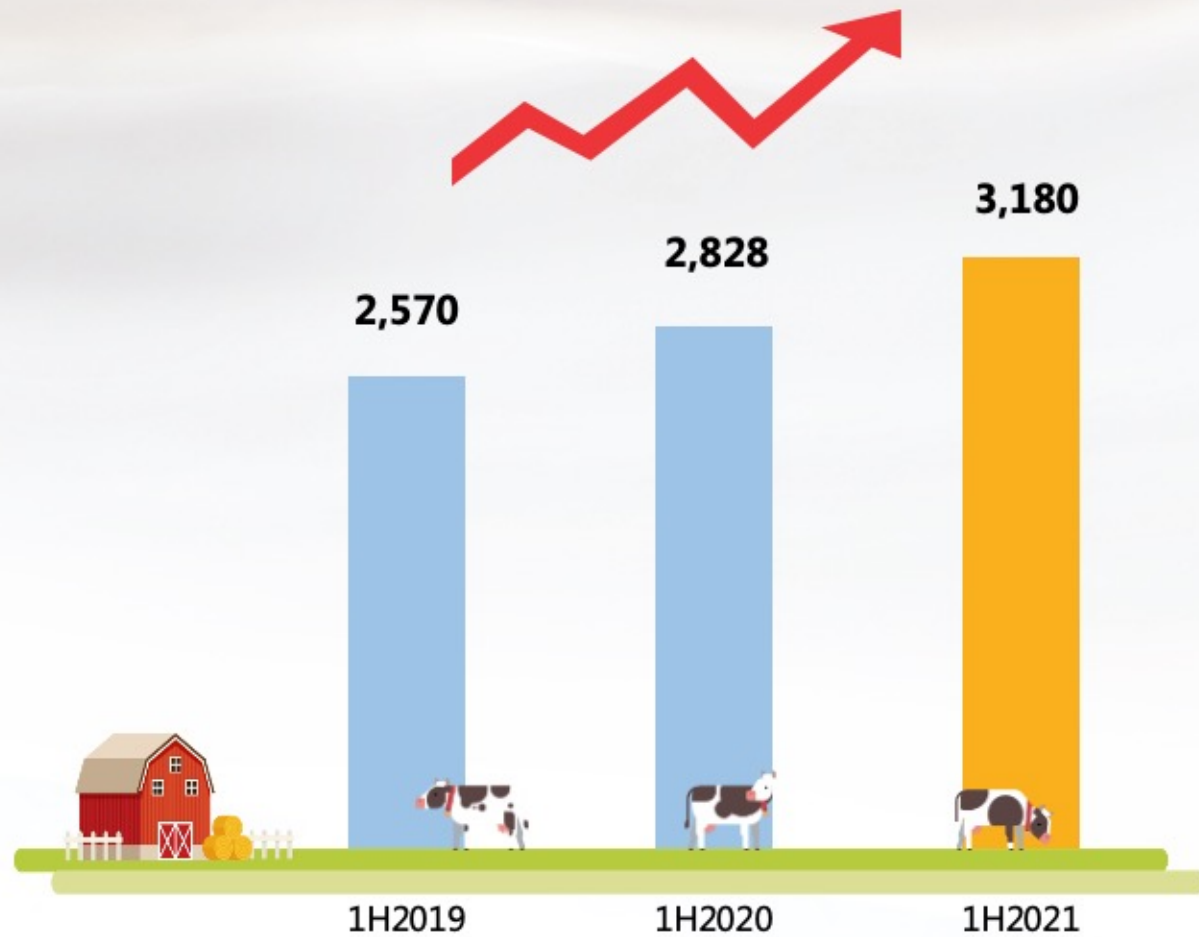
Notes: (1) Cash EBITDA is defined as profit/(loss) before finance costs and tax having added back: i) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss, ii) amortization, iii) impairment losses, net of reversal, iv) other gains and losses, net, v) loss arising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



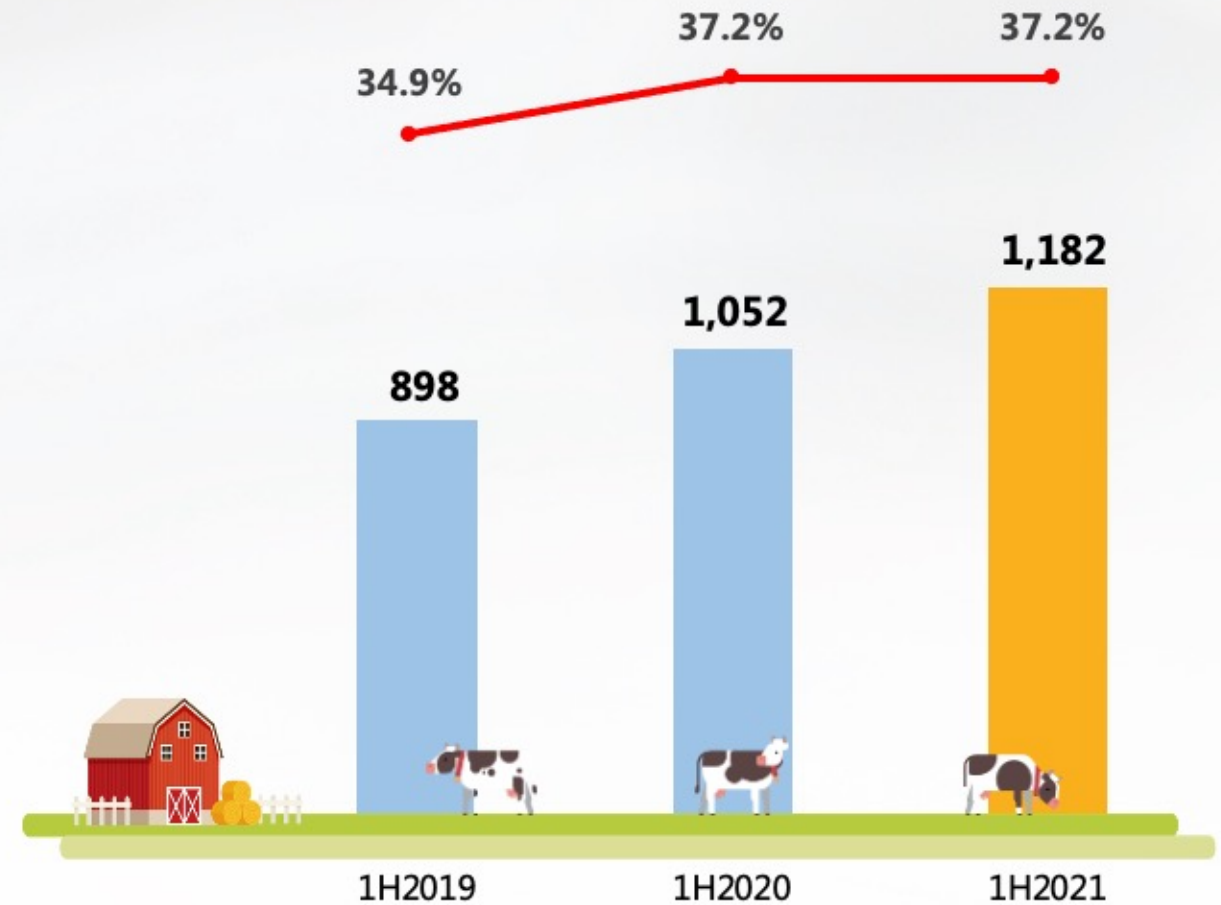
Steady Increase of Sales and Gross Profit



Raw Milk Sales (Million)



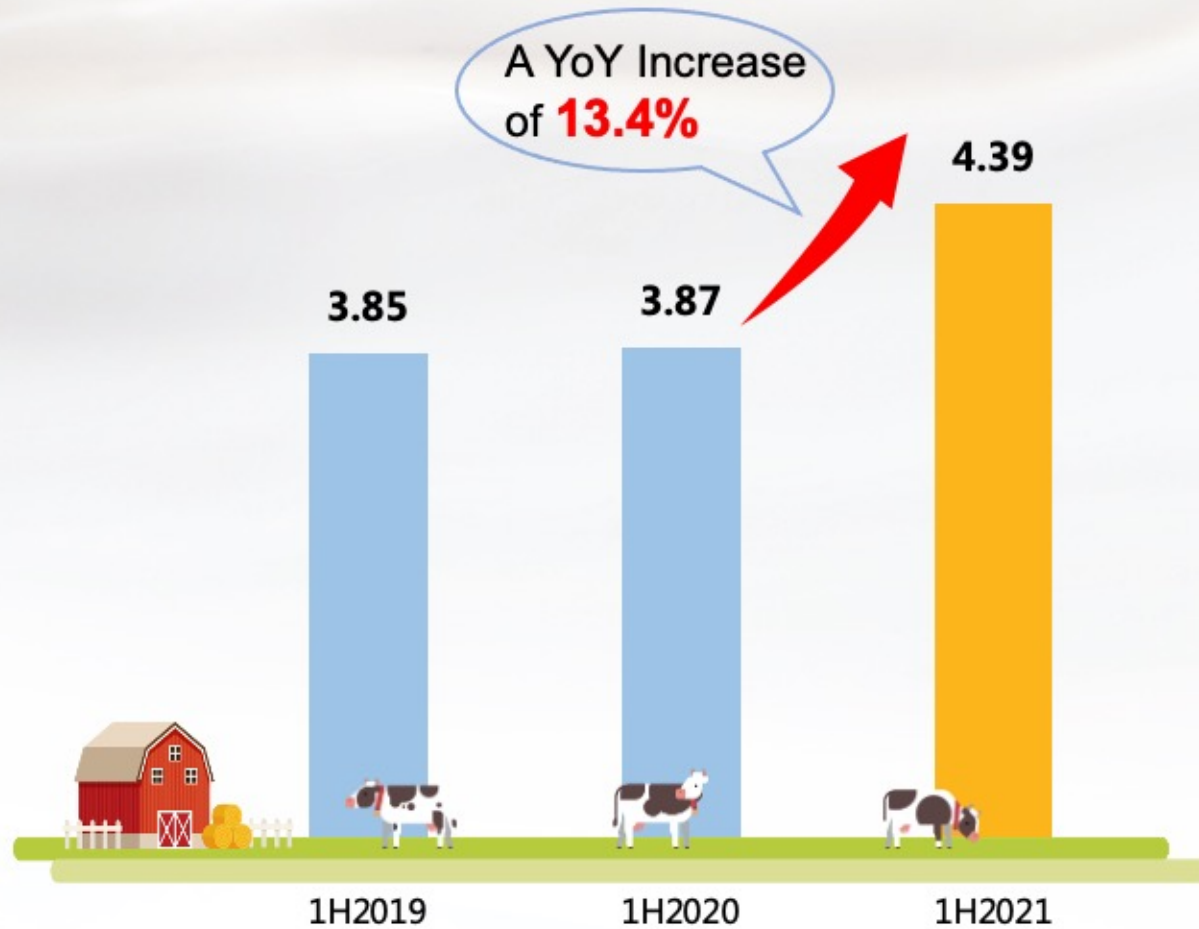
Raw Milk GP (Million) & GP Margin (%)



ASP & Sales Volume Breakdown



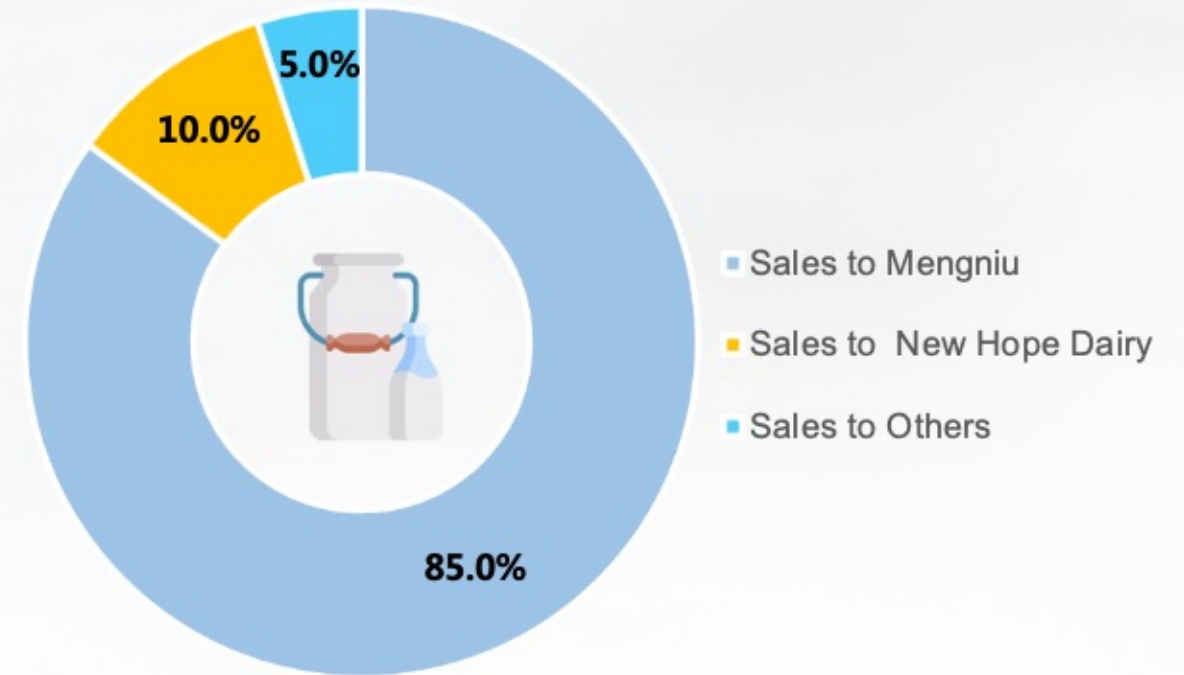
External ASP (yuan/kg)



- ▶ In the first half of 2021, due to the continued tight supply of raw milk market, raw milk price rose sharply.



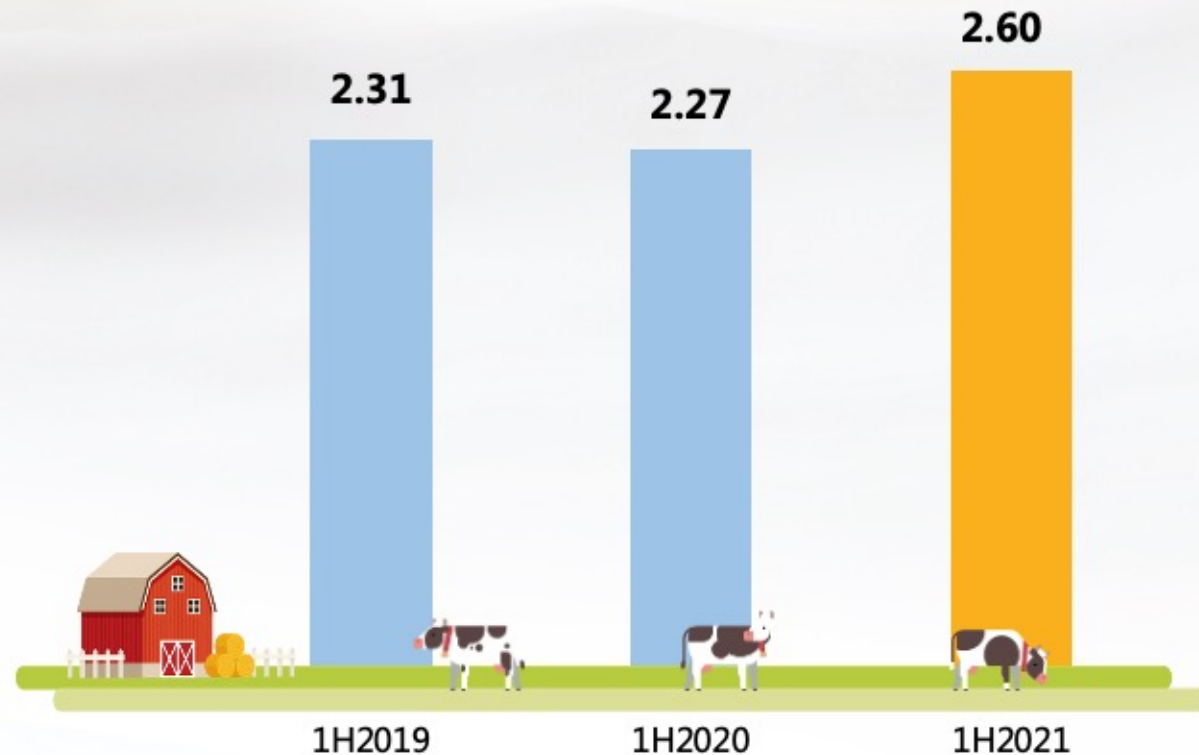
Sales Volume Breakdown



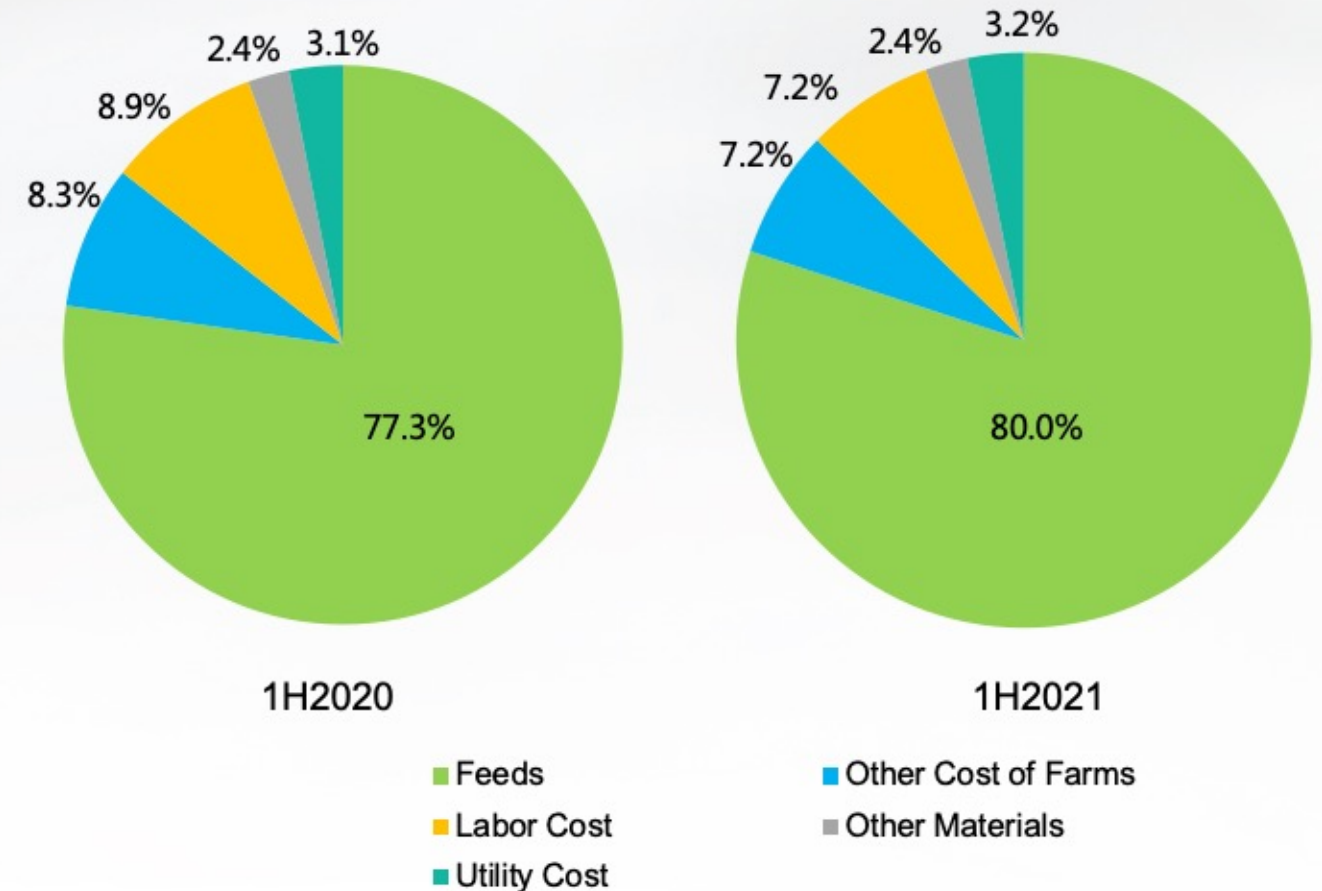
- ▶ Continue to implement long-term sales strategy with Mengniu and New Hope Dairy;
- ▶ Proactively expand third-party sales and establish core customer base.

Cash Cost per Kilogram

Cash Cost (yuan/kg)



Cash Cost Breakdown



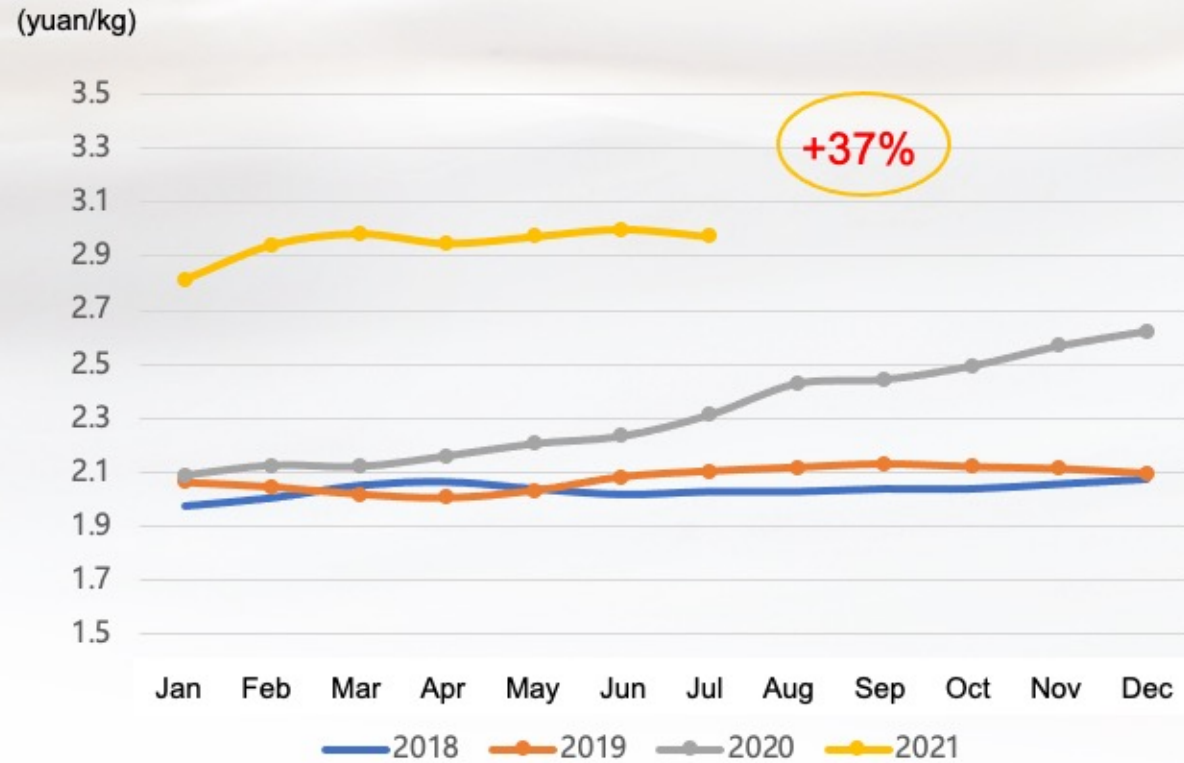
- ▶ In the first half of 2021, the Company continued to promote cost reduction and efficiency enhancement. Except feed costs increased due to market factors, other costs and expenses were effectively controlled;
- ▶ Due to the increase of forage prices, the proportion of forage expenses in the cash cost rose from 77.3% to 80.0% YoY.

Market Prices of Feeds



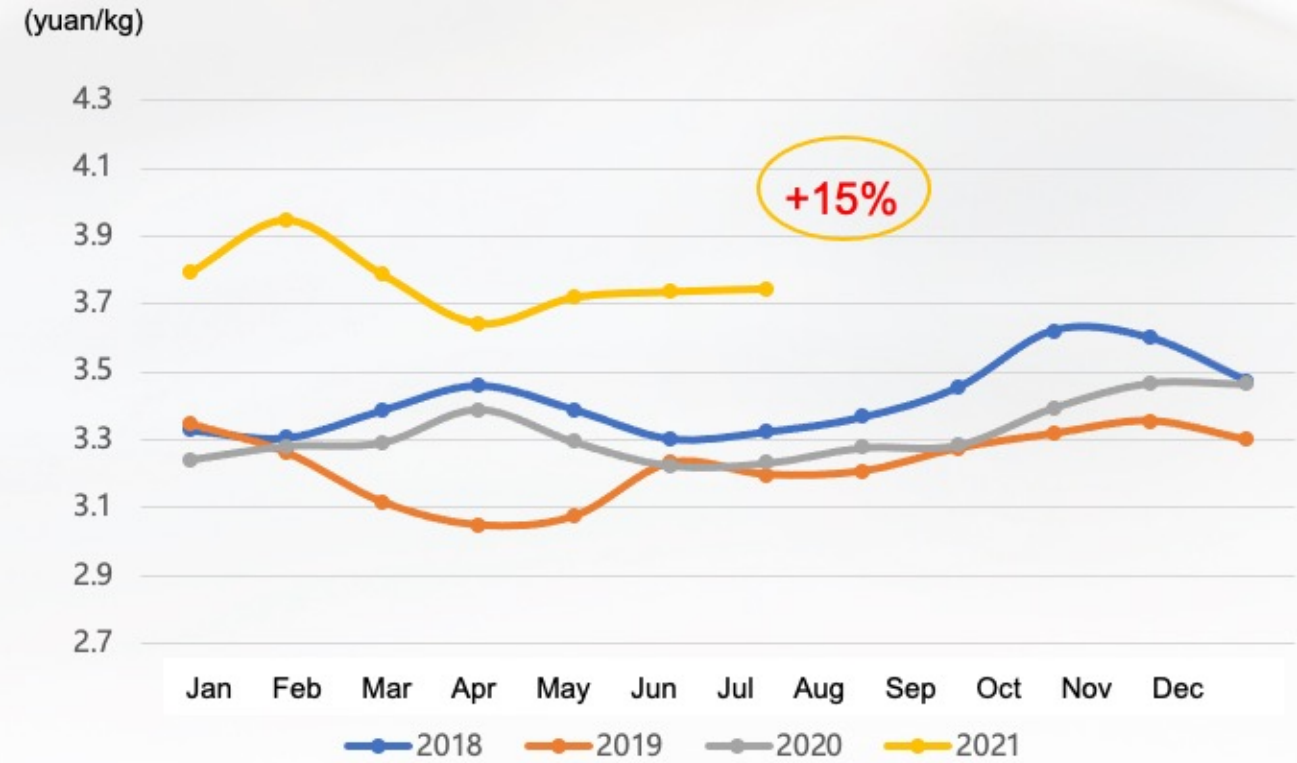
Corn Price

Source: Ministry of Agriculture



Soybean Meal Price

Source: Ministry of Agriculture

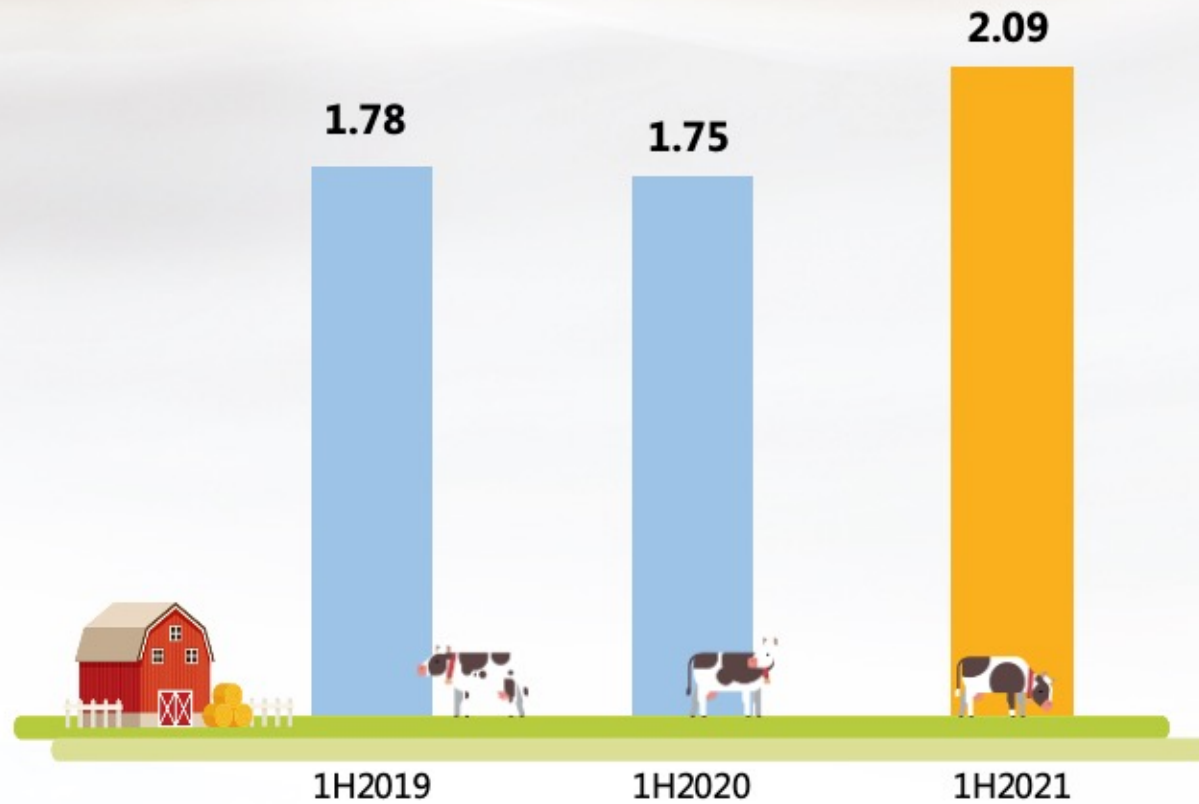


- **Corn:** Since the second half of last year, the corn price has increased significantly. In the first half of this year, the corn price increased by 37% YoY. Corn accounts for a relatively large proportion of the feed formula (about 40%, corn + silage). In 2020, the Company purchased and stored 1.4 million tons of silage, which moderately stabilize the market price fluctuations.
- **Soybean Meal:** In the first half of this year, soybean meal price rose by 15% YoY. Soybean meal accounts for about 14% of the Company's feed costs.

Feed Cost per Kilogram



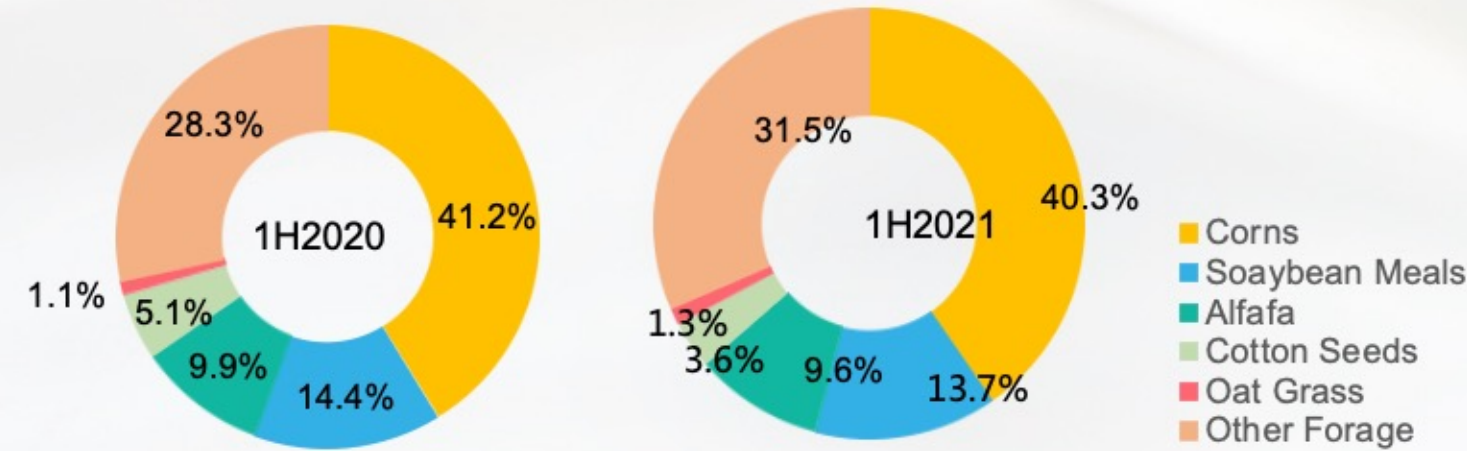
Feed Cost (yuan/kg)



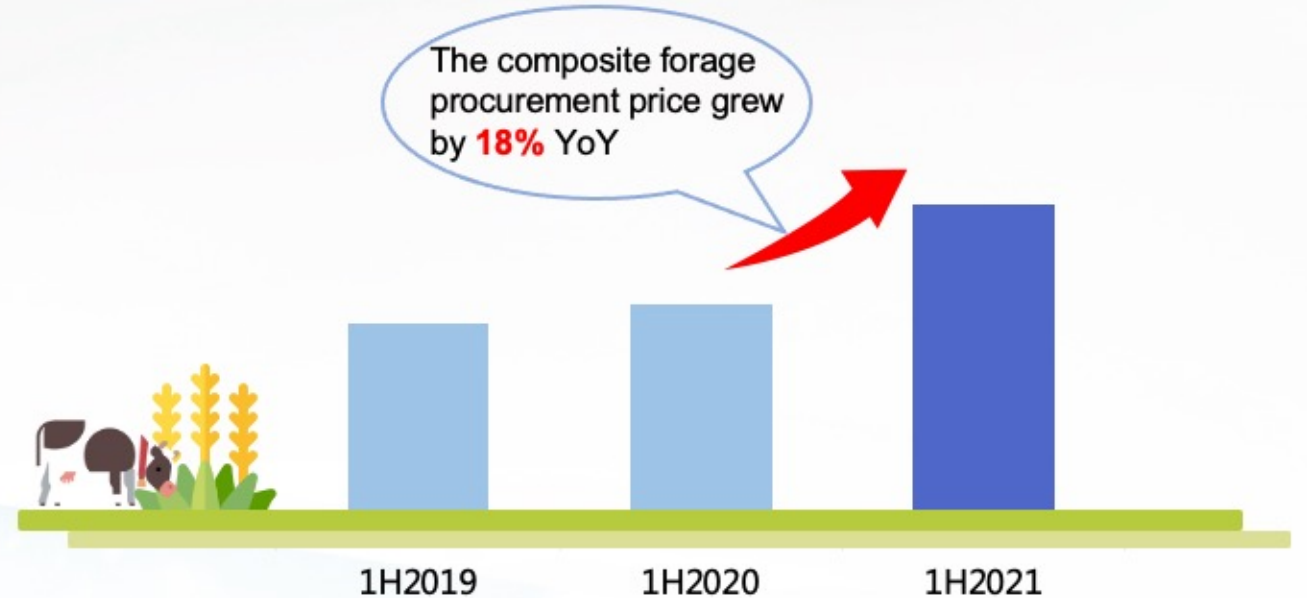
- ▶ Global commodity prices generally rose in 2021 as the global epidemic brought many unfavourable factors to the market. The tight supply of feed led to an increase in feed costs;
- ▶ The Group continued to lower the impact of increased feed costs through measures such as improving the health of cows, optimizing the structure of feed formulas, increasing the absorption and conversion rate of cows, and applying a unified procurement platform.



Cost Proportion of Main Feeds



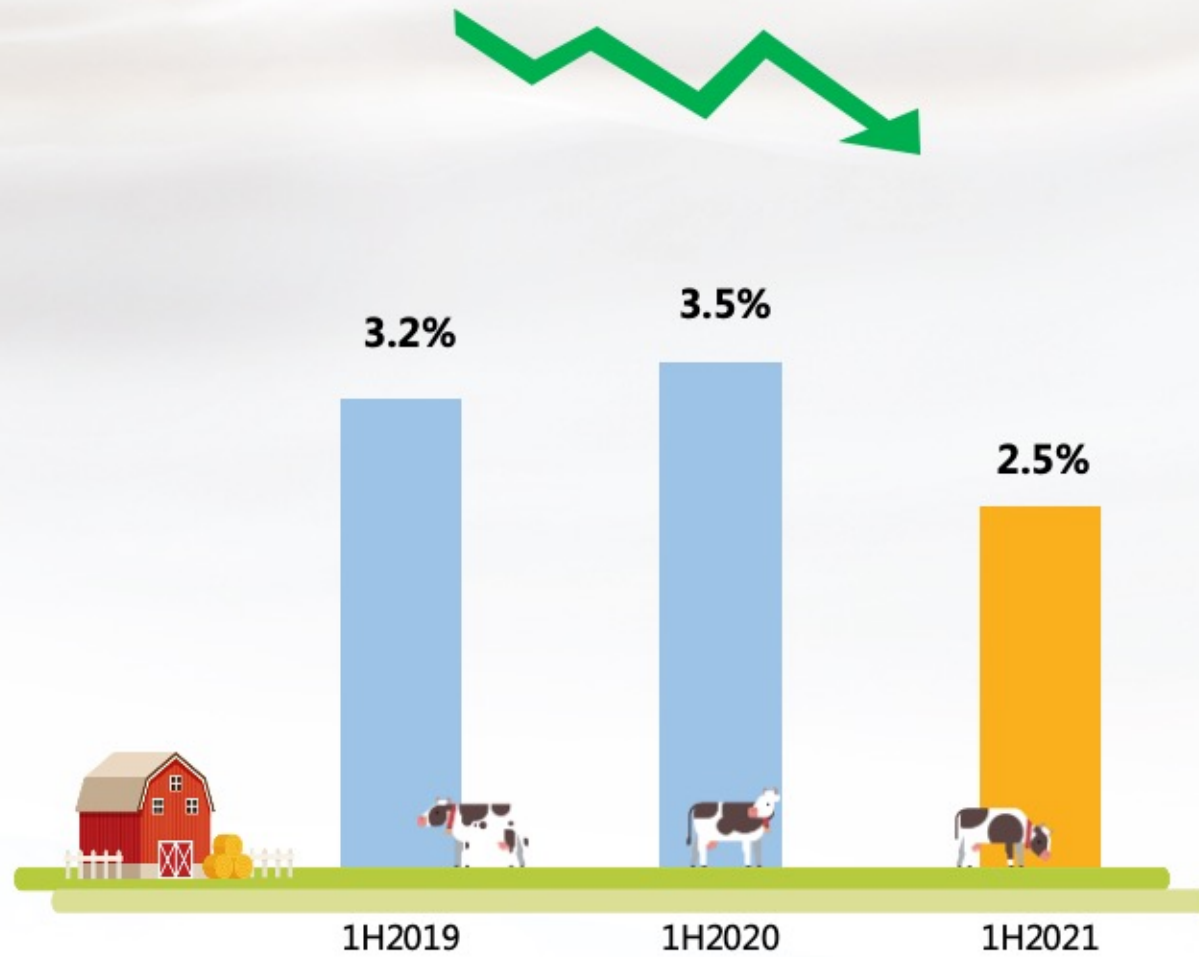
The Procurement Price of Forages



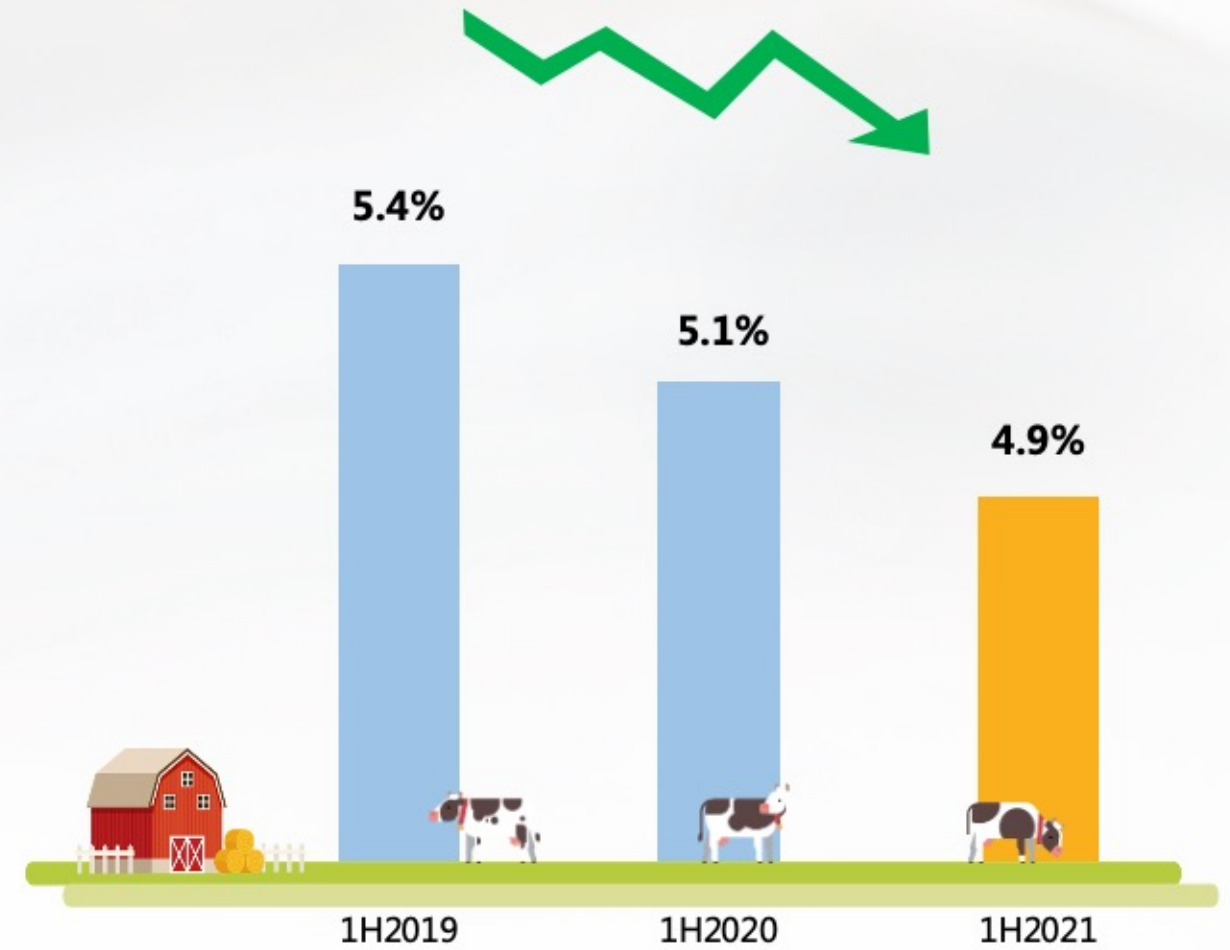
SG&A Ratio



Ratio of Selling and Distribution Costs⁽¹⁾



Ratio of Administrative Expenses⁽²⁾



Notes:

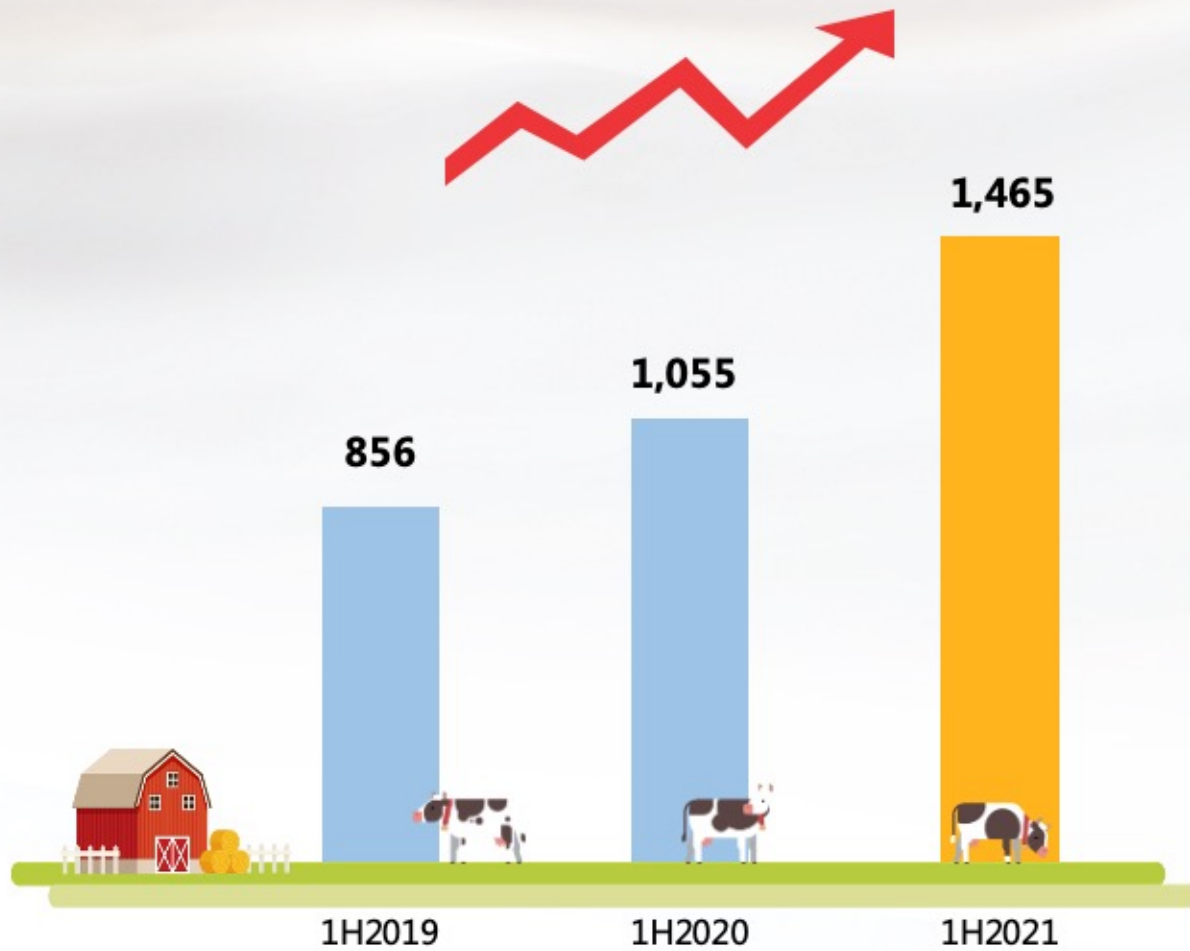
(1) Ratio of selling and distribution costs = selling and distribution costs/revenue

(2) Ratio of administrative expenses = administrative expenses/revenue

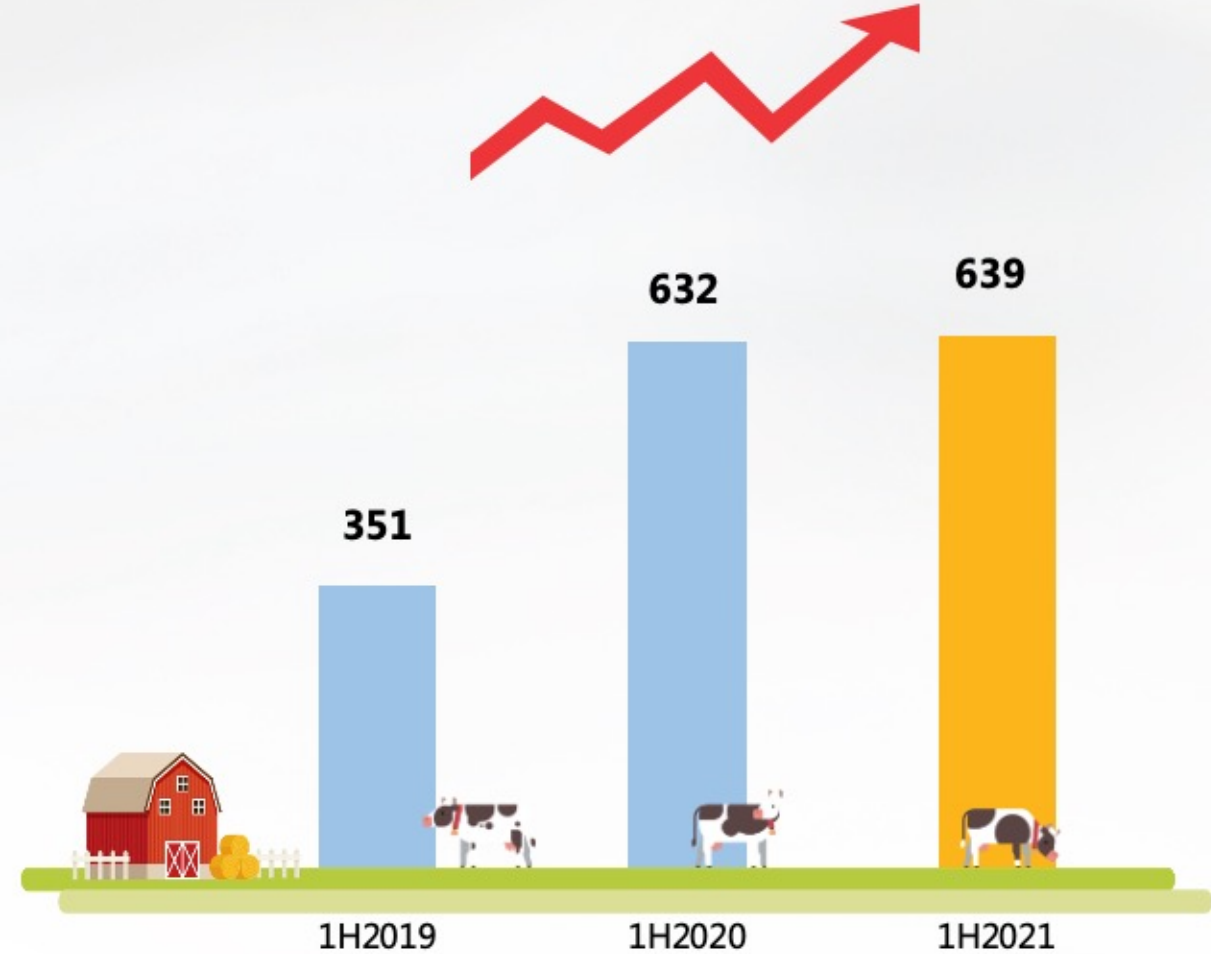
Continuous Growth of Cash Flow



Cash Flow from Operating Activities (Million)



Free Cash Flow (Million)



Balance Sheet Overview



RMB Million	1H2021	FY2020	Change
Biological Assets	7,084	7,101	-0.2%
Fixed Assets	3,224	3,318	-2.8%
Total Assets	16,457	15,568	+5.7%
Total Liabilities	6,760	7,530	-10.2%
Total Equity	9,697	8,038	+20.6%
Net Asset Value per Share ⁽¹⁾(RMB yuan)	1.34	1.22	+9.8%
Total Interest-bearing Borrowings	4,992	5,642	-11.5%
Interest-bearing Debt Ratio ⁽²⁾ (%)	34.0	41.2	-7.2 ppt
Debt-to-asset Ratio⁽³⁾ (%)	41.1	48.4	-7.3 ppt

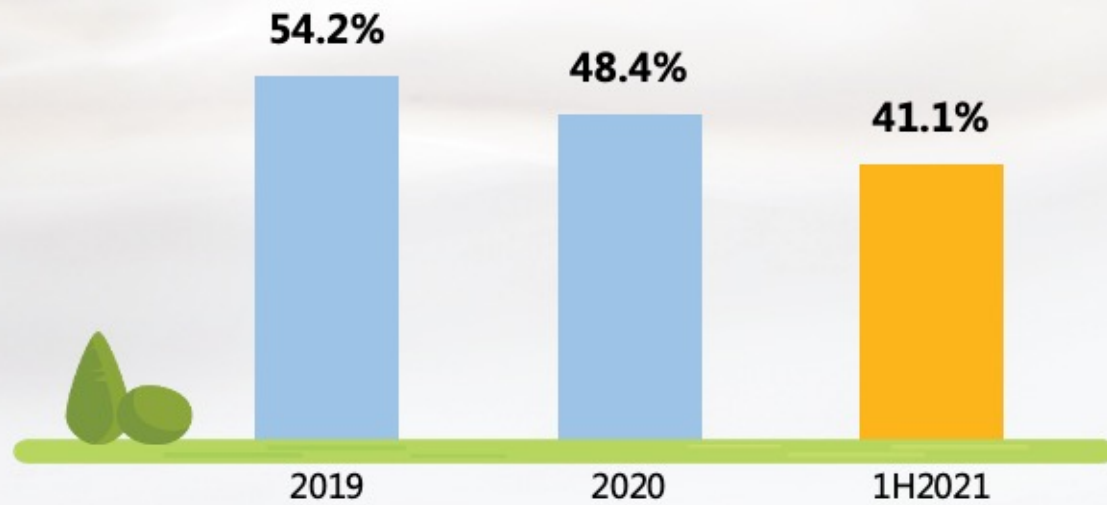
Notes: (1) Net Asset Value per Share = Equity attributable to owners of the Company/ Year-end Number of Shares Outstanding;
 (2) Interest-bearing Debt Ratio = Interest-bearing Debts/ (Interest-bearing Debts + Equity)
 (3) Debt-to-asset Ratio = Total liabilities/Total Assets.



Continuous Decrease in Interest-bearing Debts



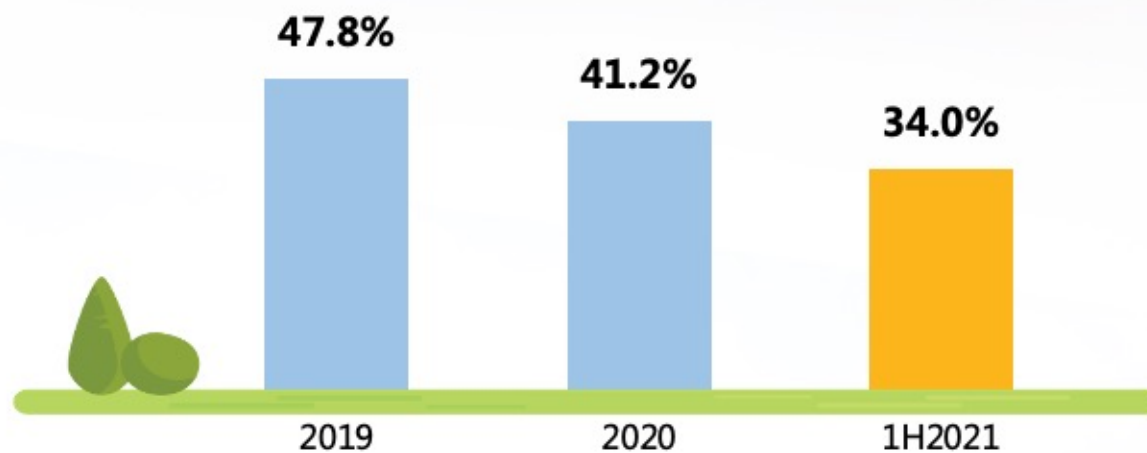
Debt-to-asset Ratio (%)



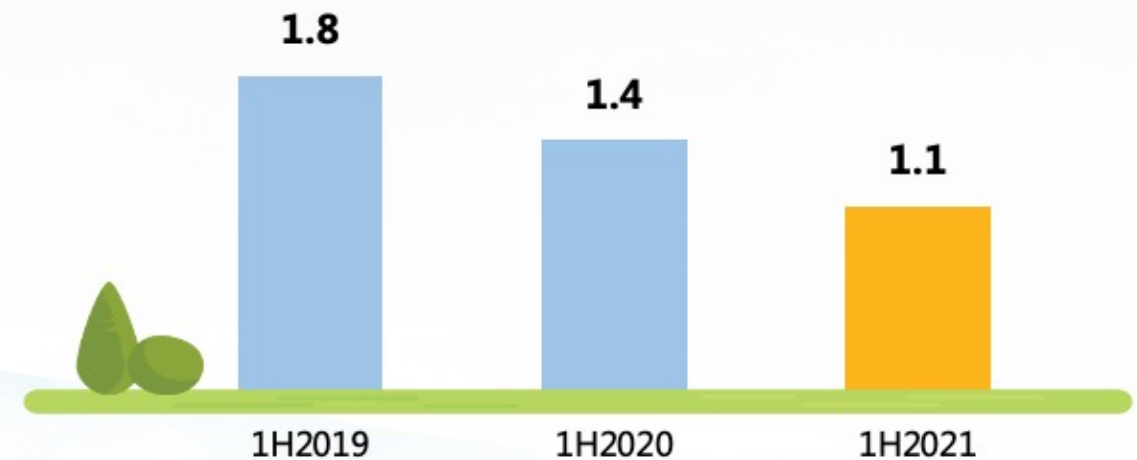
Interest-bearing Debts (00 Million)



Interest-bearing Debt Ratio (%)



Finance Costs (00 Million)

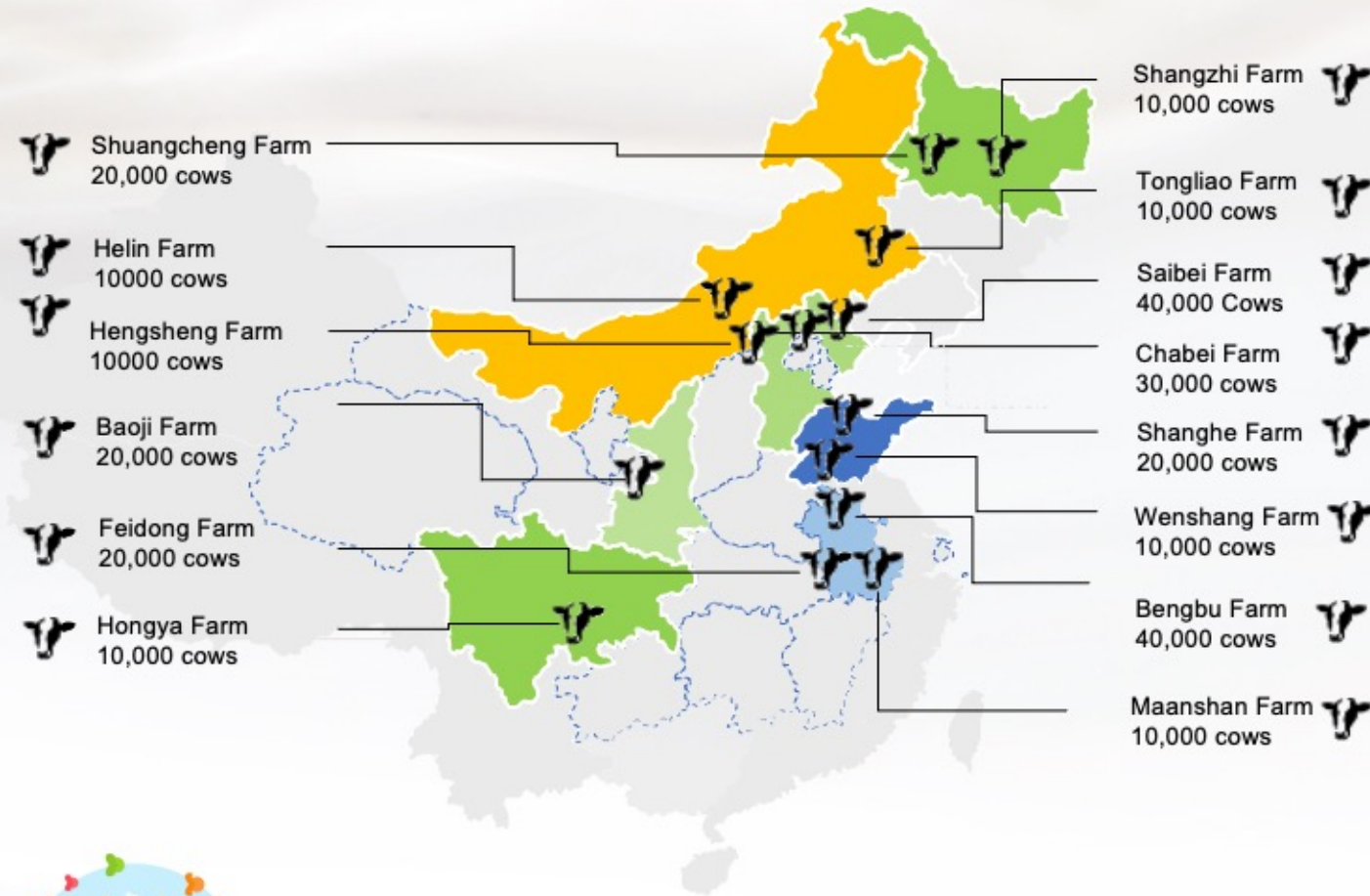




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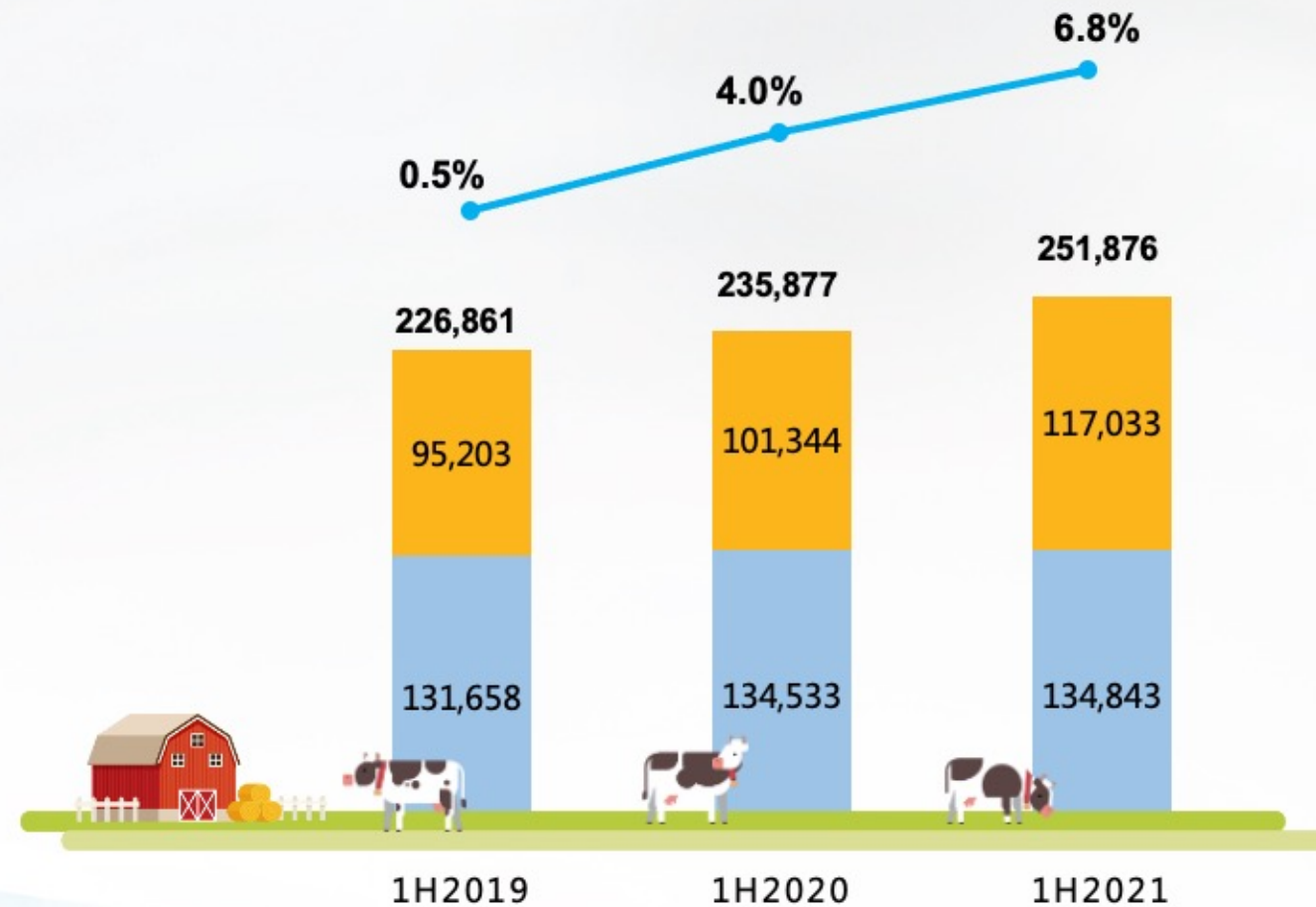
Business Updates

Increase in Herd Size & Milkable Cow Number



Herd Size & Growth Rate

■ Heifers & Calves ■ Milkable Cows — Growth Rate



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.

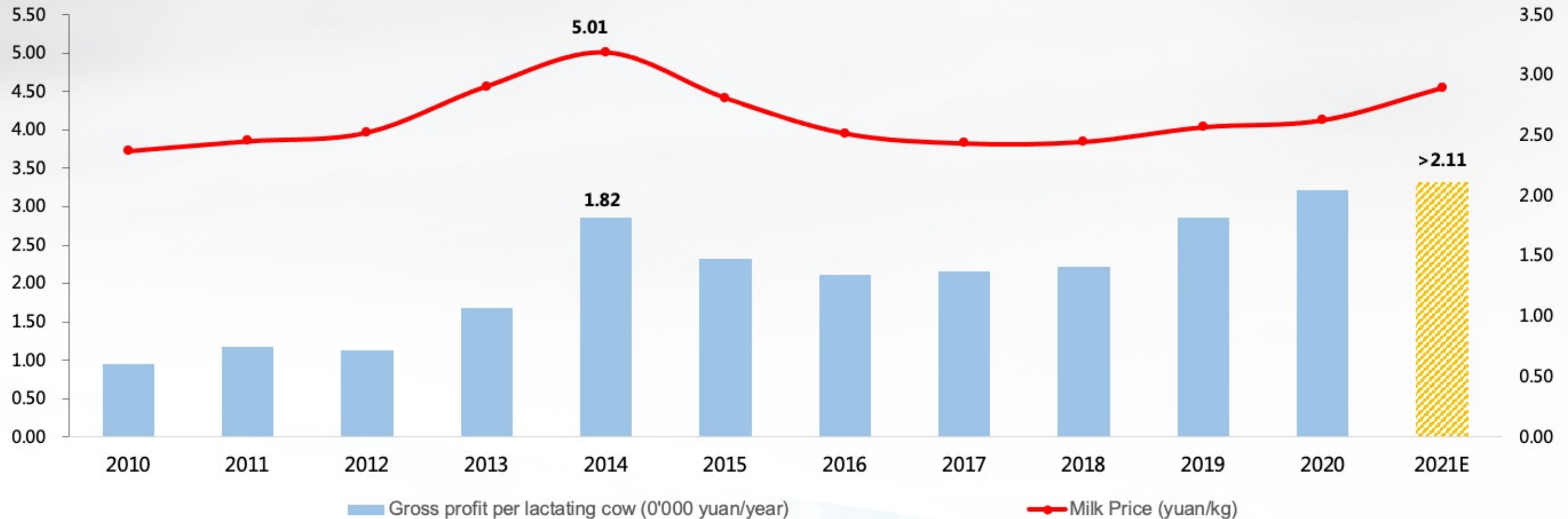
Significant Improvement in Internal Efficiency

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.



Profitability Improvement per Lactating Cow



Successful Issuance of US\$500 Million Bonds

The final spread was narrowed from the 5-year initial price guidance T+170 to T+140, successfully reducing by 30 basis points.

Pricing Date	Maturity	Issuance Scale	Coupon Rate	YTM	Corporate Rating	Debt Rating	Peak Subscription Multiple
7 July 2021	5 years	US\$500 million	2.125%	2.185%	BBB (Standard & Poor's)	BBB (Standard & Poor's)	4.2x



- 1** Optimize the Company's financing structure, and increase the proportion of long-term debt to above 60%
- 2** Effective reduction of financing cost is conducive to improving the profitability of the Company
- 3** Give full use to the function of overseas financing platform and enhance the popularity and influence in the capital market
- 4** Expand financing channels to provide strong capital guarantee for the Company's strategic development

Branded Milk: Good Milk from Good Cows



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Brand Positioning: Deploy the entire product line with “**Good Milk from Good Cows**” .

Full Product Mix Development: Revenue of branded milk increased by **50%** YoY; sales of the three major products contributed over **60%** of the revenue; sales of new 200ML Holstein products exceeded **10 million** in the first month of product launch.

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

Channel Expansion: **116** new sales partners; **36,000** new outlets, indicating an accelerated channel penetration.



Gold awards for 2 consecutive years 2020-2021



Gold awards for 8 consecutive years 2014-2021



Gold awards for 3 consecutive years 2019-2021



03

Strategic Planning

Business Strategic Planning

Double Herd Size and Production Volume

**Milk volume:
3.6 million tons**

The daily milk yield reached
10,000 tons

**Herd size:
500,000 heads**

Endogenous growth + M&A + lease + New Farms
Construction + Joint venture holding/Equity participation



Develop New Profitable Businesses

**Specialty Raw
Milk Business**

A2 milk, DHA milk,
organic milk, etc.

**Feed
Business**

**Beef Cattle
Business**

**Breeding
Business**

**Digital
Platform
Business**

Acquisition of Fuyuan and Zhongyuan

In the first half of 2021, the Company announced that it entered into a sales and purchase agreement to acquire 100% equity of Fuyuan International and Zhongyuan respectively, in order to further strengthen its leading position in the industry, to expand the industrial chain layout and to enhance the financial performance. The acquisition of Zhongyuan was completed on 21 July 2021, and the acquisition of Fuyuan International is expected to be completed in the third quarter of this year.

Advantages of Acquisition Strategy



Increase herd size

- After the completion of the acquisition, the herd size of the Company is expected to exceed 340,000 heads, further strengthening its leading position in the industry



Expand the national pasture network

- Extend the coverage of the domestic pasture network and enhance operational efficiency
- Strengthen the layout of northern pastures and increase the unit yield of milkable cows



Create synergies

- Increase bargaining power with joint procurement
- Improve profitability through economies of scale



Expand the industrial chain layout

- Expand its business to upstream forage planting and sales and improve the overall layout of the industrial chain
- Monitor the stability and quality of feed procurement from the sources and reduce costs

Significant Synergies

Procurement synergies



- Collaborative negotiation and logistics to improve efficiency
- Increase the bargaining power and reduce the procurement costs

Financing synergies



- Share financing resources and optimize the financing structure
- Reduce finance costs and improve economic benefits

HR synergies



- Integrate and optimize the personnel structure and complement each other's advantages
- Improve management efficiency and reduce management costs

Production synergies



- Unify the planning of production capacity and improve the pasture layout
- Share technologies and resources to release the production capacity potential

Planning for Herd Size and Production Volume



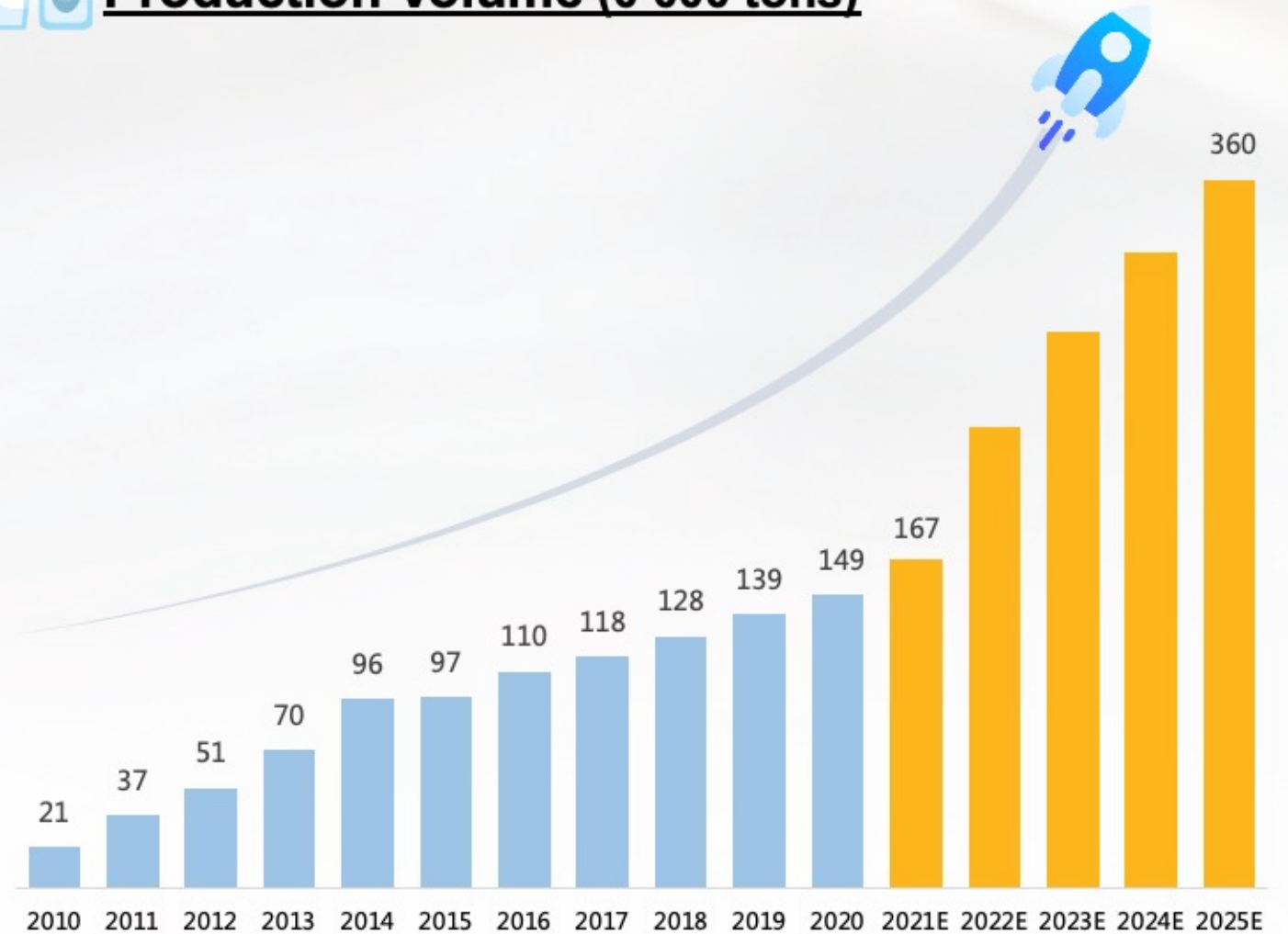
Herd Size (0'000 heads)



Note: The above data is the estimated figures for consolidated financial statements, which does not constitute the basis for any commitment, guarantee, profit forecast, etc.



Production Volume (0'000 tons)



Note: The above data is the estimated figures for consolidated financial statements, which does not constitute the basis for any commitment, guarantee, profit forecast, etc.



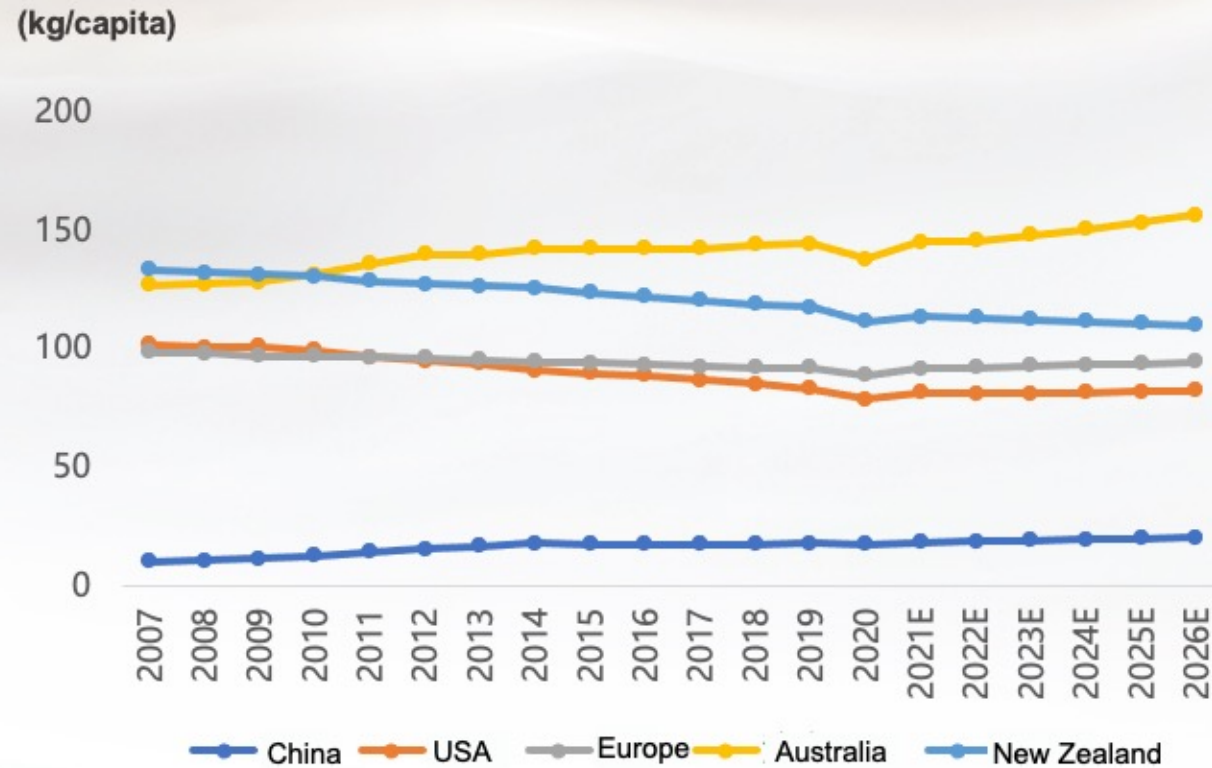
04 Industry Review

Analysis of Global and Domestic Dairy Industry



Global Annual Milk Consumption per Capita in Main Producing Areas

Source: Euromonitor



Domestic Raw Milk Supply and Demand

Source: National Bureau of Statistics, Frost & Sullivan



➤ Although China's milk consumption is increasing year by year, it still lags far behind developed countries.

➤ There has always been a gap between supply and demand. As consumers increase their consumption of fresh milk, the future supply and demand gap will be mainly filled by fresh milk.

Analysis of Global and Domestic Dairy Industry



Import Volume of Milk Power and WMP Price from Jan to May

Source: China Customs



Domestic Milk Price

Source: Ministry of Agriculture



- Since importers were more cautious in placing orders after the Covid-19, the GDT auction price had been falling. However, the demand for raw milk has been strong and less milk has been converted to milk power domestically, so the milk power price has been increased significantly since 2021;
- As the impact of the epidemic is gradually eliminated, the import volume of milk power from January to May in 2021 returned to the normal level of 2019, representing an increase of 29.4% YoY;
- The cyclical upturn of raw milk started in the end of 2018 with raw milk prices gradually growing. The raw milk price has exceeded the previous all-time-high record from 2014 in the first half of 2021.

Analysis of Global and Domestic Dairy Industry



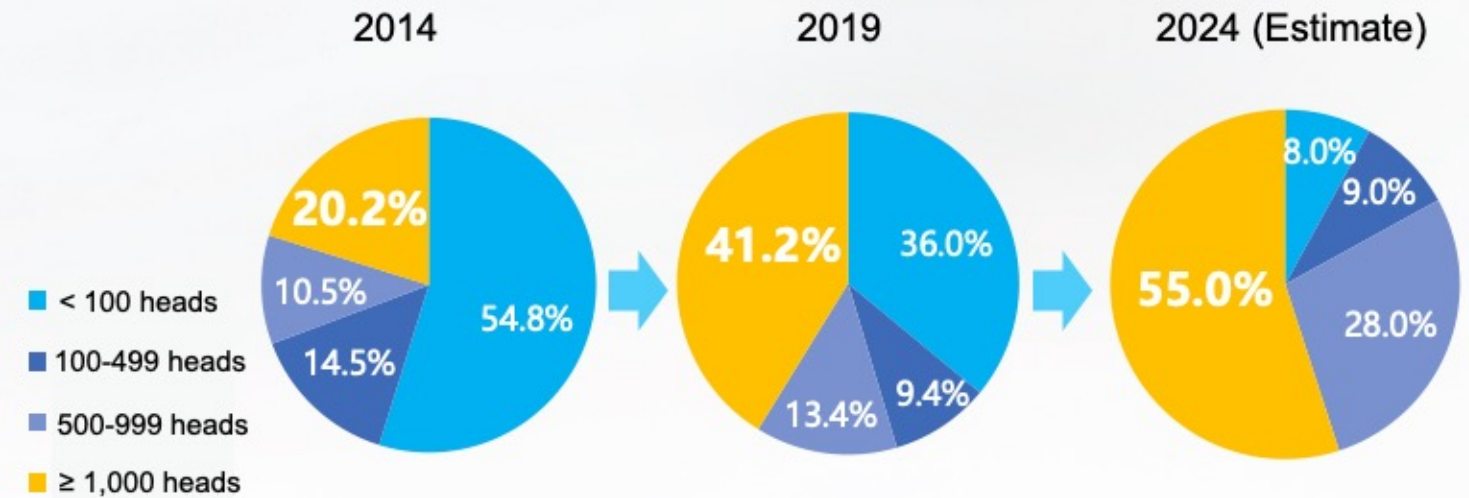
Proportion of Domestic Scaled Farms

Source: National Bureau of Statistics, Frost & Sullivan



The proportion of farms with herd size over 1,000 heads is increasing year by year

Source: National Bureau of Statistics, Frost & Sullivan



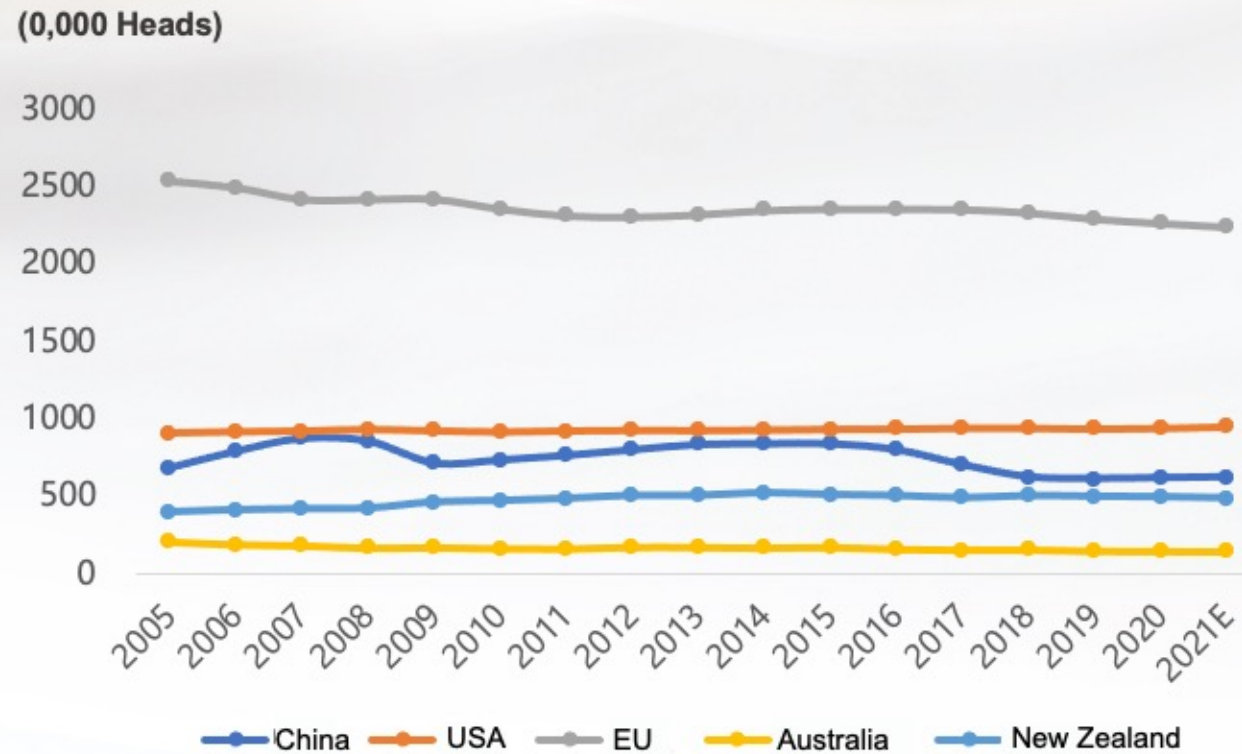
- The proportion of domestic scaled farms (farms with herd size over 100 heads each) improved from 37% in 2012 to 64% in 2019. The proportion of domestic scaled farms with herd size over 1,000 heads each is gradually increasing and is estimated to take up 55% of total herd size in China for 2024.

Analysis of Global and Domestic Dairy Industry



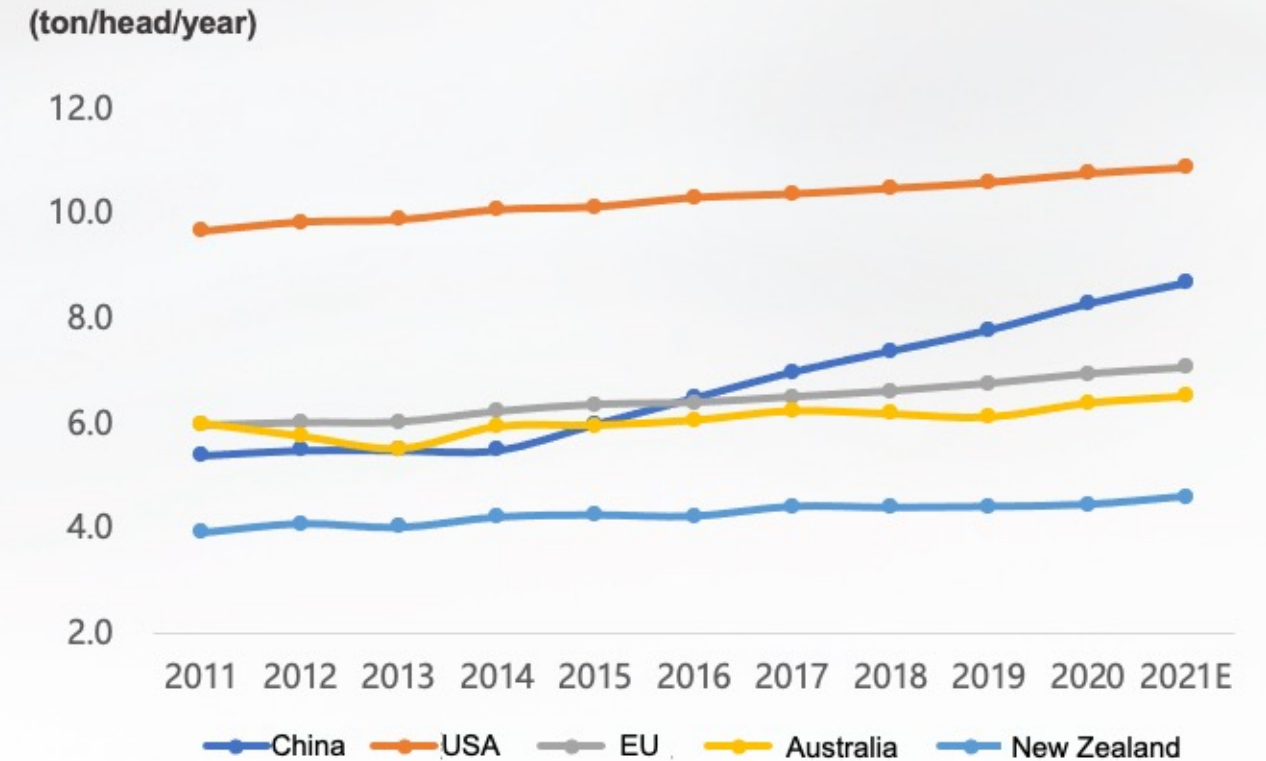
Herd Size in Main Producing Areas

Source: USDA



Unit Yield of Global and Domestic Dairy Cows

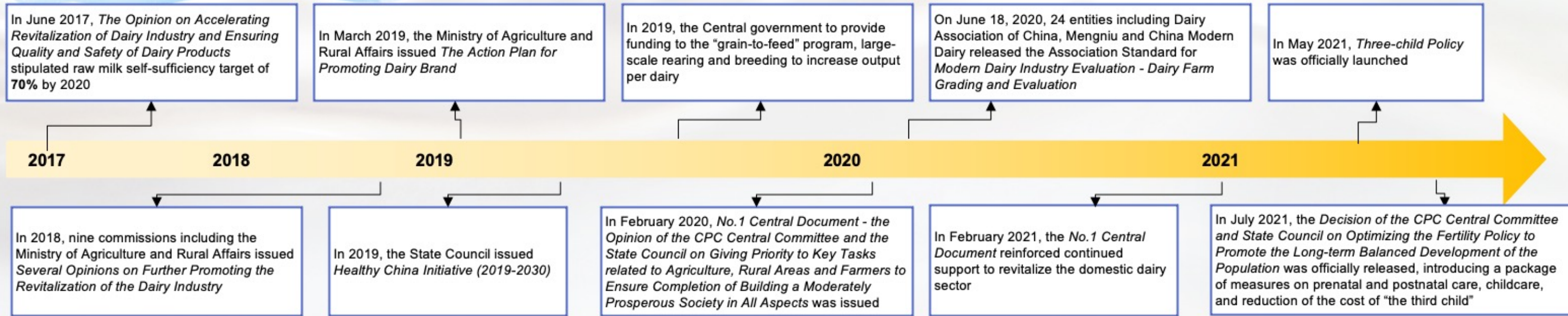
Source: USDA & Holstein Magazine



- Herd size in these various countries maintains stable. However, herd size in China has been decreasing since 2015. As the industry enters a cyclical upturn, herd size has been gradually increasing since 2020;
- Although the unit yield of dairy cows in various countries are increasing, the unit yield of dairy cows in China is increasing more significantly in recent years.

Dairy Industry Revitalization Promotion in the State level

Favourable Policies Support Continued Sector Growth Post Covid-19



- **Improve the domestic raw milk self-sufficiency rate:** In June 2017, it was clearly stipulated that the domestic raw milk self-sufficiency should be kept above 70% by 2020. According to industry statistics, the actual self-sufficiency rate of domestic milk in 2020 was only 66%, and according to industry estimates, it is expected to reach only 68% by 2024.
- **Specify the breeding standards of upstream farms:** On 18 June 2020, the group standard of Association Standard for *Modern Dairy Industry Evaluation - Dairy Farm Grading and Evaluation* drafted by 24 entities, including Dairy Association of China, Mengniu and Modern Farming was released.
- **Continue to revitalize the dairy industry:** In February 2021, the No.1 Central Document of the CPC Central Committee also stated that the construction of high-quality milk sources will be the focus of the dairy industry revitalization.
- **Implement the "three-child policy":** In May 2021, the *Three-child policy* was officially implemented, bringing new growth momentum to the future demand for dairy products. In July 2021, the *Decision of the CPC Central Committee and State Council on Optimizing the Fertility Policy to Promote the Long-term Balanced Development of the Population* was officially released, introducing a package of measures on prenatal and postnatal care, childcare, and reduction of the costs of "the third child".



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